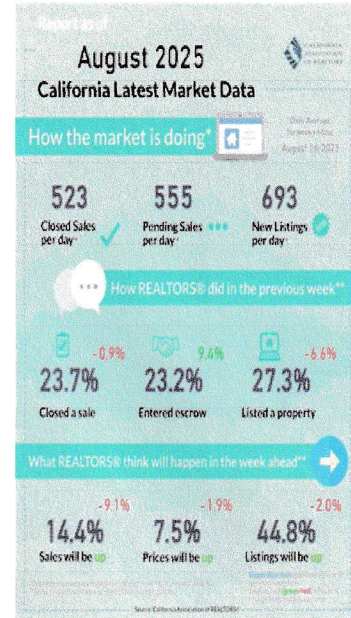


August 18, 2025 – Inflation continued to rise, with both consumer and wholesale prices experiencing increases in July, indicating that the inflation threat is far from over. Despite this ongoing macroeconomic concern, retail sales have shown resilience, bolstered by events like Amazon's Prime Day and strong demand in certain categories. Small business optimism has also climbed back above 100 and remained above the 52-year average, driven by better business conditions and legislative changes, despite ongoing uncertainty and inflation concerns. Meanwhile, California's housing affordability remains near its cyclical low, with a slight improvement from the previous year but a decline from the prior quarter.

California housing affordability remains near its cyclical low in second-quarter 2025: Housing affordability in California dropped from the prior quarter but improved from the same quarter of last year. The statewide housing affordability index (HAI) for existing single-family homes fell two percentage points (pp) from Q125 to 15% in Q225 but inched up from its year-ago level by 1 pp. A minimum annual income of \$232,400 was required to make the monthly payment of \$5,810, including principal, interest, and taxes (PITI) on a 30-year fixed-rate mortgage at 6.90% in California. The minimum income required in Q225 was \$4,400 less than the record high reported in Q224. Compared to a year ago, affordability improved in 41 counties but declined in four and showed no improvement in eight. Mortgage rates, while dipping below the levels of the previous quarter and of the same quarter of last year, continued to stay elevated and kept borrowing costs near their all-time highs, which was the primary reason for why affordability remained near its cyclical low. With rates expected to show more fluctuations in Q325, housing affordability may not change much in the current quarter.

Inflation remains on the rise: The headline Inflation figure held steady in July and was mostly in line with economists' expectations. The Consumer Price Index (CPI) was up 0.2% from June as both food and energy prices moderated and increased 2.7% on a year-over-year basis. Excluding energy and food, core CPI registered a year-over-year gain of 3.1% last month and reached the highest level since February. While new vehicle prices remained flat from the prior month, tariff-sensitive items such as footwear and household furnishings saw sharp price hikes in July. Core services' inflation picked up a stronger than expected 0.4% last month, with airline fares rising 4% while medical care and transportation services also posted solid gains. The producer price index (PPI) that reflects wholesale inflation measure also heated up last month, with both the headline and the core indices jumping 0.9% on the month, surpassing the Dow Jones estimate for a 0.2% gain. The latest reports on consumer prices and wholesales prices imply that the inflation threat is far from over and the effects of tariffs will likely continue to put upward pressure on prices in the remaining months of 2025.

July retail sales get help from Prime Day: Consumers spending continued to show strength after a dramatic drop in spring. After dipping 0.8% month-over-month in May, U.S. retail sales increased another 0.5% in July after a revised 0.9% gain in June, matching the consensus expectations polled by the Wall Street Journal. The increase was driven in part by a solid growth in demand for auto sales (+1.6%), but a 1.4% sales gain in furniture stores, and a 0.8% gain in sales at sporting goods stores also boosted the overall retail sales last month. Sales in the latter two categories, however, are tariff-sensitive and the stronger dollar sales volume could just be a reflection of higher prices rather than more units being bought. Amazon's first four-day Prime-Day sales last month also could be a factor that pushed up sales more than normal as the sales event typically lasted only two days in the past. The firmer sales growth last month, nevertheless, suggests that American consumers are still spending, but they will remain price conscious and choosy as firms slowly pass costs on to them.



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Small business optimism climbs back above 100: The NFIB Small Business Optimism Index increased 1.7 points in July to 100.3, after remaining virtually flat in the prior month. The level of optimism for small business owners remained above the 52-year average of 98 as respondents who reported better business conditions jumped 14 points from June and reached a net 36% in July. The passing of the One Big Beautiful Bill in early July and stock market indices reaching record highs could be contributing factors to the boost in business owners' confidence last month. Despite the improvement in overall optimism, level of uncertainty remained elevated with the uncertainty index surging eight points from June to 97 as tariffs and inflation concerns continued to linger on. While one in ten (11%) owners mentioned that inflation was their single most important problem in operating their business, the net percent of respondents raising average selling prices fell five points from June to a net 24%. A net 28% planned to increase prices in the next three months, a dip of 4 points from the prior month. The level remains well above its historical average though and suggests that continued inflation will remain in the months ahead.

"Lock-in effect" persists but is slowly getting better: In the first quarter of 2025, 81% of outstanding mortgage debt had interest rates below 6%, an increase of 4.4 percentage points from first quarter of 2024, according to a Realtor.com analysis based on data from the FHFA National Mortgage Database. One out of five (20.7%) of the outstanding mortgages were below 3%, one-third (32.7%) of them between 3% and 4%, another one-fifth (17.9%) between 4% and 5%, and one-tenth (9.9%) between 5% and 6%. With interest rates remaining elevated but homebuying activity continuing - albeit at a slower pace - the share of mortgages below 6% could fall closer to 75% by the end of 2025.

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.*