

Inflation Surprises Analysts, Home Construction Slows



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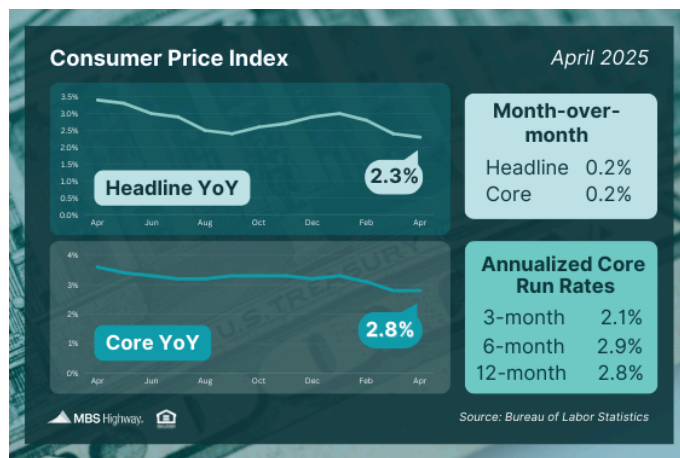


Week of May 12, 2025 in Review

Inflation came in lower than anticipated in April, indicating that tariff effects haven't fully appeared in economic data yet. Meanwhile, home builder confidence has dropped this spring amid economic uncertainty, with construction activity showing a slowdown. Continue reading for these and additional market updates.

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Annual Consumer Inflation Hits 4-Year Low



April's inflation came in cooler than expected, with the Consumer Price Index (CPI) rising just 0.2% for the month and yearly inflation easing from 2.4% to 2.3%. This improvement was helped by declining food prices and slightly lower gasoline costs.

Core CPI (excluding food and energy) increased 0.2% monthly while holding steady at 2.8% annually.

Shelter costs remain the main driver of inflation, accounting for 35% of headline CPI and 44% of core CPI. This heavy weighting means shelter costs significantly influence overall inflation trends. However, CPI still overstates shelter costs compared to softer real-time rental data, suggesting actual inflation could be lower.

What's the bottom line? Inflation continues moving in the right direction, with headline and core annual readings at their lowest since early 2021. However, April's tariff announcements may not be fully reflected yet, as businesses likely stocked inventory ahead of implementation. For example, used car prices fell 0.5% in April while new car prices remained flat – contrary to industry reports showing price increases, suggesting a potential lag in the government data.

Meanwhile, declining airfares and hotel prices suggest weakening travel demand, confirmed by recent airline and U.S. Travel Association reports.

Wholesale Inflation Cools as Companies Absorb Costs

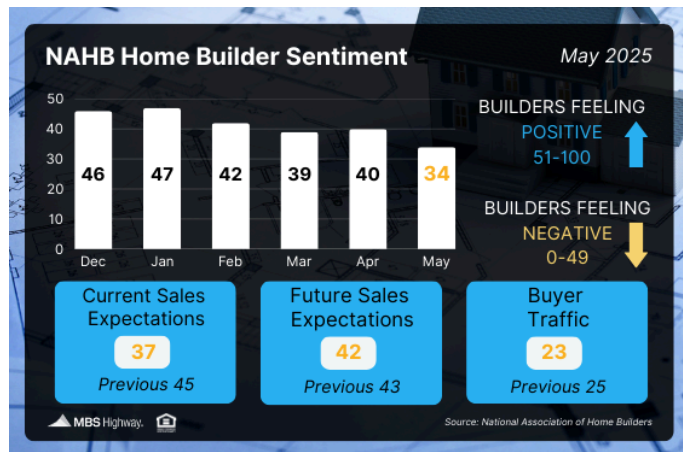
April saw a notable cooling in wholesale inflation, with the Producer Price Index (PPI) dropping 0.5% for the month. This brought the yearly increase down to just 2.4%. Similarly, Core PPI (which excludes food and energy prices) fell 0.4% monthly, with its

annual rate decreasing to 3.1%.

It's worth noting that March's PPI figures were revised upward for both headline and core readings.

What's the bottom line? This wholesale inflation slowdown largely stems from shrinking profit margins. Companies have been absorbing costs from higher tariffs rather than passing them to consumers. Walmart recently confirmed this trend, noting they've been shouldering increased costs – though consumers may eventually see price increases.

Home Builder Confidence Drops Sharply in May



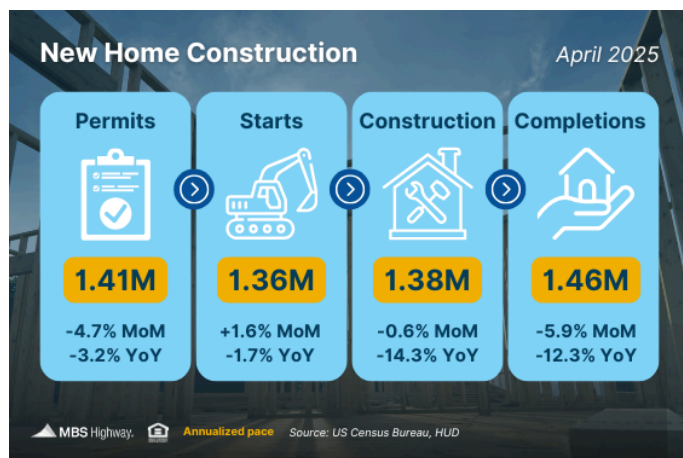
Builder sentiment took a significant hit this month, with the National Association of Home Builders (NAHB) index falling from 40 in April to 34 in May – a six-point decline that keeps confidence well below the critical 50-point threshold that separates growth from contraction.

All three components moved lower: buyer traffic dropped 2 points to 23, current sales fell 8 points to 37, and sales expectations decreased 1 point to 42.

What's the bottom line? The NAHB attributes this decline to several factors, including elevated interest rates, tariff concerns, uncertain building material costs, and a generally unclear economic outlook. However, 90% of survey responses were collected before the May 12 announcement regarding the 90-day reduction of tariffs between the US and China, so a rebound next month is certainly possible.

Chair Buddy Hughes remarked that builders are optimistic that future trade negotiations and advancements in tax policy will contribute to stabilizing the economic outlook and ultimately enhance housing demand.

Single-family Construction Slows in April



After March's sharp decline, Housing Starts recovered slightly in April (+1.6%). However, this increase came entirely from multi-family projects, as single-family home construction actually fell by 2.1%.

Building Permits, which indicate future construction plans, dropped 4.7% overall, with single-family permits declining 5.1%. While permits are our best early indicator of housing supply, many approved projects may never break ground due to rising costs from tariffs.

What's the bottom line? Housing Starts provide a more concrete picture of future inventory since construction has already begun. April's seasonally adjusted annual rate of just 1.36 million starts falls significantly below the 1.8 million average annual

household formations over the past five years.

Even with completions running at 1.46 million annually, new housing supply remains well below household demand. This persistent imbalance should continue to support home values in the months ahead.

Additional Insights

Retail sales inched up 0.1% in April versus March, slightly better than the expected flat performance. This slowdown follows March's robust 1.7% increase, when consumers rushed to make purchases ahead of anticipated tariffs.

The closely watched "control group" (excluding autos, gasoline, building materials, and food services) dropped 0.2%, missing forecasts. This metric is particularly important as it directly feeds into Q2 GDP calculations. The overall report signals some consumer weakness and reduced spending on non-essential items.

On the employment front, Initial Jobless Claims held steady at 229,000, remaining at a historically low level. However, Continuing Claims ticked up by 9,000 to reach 1.881 million. This higher figure suggests job seekers are experiencing longer unemployment periods, a trend that has persisted throughout much of the past year.

Family Hack of the Week

Celebrate National Salad Month and National Strawberry Month this May with this Strawberry Arugula Salad from The Pioneer Woman. This delicious spring salad serves 6 to 8 people.

Preheat oven to 350 degrees Fahrenheit. Place 1 cup of roughly chopped pecans on a baking sheet and toast until fragrant, approximately 5 to 6 minutes. Cool completely.

To make the dressing, combine 2 tablespoons rice vinegar, 2 teaspoons honey, 1 teaspoon Dijon mustard, 1/2 teaspoon kosher salt, and freshly ground black pepper in a large salad bowl. Gradually whisk in 1/4 cup olive oil until emulsified. Add 1 thinly-sliced shallot and 1 pound of hulled and quartered strawberries, gently tossing to coat with the dressing.

Incorporate 1 5-ounce package of baby arugula, 1/2 cup crumbled feta cheese, 1/2 cup torn fresh mint leaves, and the toasted pecans. Toss thoroughly to ensure even distribution of the dressing. Season to taste with salt and pepper before serving.

What to Look for This Week

Key housing market indicators are ahead, with April's Existing Home Sales report due on Thursday followed by the New Home Sales report on Friday.

Technical Picture

Mortgage Bonds faced resistance last Friday when they tested but couldn't break through a dual ceiling at the 100-day and 25-day Moving Averages. They retreated from these levels but still finished the week about 30 basis points above their next support floor at the 100.43 Fibonacci level.

Meanwhile, the 10-year Treasury yield approached its support floor at the 100-day Moving Average but didn't manage to close below it on Friday. Yields ended the week trading in a range between this support level and a ceiling at 4.5%.