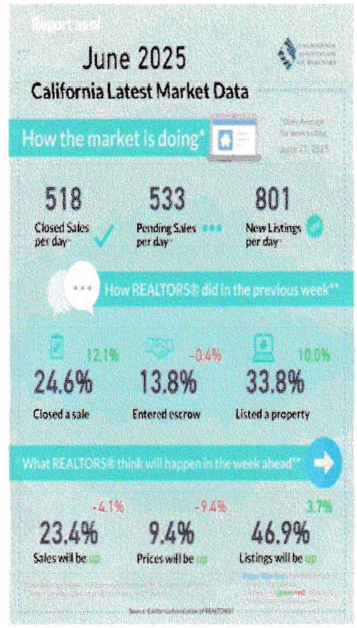
June 23, 2025 – The Fed decided to keep rates unchanged at the June FOMC meeting but signaled that the central bank could cut its policy rate by 50 basis points before the end of 2025. Without a lift from rate cuts since late last year, the housing market has remained soft with sales dropping to a four-month in May due partly to lingering economic uncertainty. The state's median home price also declined for the first time in 23 months. Meanwhile, consumer spending saw a sharp decline last month and could dampen further due to tariffs concerns and the latest conflict in the Middle East. As a result, the market may remain slow in the short term before picking up later this summer.



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Fed holds rates steady but leaves door open: Officials at the Federal Reserve voted unanimously to keep the federal funds rate unchanged at a target range of 4.25% to 4.5% at their June FOMC meeting. The statement issued after the latest meeting cites the easing in market volatility and the diminishing in the uncertainty about the economic outlook as reasons that give the Fed some time to wait before moving further on rates. The uncertainty level remains elevated, nevertheless, and the latest conflict in the Middle East may trigger oil prices to surge and result in more upward pressure on inflation. The latest "dot plot," however, suggests that a 50 basis-points cut by the end of 2025 is still the central bank's projection on rate movements. Couple Fed governors, in fact, said after the June meeting that a rate cut in the upcoming July meeting is a possibility. The bond market was initially selling off due to a verbiage change in the Fed's statement, but the reaction was later unwound after Fed Chair Powell's clarification. Mortgage rates showed little change after the latest Fed's decision, as the market had been expecting the central bank not to make any move on rates at the latest meeting.

Housing demand continues to dip as uncertainty remains: California home sales dipped again in May and recorded the lowest level in the past four months, as mortgage rates remained elevated and economic uncertainty continued to linger on. Sales of existing single-family homes declined from the prior month by 5.1% and slipped from the same month of last year by 4%. The year-over-year decline was the largest since Dec 2023 and it was the first back-to-back decline in 17 months. On a year-to-date basis, home sales in the first five months of 2025 barely exceeded the same time frame in 2024 and could dip below last year's level in the upcoming month if the market continues to lose its momentum. Meanwhile, statewide pending sales continued to decline for the sixth consecutive month, but the year-over-year drop was the smallest in the past six months. The deceleration is an encouraging sign and suggests that closed sales could see a bounce back before the summer ends.

California median price declines for the first time in 23 months: After recording a new high in April, California median price pulled back in May but remained above the $900k benchmark. The statewide median price of $900,170 registered last month declined 1.1% from April 2025 and dropped 0.9% from May 2025. The month-over-month change of -1.1% posted in May came in below the historical average of +1.2% recorded between April and May, and was only the third time in the past 30 years that the market observed a drop in price between those two months. The statewide median price also dipped year-over-year for the first time since June 2023. The decline in the statewide median price could be attributed to multiple factors including elevated interest rates, insurance availability/affordability, economic uncertainty, financial market volatility, home sellers' willingness to reduce prices, and increase in housing supply. Home prices will likely come down further in the second half of the year, but dips in the coming months are expected to be mild.

Americans spend less after a spring rush to beat tariffs: Consumer spending declined sharply in May following a slight dip in April as shoppers pulled back after a spending surge at the end of the first quarter. Retail sales dropped last month with the monthly growth pace sliding 0.9% in May, a significant fallback from the 0.1% decrease recorded in the prior month. On a year-over-year basis, retail sales were up by 3.3% and recorded the smallest gain in the past seven months. Sales at auto dealers declined sharply last month with a month-over-month drop of 3.5%, while building material tumbled 2.7% from the prior month. Bars and restaurants, which are considered a good example of discretionary spending, also dipped 0.9% after posting the largest overall increase in April. E-Commerce/Nonstore continued to do well, on the other hand, with sales up for the fourth straight month, registering a 0.9% gain in May. The recent trade truce with China might have alleviated some tariff concerns, but the ongoing trade tensions and geopolitical uncertainties will likely dampen consumer and business optimism further in coming months and could lead to a more cautious economic outlook in the second half of 2025.

May housing starts reach five-year low: U.S. housing starts plunged in May with a nearly double-digit month-over-month decline, according to the latest report released by the Census Bureau. Total housing starts fell 9.8% from April and posted a seasonally adjusted annual rate of 1.26 million last month, the slowest since 2020. The decline was primarily driven by a sharp drop in multifamily starts, which plummeted nearly 30% from 472k to 332k. In contrast, single-family housing starts inched up slightly by 0.4% month-over-month in May to 924k units but were still down 7.3% year-over-year. Housing permits also dipped by 2% from April and were down 1% from a year ago. Single-family permits slipped even more with a month-over-month dip of 2.7% and a year-over-year drop of 6.4%. The West (-5.1%) had the biggest monthly drop in single-family permits, but the Northeast (-3.3%) and the South (-2.4%) also experienced pullbacks in May. With builder confidence continuing its downward trend in recent months, construction activity is expected to remain soft in the months ahead.

Note: *This summary report gets updated every Monday by 6:00 pm PST. Feel free to email us at* **research@car.org** *if you have any questions and/or feedback.*