ECONOMIC UPDATE
REGIONS
May 19, 2022

April Existing Home Sales: Is The Market Tanking, Or Simply Becoming More Normal?

- Existing home sales fell to an annualized rate of 5.610 million units in April from March's (revised) sales rate of 5.750 million units
- Months supply of inventory stands at 2.2 months; the median existing home sale price rose by 14.8 percent on a year-over-year basis

Total existing home sales fell to an annualized rate of 5.610 million units in April, below our forecast of 5.670 million units, while the initial estimate of March sales was revised down to 5.750 million units from 5.770 million units (annual rates). Recall that existing home sales are booked at closing, in contrast to new home sales, which are booked at the signing of the sales contract. April closings will mainly have reflected sales contracts signed between mid-February and late-March, a period which captures some, but not all, of the sharp increase in mortgage interest rates seen over the past few months. While that will have taken some of the steam out of demand, some of the beneath the headlines metrics we track, such as time on market, show few effects of higher mortgage rates. At the same time, investors and cash buyers continue to account for meaningful shares of existing home sales, which is not only helping support sales volumes but also price appreciation, particularly in conjunction with inventories that, while rising, remain far short of levels consistent with a more balanced market. The median sales price climbed to $391,200 in April, another record high, though the year-on-year increase of 14.8 percent is a bit below those seen over recent months. As the effects of higher mortgage interest rates continue to filter through the existing home sales data, the pace of price increases will slow, likely sharply, as affordability constraints become increasingly binding. There seem to be two opposing views as to how this will all play out; one view is that the housing market will collapse under the weight of higher mortgage interest rates, leading to significant declines in sales and prices, and the other view is that, rather than causing the market to collapse, higher mortgage interest rates will instead lead to more "normal" housing market conditions. We see the latter as being more likely than the former even if the "massive decline in house prices" crowd is much more vocal than are we.

On a not seasonally adjusted basis, there were 464,000 existing homes sold in April, quite a bit weaker than our forecast of 486,000 sales. Sales were up 1.8 percent from March, which is quite a bit smaller than the typical April increase. Sales were down 9.6 percent year-on-year, though this April had one fewer sales day than last April and adjusting for this leaves sales down 5.0 percent year-on-year. The Northeast (down 15.8 percent) and West (down 11.6 percent) regions posted the largest over-the-year declines in sales, with sales down 6.4 percent in the Midwest and down 8.6 percent in the South. As of April, the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales trend, stood at 6.015 million units, the fifth consecutive monthly decline and down three percent from the peak of 6.199 million units seen last August. With the recent increases in mortgage interest rates teaming up with higher prices to further constrain affordability, the trend sales rate will likely slip further in the months ahead. Whether that means the market is set to collapse or simply normalize remains to be seen, and we see the latter as more likely than the former given how badly undersupplied the market remains.

Listings of existing homes for sale rose to 1.030 million units in April, up 10.8 percent from March, meaningfully larger than the typical April increase but this still leaves listings down 10.4 percent year-on-year. Even with elevated prices and higher mortgage rates, homes are not staying on the market long once listed; the median days on market held at 17 days in April, and NAR reports that 88 percent of all existing homes sold in April lasted for less than a month after being listed. By way of comparison, median days on market for homes sold in 2019 was 34.4 days. Cash buyers accounted for 26 percent of all existing home sales in April, down a bit from the 28 percent share in March but still easily above longer-term norms (cash buyers accounted for 19.7 percent of all sales in 2019). The same is true of investor purchases, i.e., down slightly in April but above the longer-term average. Perhaps the group most impacted by the combination of elevated prices and rising mortgage interest rates is first-time buyers, who accounted for 28 percent of all sales in April, down from March and below longer-term norms. Not only are prospective first-time buyers feeling affordability constraints more acutely, but they are also picking from a smaller pool, as inventories are much leaner at lower price points than is the case at higher price points, which is something that is biasing the median sales price higher.

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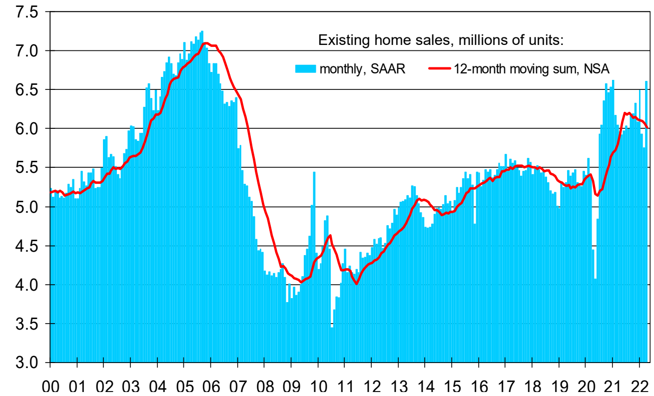
Trend Sales Rate Has Further To Fall



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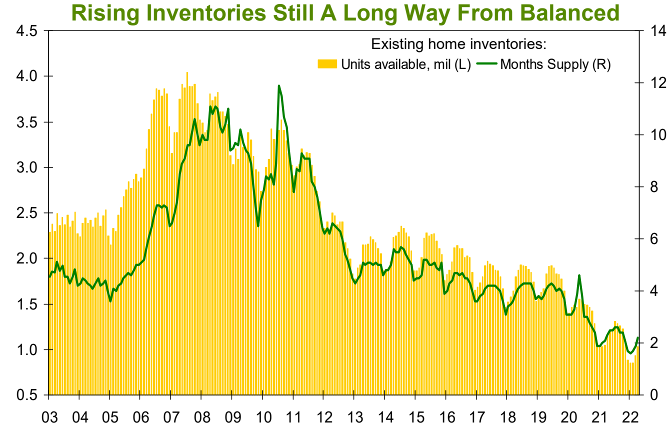
Rising Inventories Still A Long Way From Balanced



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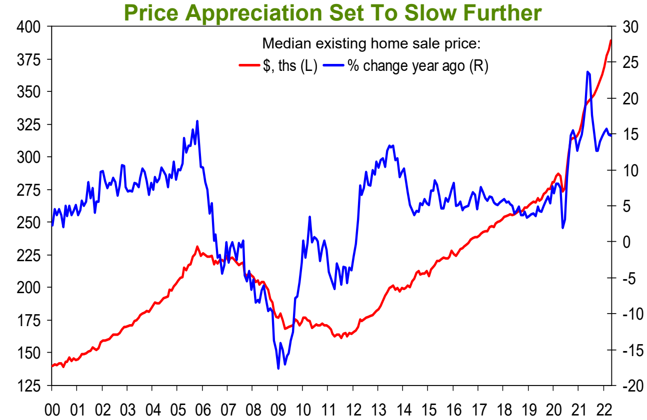
Price Appreciation Set To Slow Further



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