

Fed, Jobs and Inflation In Focus



Ryan Champion

NMLS# 2294595 • Maverick Capital Lending

Cell: (970) 403-5677

ryan@championmortgagepros.com

www.championmortgagepros.com



Week of July 28, 2025 in Review

From the Fed's latest meeting to new data on inflation, jobs, the economy and home prices, last week was full of important updates. Here are more details on these key developments.

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Fed Holds Rates Steady

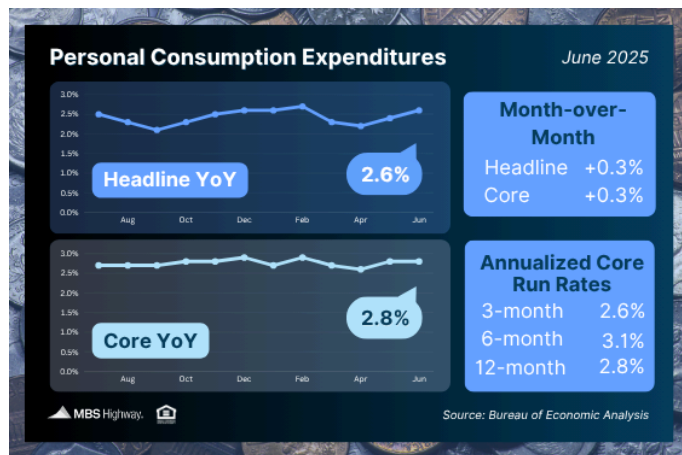
For the fifth straight meeting, the Federal Reserve kept its benchmark interest rate, the Federal Funds Rate, unchanged at 4.25% to 4.5%. This pause, in effect since January, was widely expected as the Fed continues to weigh concerns about both inflation and the job market. Notably, two Fed governors supported a small rate cut, the first time since 1993 that more than one governor dissented from the majority vote.

Keep in mind: The Fed Funds Rate is what banks charge each other for overnight loans. While it doesn't directly determine mortgage or long-term loan rates, it influences borrowing costs across the economy.

What's the bottom line? The Fed is trying to balance stable prices with strong employment – two goals that can sometimes pull in opposite directions. High inflation usually keeps the Fed from cutting rates, while economic slowdowns may push them to consider it. New tariffs have added greater uncertainty to that balance.

Looking ahead, the Fed will watch upcoming inflation and jobs data closely to help guide future rate decisions.

Inflation Slightly Higher Than Forecasted



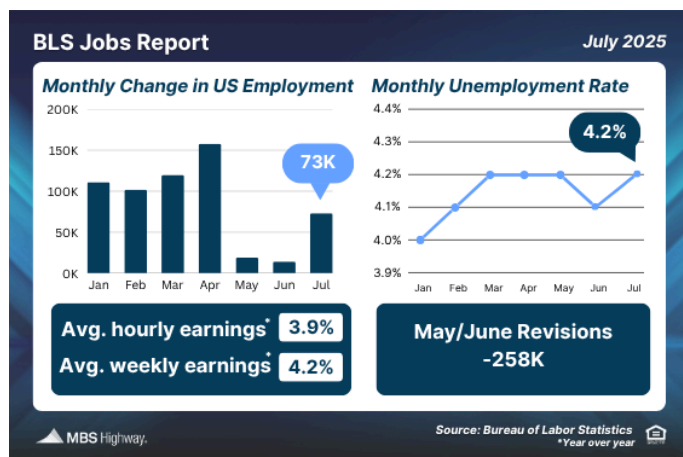
The latest Personal Consumption Expenditures (PCE) report, a key inflation gauge, showed prices rose 0.3% in June, bringing the annual rate to 2.6%. Both numbers came in slightly above expectations.

More importantly, Core PCE, which excludes food and energy and is the Fed's preferred inflation measure, also rose 0.3% in June. On a yearly basis, it now stands at 2.8%, just above the 2.7% forecast.

What's the bottom line? Reaching the Fed's 2% annual Core PCE goal may take time. That's because last year's July through December inflation numbers were already low (ranging from 0.1% to 0.29%). As those drop off the 12-month average, replacing them with similar or slightly higher monthly increases won't move the needle much.

Looking ahead, the early 2025 numbers were higher (0.34% in January and 0.48% in February). Replacing these higher numbers with potentially lower monthly increases next year should make it easier to see faster progress toward the 2% target.

Revisions Tell the Real Story in July Jobs Data

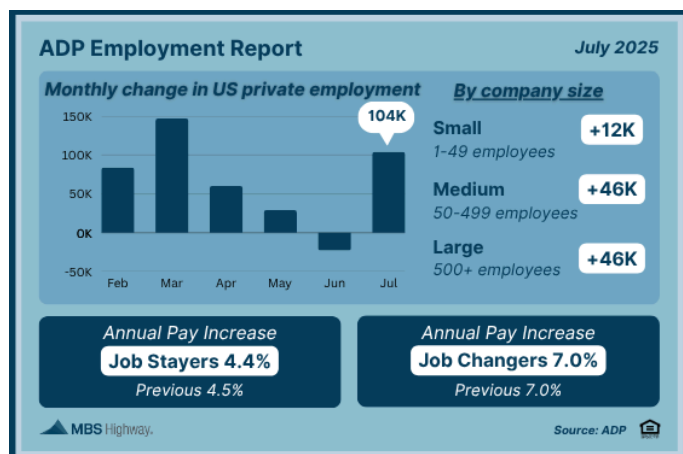


July's Jobs Report came in weaker than expected, with just 73,000 jobs added, well below the 110,000 forecast. Most of the gains came from healthcare and social assistance (+73,000), while government employment dropped by 10,000. The unemployment rate also rose slightly, from 4.1% to 4.2%.

What's the bottom line? The real story is in the revisions. May's job growth was cut from 144,000 to just 19,000, while June's was revised down from 147,000 to 14,000 – a combined drop of 258,000 jobs. So far this year, revisions have reduced reported job growth by an average of 77,000 jobs per month. If July follows a similar pattern, actual job growth could end up far lower, or even negative.

There's also a notable gap between the two surveys that make up the report. The headline job growth figure (+73,000) comes from the Business Survey, which relies on modeling and estimates. Meanwhile, the Household Survey, based on direct interviews, showed a loss of 260,000 jobs in July, including a drop of 440,000 full-time positions.

Private Sector Job Growth Stronger Than Expected



The private sector added 104,000 jobs in July, beating the 75,000 forecast and rebounding from June's job losses, according to ADP. Medium and large businesses led the way, each adding 46,000 jobs, while small businesses with less than 50 employees contributed just 12,000.

Wage growth eased slightly to 4.4% for workers staying in their roles and remained at 7% for job changers.

What's the bottom line? ADP's Chief Economist, Dr. Nela Richardson, said the hiring and pay data "are broadly indicative of a healthy economy." She added that employers are more optimistic that consumers – the backbone of the economy – will continue to hold strong.

Other Economic Highlights

GDP Rebounds in Q2: The U.S. economy grew by 3% in Q2 2025 after a 0.5% drop in Q1, according to the latest government report. The Q1 dip was largely due to a spike in imports as businesses stocked up ahead of potential tariffs. Since imports count against GDP, fewer imports in Q2 helped lift overall growth. Overall, the economy is averaging 1.25% growth in the first half of 2025.

Housing Market Activity Slows: Pending Home Sales, which are signed contracts on existing homes, dipped 0.8% from May to June. According to the National Association of REALTORS®, contract signings have seen small declines even as more homes hit the market. Still, many real estate professionals remain “optimistic” that activity will pick up in the coming months.

Annual Home Price Growth Remains Solid: Home prices rose 0.4% from April to May before seasonal adjustments, but dipped 0.3% after adjusting for typical spring trends, according to the Case-Shiller Index. Seasonal adjustments help smooth out predictable patterns, like increased buying activity in the spring. Prices are still 2.3% higher than a year ago. The FHFA Index showed similar results, with a 0.4% monthly gain before adjustments, a 0.2% drop after, and a 2.8% annual increase.

Signs of Softer Labor Sector: New unemployment claims rose slightly to 218,000 last week, while continuing claims remained high at 1.946 million – a sign that more people are staying unemployed longer. Continuing claims have been above 1.9 million since mid-May, pointing to a softer job market. Job openings also fell to 7.4 million in June, well below the 2022 peak of over 12 million. Some remote job listings may be posted in multiple states, which could mean the actual number of available jobs is even lower.

Family Hack of the Week

Celebrate National S'mores Day (August 10) with these easy, no-bake S'mores Truffles, courtesy of Delish. This simple recipe yields about 40 bite-sized summer treats.

Line two baking sheets with parchment paper. In a large bowl, beat 1 1/2 cups softened butter, 1 1/2 cups packed brown sugar, and 1 teaspoon vanilla until light and fluffy. Stir in 3 1/4 cups crushed graham crackers and 1 teaspoon kosher salt. Then, fold in 3/4 cup mini chocolate chips and 3/4 cup marshmallow bits.

Use a small cookie scoop to form the dough into small rounds, placing them in a single layer on the prepared sheets. Freeze for about 15 minutes, or until hardened.

Once the truffles are frozen, melt 3 cups of chocolate chips in the microwave, stirring at 30-second intervals. Dip each truffle into the melted chocolate, ensuring it's evenly coated. Return truffles to the baking sheet and immediately sprinkle with more marshmallow bits and crushed graham crackers.

Let the truffles set for 10 minutes or refrigerate until ready to serve.

What to Look for This Week

After a busy week, the pace slows with reports on home price appreciation and jobless claims on the calendar.

Technical Picture

Mortgage Bonds rallied Friday following the weaker-than-expected Jobs Report, pushing up to a key resistance level at 101.76. If they break through this level, there's room for further gains. Meanwhile, the 10-year Treasury yield dropped below its 4.33% support level and ended the week testing the next floor at 4.21%. A move below that could send yields toward 4.13%.