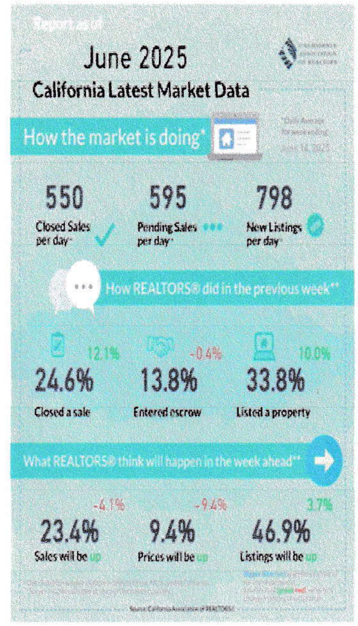
*June 16, 2025* – Several economic releases last week showed promising signs of improvement, reflecting a positive shift in the market. Consumer prices grew less than expected, with energy prices partially offsetting other price increases. Small business optimism rose for the first time in five months, driven by de-escalated trade tensions. Expectations on the labor market and household finances improved, with a decrease in job loss likelihood and an uptick in earnings growth expectations. Mortgage rates saw a solid improvement, reaching the lowest level in a month. U.S. foreclosure activity edged down, as the job market remains resilient. Despite all the encouraging developments, it is important to remember that challenges remain, and we are far from being out of the wood.

**Consumer prices increased less than expected in May:** Cheaper energy prices continued to partially offset price increases in other areas, as inflation last month came in lower than projected. Consumer Price Index (CPI) was up 2.4% from a year ago last month, an increase that is on par with economists' prediction of 2.4%. Excluding energy and food, core CPI registered a year-over-year gain of 2.8% in April, unchanged from its yearly growth rate in March, but was slightly lower than the census expectations of 2.9%. With energy slipping 1% on the month, while new and used car prices dropping 0.3% and 0.5% respectively, the month-over-month increases in food (0.3%), shelter (0.3%), and other items were partially offset. Shelter costs rose 0.2% month-over-month and were up 4.0% year-over-year, but the gain was the smallest since November 2021. In general, the May CPI figures were relatively tame, and the tariff impact has yet to kick in. However, with some of the big retailers such as Walmart and Best Buy signaling price hikes late last month, inflation will likely start inching up during the summer.

**Small business optimism rose for the first time in five months:** The NFIB Small Business Optimism Index in May increased for the first time since December 2024. With the index rising three points to 98.8, the level of optimism for small business owners climbed back above the 51-year average of 98 after dipping below the benchmark in the prior two months. The negotiation on May 12 between the U.S. and China de-escalated the trade tension between the two nations and probably provided a boost to business owners' optimism last month. The net percent of owners who expected better business conditions rose 10 points from April to 25%. The share of owners who expected higher inflation-adjusted sales also increased 11 points to a net 10% in May. Despite the improvement in the overall optimism, the uncertainty index ticked up again as tariff concerns lingered on while Trump's Big Beautiful Bill has yet to pass in Congress. The net percent who said that current inventory is "too low" also jumped 7 points and reached the highest level since March 2023, which could mean shortages and price hikes of some goods in the near future.

**Expectations on labor market and future household finance improve:** Results from the New York Fed's *Survey of Consumer Expectations* suggest that consumers' pessimism on the labor market has eased, while their expectations on household financial situation have improved as well. The likelihood of losing one's job in the next 12 months decreased 0.5 percentage points to 14.8% in May, and the mean perceived probability of finding a job in the next three months if one's current job was lost also increased by 1.5 percentage points to 50.7%. Meanwhile, respondents also expected a one-year-ahead earnings growth rate of 2.7% last month, an increase of 0.2 percentage points from the prior month. Fewer consumers also expected their financial situation to deteriorate 12 months from now, as the share who believed their household finance will get worse declined two percentage points to 34.3% in May from 36.3% in April. The latest perception on household financial situation, however, remained worse than the year-end number, as less than 20% believed their household finance would get worse 12 months from then in December 2024.

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**Mortgage rates experienced a solid improvement last week:** With the May inflation figures coming in softer than expected, mortgage rates fell to the lowest level in a month on Thursday, before bouncing back slightly the day after. Despite ongoing trade tensions and lingering tariff concerns that create uncertainties for the economy and put upward pressure on prices, the average 30 year fixed-mortgage rates dropped 0.08% from a week ago as of last Friday, according to Mortgage News Daily numbers. U.S. Treasury yields slid for two straight days on Wednesday and Thursday as both consumer prices and wholesale prices grew at slower-than-anticipated paces. While the spike in oil prices resulted from the heightened Israel-Iran conflict nudged yields higher on Friday, mortgage rates remained lower on the week. However, with the geopolitical tension showing no signs of easing, bond yields will likely remain volatile this week, and mortgage rates could rise further in the next few days.

***U.S. foreclosures activity edges down in May:*** Foreclosure filings on U.S. properties dipped on a month-over-month basis in May, as the economy continues to stumble along while the job market remains resilient. According to ATTOM, there were a total of 35,498 U.S. properties with foreclosure filings last month, a decrease of 1.5% from a month ago but an increase of 9.8% from a year earlier. At the national level, one in every 4,009 housing units had a foreclosure filing in May 2025. Statewide, California had one foreclosure in every 3,515 homes and was ranked the 13$^{th}$ highest in foreclosure rates among all states. Lake, Plumas, and Shasta were the counties with the most foreclosure activity in California. With home prices reaching a new record-high in April and the labor market remaining solid so far this year, foreclosure activity is not expected to increase sharply in the next 12 months.

**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.*