Fed Holds Rates Steady, Home Construction Slows

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Week of June 16, 2025 in Review

Due to ongoing economic uncertainty, the Federal Reserve has decided to keep its benchmark Federal Funds Rate unchanged. This environment has also contributed to a slowdown in both the construction and retail sectors. Additionally, unemployment claims are trending higher. Read on for further analysis and details.

Fed Remains Cautious, Holds Rates Steady

The Federal Reserve unanimously voted to hold its benchmark Federal Funds Rate steady at 4.25% to 4.5%, continuing the pause that began in January. This decision, widely anticipated by analysts, reflects the Fed's ongoing concerns about balancing risks related to both inflation and unemployment.

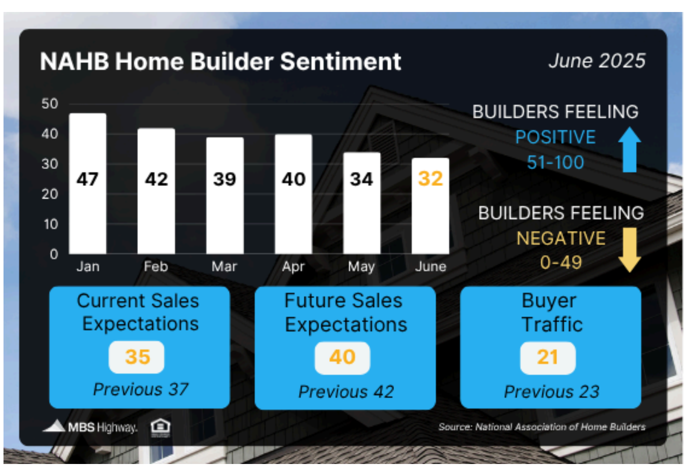
Remember: The Fed Funds Rate affects the overnight lending rate between banks, influencing broader interest rates throughout the economy, though not directly setting mortgage or long-term rates.

What's the bottom line? The Fed remains committed to its dual mandate: maintaining price stability and promoting maximum employment. Achieving both goals simultaneously can be challenging, especially as new tariffs add to economic uncertainty. Typically, persistent inflation discourages rate cuts, while signs of an economic slowdown would prompt the Fed to consider lowering rates.

Looking forward, the Fed will closely watch upcoming reports on inflation and employment, as its future policy decisions may depend on which risks become more pressing. Notably, the Fed's most recent projections for 2025 indicate that core PCE inflation is now expected to reach 3.1%, higher than the previous estimate of 2.8%. The unemployment rate is also projected to edge up slightly to 4.5% from the 4.4% estimate in March.

Despite these uncertainties, most Fed officials still anticipate two interest rate cuts later this year.

Home Builder Confidence Falls Further in June

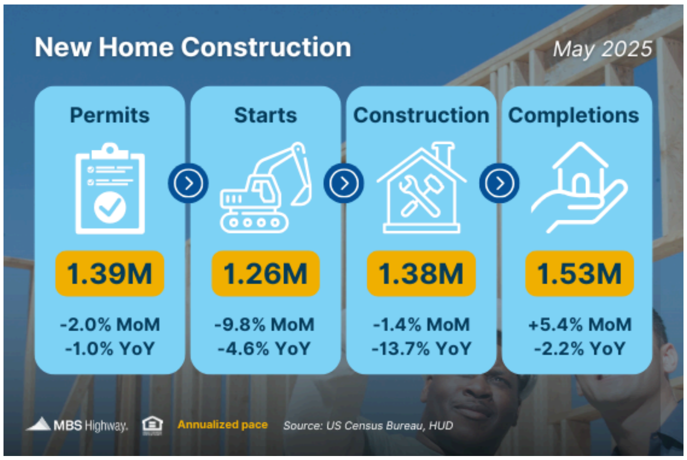


Home builder confidence continued to decrease in June, according to the latest data from the National Association of Home Builders (NAHB). Their Housing Market Index fell from 34 in May to 32 in June, marking its third lowest level since 2012 and remaining well below the important 50-point mark that distinguishes expansion from contraction.

All key components of the index declined further into contraction: buyer traffic slipped by 2 points to 21, current sales also declined by 2 points to 35, and sales expectations for the next six months dropped 2 points to 40.

What's the bottom line? The NAHB links this ongoing decline in builder confidence to persistent high interest rates, concerns about tariffs, and overall economic uncertainty, leading more potential buyers to delay purchasing decisions. Robert Dietz, Chief Economist for the NAHB, stated that these factors have led the association to project a decrease in single-family housing starts for this year.

Housing Starts and Permits Reach Lowest Levels of 2025



After a brief rebound in April, Housing Starts fell sharply by nearly 10% in May, primarily due to a significant decrease in multi-family projects. Single-family home construction remained relatively stable, with only a modest 0.4% increase from the previous month.

Building Permits also declined by 2% overall, and single-family permits fell by 2.7%.

The annualized rates for both Housing Starts (1.26 million) and Permits (1.39 million) are at their lowest so far this year. These figures represent the projected number of housing units if builders continue at the current pace for the next 12 months.

What's the bottom line? Although Building Permits generally provide an early view of future housing supply, it's important to note that many projects with approved permits may not move forward because of higher costs driven by tariffs.

Housing Starts offer a more reliable indication of future housing inventory since construction is already underway. May's seasonally adjusted annual rate of 1.26 million starts is well below the average of 1.8 million new households formed annually over the past five years.

Even with annual completions at 1.53 million units, the supply of new homes continues to fall short of demand. This ongoing shortage is likely to support home values in the coming months.

Retail Sales Sluggish in May

Retail sales declined by 0.9% in May compared to April, which was steeper than the anticipated 0.7% decrease. This marks the second consecutive monthly drop, following a strong 1.5% gain in March, when consumers accelerated purchases ahead of expected tariff changes. Out of the thirteen categories tracked in the report, seven experienced declines, with autos, building materials, and gasoline showing the largest decreases.

On a positive note, the "control group" – which excludes autos, gasoline, building materials, and food services – rose by 0.4%, surpassing expectations. This measure is especially significant because it directly contributes to second quarter GDP calculations.

What's the bottom line? Retail sales are a key measure of consumer spending and play a critical role in assessing the health of the economy. Although May's results were below expectations, this decline may simply reflect a normalization after the earlier surge in purchases. Fed officials are expected to monitor future retail sales data closely, as trends in consumer spending will also influence their decisions on interest rates and monetary policy.

Unemployment Claims Indicate Cracks in the Labor Market

Initial weekly jobless claims fell by 5,000 to 245,000, but this figure remains among the highest levels recorded since October. Continuing claims also dropped slightly by 6,000, bringing the total to 1.945 million. For over a year, continuing claims have stayed above 1.8 million and have now been above 1.9 million for four weeks in a row.

What's the bottom line? The upward trend in both initial and continuing unemployment claims underscores persistent challenges within the labor market. Furthermore, since unemployment benefits usually last only 26 weeks, the increase in continuing claims as benefits expire suggests deeper weaknesses in the job market and indicates that hiring is proceeding at a slower pace.

Family Hack of the Week

Looking for a refreshing summer dessert? Try this simple Honey Glazed Grilled Pineapple recipe from Food Network – perfect for International Pineapple Day (June 27) or any warm-weather gathering!

To prepare: Combine 1/4 cup honey, juice from 2 limes, and 1/2 teaspoon cinnamon in a baking dish. Cut half a pineapple into 3/4-inch rings (cores removed) and marinate in the mixture for 2 hours, turning occasionally.

Heat a grill pan over medium heat. Grill pineapple slices until caramelized with visible grill marks, approximately 2 minutes per side.

To serve: Place grilled pineapple on individual plates, top with vanilla ice cream, and finish with a drizzle of the remaining honey mixture.

What to Look for This Week

Home price appreciation data will be released on Tuesday, while May's Existing Home Sales, New Home Sales, and Pending Home Sales are scheduled for Monday, Wednesday, and Thursday, respectively.

Thursday will also see the release of weekly jobless claims and the revised first-quarter GDP numbers – a key figure that investors are monitoring closely, especially after earlier estimates showed a 0.2% economic contraction.

To close out the week, Friday brings the release of May's Personal Consumption Expenditures (PCE) index, the Federal Reserve's preferred gauge of inflation.

Technical Picture

Mortgage Bonds tested the resistance level at the 200-day moving average on Friday. If bonds manage to rise above this point, there's potential for further gains until they reach the next resistance at 101.39. Meanwhile, the 10-year Treasury also tested its support at the 50-day moving average on Friday. If yields fall below this level, there's more room for them to decrease before hitting the 4.332% Fibonacci level.