

Tariff Uncertainty Impacts Builders and Retailers



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Week of April 14, 2025 in Review

Fed Chair Jerome Powell warned of a possible "challenging scenario" on the horizon. Meanwhile, retail sales in March saw a boost from consumers making purchases before tariffs took effect. At the same time, home builders remain cautious amid ongoing economic uncertainty. Read on for these updates and more.

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Powell Signals Inflation is More Important Than Labor

In his recent Economic Club of Chicago speech, Fed Chair Jerome Powell highlighted a potential conflict between the Federal Reserve's dual mandates. He made it clear that while both price stability and maximum employment matter, they might pull policy in opposite directions – especially as new tariffs create uncertainty for both inflation and growth.

When inflation rises, the Fed typically maintains or increases rates to control spending. Conversely, economic slowdowns usually prompt rate cuts to stimulate activity.

Remember that when the Fed adjusts rates, they're changing the Fed Funds Rate – the overnight lending rate between banks. This benchmark influences all other interest rates, though it doesn't directly determine mortgage or long-term rates.

What's the bottom line? Powell emphasized that "without price stability, we cannot achieve the long periods of strong labor market conditions that benefit all Americans." He indicated the Fed will "wait for greater clarity before considering any adjustments to our policy stance." Watch for the Fed to closely analyze upcoming inflation and employment reports as they make their monetary policy decisions.

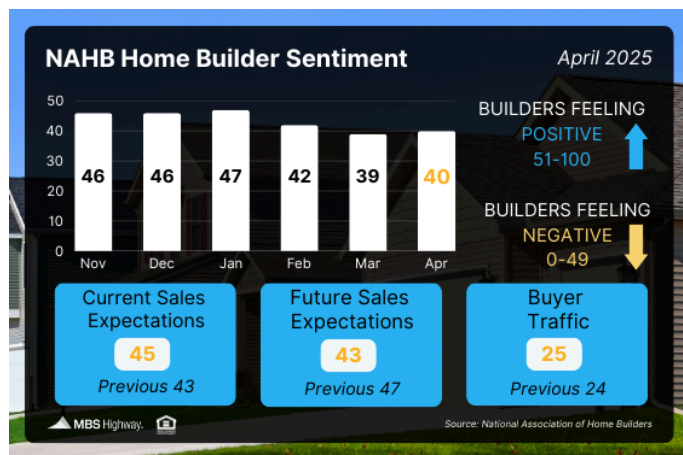
Retail Sales Surge in March Ahead of Tariffs

Retail sales increased 1.4% in March, significantly outpacing February's modest 0.2% gain and marking the largest monthly rise in over two years. The growth was widespread, with 11 out of 13 retail categories showing improvement. A substantial 5.3% jump in automobile purchases led the way, likely driven by consumers rushing to buy vehicles before new auto tariffs take effect.

The "control group" (which excludes volatile categories like autos, gasoline, building materials, and food services) posted a more modest 0.4% increase, falling short of expectations. This figure is particularly important as it feeds directly into GDP calculations for the first quarter.

What's the bottom line? As a critical indicator of consumer spending, retail sales directly impact overall economic health. While March numbers exceeded forecasts, the surge may represent purchases pulled forward to avoid tariffs, potentially weakening future reports. Fed officials will be watching upcoming retail sales data closely, as consumer spending strength will also influence their decisions on interest rates and monetary policy.

Economic Uncertainty Dampens Home Builder Sentiment

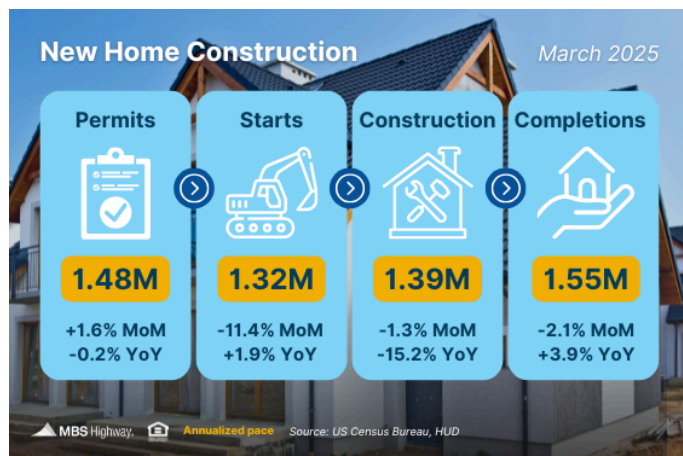


Home builder confidence inched up slightly this month, with the National Association of Home Builders (NAHB) index rising just one point from 39 in March to 40 in April. This modest gain, however, keeps sentiment firmly below the critical 50-point threshold that separates growth from contraction.

Looking deeper at the data, all three key components – buyer traffic, current sales, and sales expectations – remain in negative territory (below 50). Most concerning is the sharp decline in future sales expectations, which dropped 4 points to 43, hitting its lowest mark since November 2023.

What's the bottom line? While NAHB Chair Buddy Hughes attributes April's small confidence boost to recent mortgage rate decreases that stimulated some sales activity, the broader outlook remains challenging. Builders continue to exercise caution amid persistent economic uncertainty, new tariffs, and elevated material costs that create ongoing headwinds for the housing market.

Housing Starts See Largest Decline in a Year



Housing Starts plummeted 11.4% in March, marking their steepest drop in a year as builders remain hesitant to begin new projects. Single-family home construction fell even more dramatically, down 14.2% from February.

Meanwhile, Building Permits increased 1.6%, slightly beating expectations, though many may not materialize due to higher building costs from tariffs.

What's the bottom line? March's Housing Starts fell to a seasonally adjusted annual rate of just 1.32 million, significantly below the 1.8 million average annual household formations seen over the past five years. While home completions are running higher at 1.55 million annually, this still falls well short of household demand. This supply-demand imbalance should continue to support home values moving forward.

Initial Jobless Claims Lowest Since February

Weekly initial jobless claims dropped 9,000 to 215,000, reaching their lowest point since early February and staying historically low. Meanwhile, continuing unemployment claims increased by 41,000 to 1.885 million.

What's the bottom line? New unemployment filings have been subdued in recent weeks, likely because many companies are adopting a cautious "wait and see" approach amid economic uncertainty.

However, continuing claims have consistently stayed above 1.8 million since last June, indicating longer job searches for unemployed workers. With many individuals now exhausting their 26-week benefit period, these persistently high continuing

claim numbers signal underlying weakness in the labor market and a generally slower hiring pace.

Family Hack of the Week

In celebration of National Picnic Day on April 23, consider preparing this Greek Pasta Salad from Delish for your next picnic or as a fulfilling lunch option. This recipe serves 8.

To prepare, cook 1 pound of farfalle pasta in a large pot of salted boiling water according to package directions until al dente. Drain the pasta and transfer it to a large serving bowl.

Next, make the dressing by whisking together 1/4 cup of extra-virgin olive oil, 3 tablespoons of red wine vinegar, 1/2 teaspoon of oregano, and 1/2 teaspoon of garlic powder in a small bowl. In the serving bowl with the pasta, add 2 chopped Persian cucumbers, 1 cup of halved cherry tomatoes, 1/3 cup of pitted and chopped Kalamata olives, and 1/2 chopped red onion. Pour the dressing over the salad and toss until evenly coated.

Season the salad with salt and pepper, then sprinkle with 2 tablespoons of finely chopped dill and top with 1/2 cup of crumbled feta cheese.

What to Look for This Week

Watch for key housing indicators with March's New Home Sales report releasing on Wednesday and the Existing Home Sales figures dropping on Thursday. Also on Thursday's schedule: the latest Durable Goods Orders for March and weekly Jobless Claims.

Technical Picture

Mortgage Bonds finished last week resting at their critical support level – the 100-day Moving Average. Should this support fail to hold, bonds face significant downside potential before reaching the next support at the 100.43 Fibonacci level. Meanwhile, the 10-year Treasury yield pushed above its dual resistance point, breaking through both the 4.332% Fibonacci level and the 50-day Moving Average. Yields now have room to climb further before encountering their next ceiling at the 100-day Moving Average.