ECONOMIC UPDATE

REGIONS

September 21, 2022

August Existing Home Sales: Despite Falling Sales, Market Remains Undersupplied

- Existing home sales fell to an annualized rate of 4.800 million units in August from July's (revised) sales rate of 4.820 million units
- Months supply of inventory stands at 3.2 months; the median existing home sale price rose by 7.7 percent on a year-over-year basis

Total existing home sales fell to an annualized rate of 4.800 million units, better than what we and the consensus forecast expected but, outside of the initial stages of the pandemic, the lowest monthly sales rate since November 2015. That said, recall that existing home sales are booked at closing, so August closings largely reflect contracts signed from late-June through July, a period which captured the height of mortgage interest rates before they fell over the latter part of July. As such, it is noteworthy that August didn't see a bigger decline in sales, and that is even more apparent in the not seasonally adjusted data, which show total sales of 476,000, well above our forecast of 446,000 sales. Still, with mortgage rates having pushed above 6.0 percent, we could see bigger declines in sales in the months ahead. Inventories of existing homes for sale fell in August, leaving them unchanged year-on-year, reflecting fewer new listings coming on the market. At August's sales rate, inventories were equivalent to 3.2 months of sales, and while this is double the all-time low of 1.6 months seen in January of this year, it is nonetheless well short of the five-to-six months that would be consistent with a balanced market. The median existing home sales price fell for a second straight month, but the sequential declines in July and August are in keeping with normal seasonal patterns of prices easing after the end of the peak sales season. Still, on a year-on-year basis, the median sales price was up by "only" 7.7 percent in August, the smallest such increase since June 2020, with even smaller increases on tap for the months ahead.

As noted above, the not seasonally adjusted data show 476,000 sales in August, up 4.9 percent from July, going to our point that sales held up better than would have been expected given where mortgage interest rates were. Still, unadjusted sales were down 17.4 percent year-on-year, and on an equivalent sales day basis (there was one more sales day this August than last) the year-on-year decline is 21.0 percent. On a year-to-date basis through August, sales are down 11.3 percent nationally with declines in each of the broad regions, as shown in our middle chart. Keep in mind that the two highest-priced regions are the Northeast and the West, so the same increase in mortgage interest rates would have taken bigger bites out of affordability than in the Midwest and South Regions.

In a sense, the decline in inventories in August isn't surprising, as we are in that part of the year in which inventories begin to fall (the NAR inventory data are not seasonally adjusted). Still, what is notable is that the increases seen in the spring and early summer months were larger than is typical for those months, as if sellers were rushing to list homes before the worst of the bite from higher mortgage rates was felt. At this point, however, it could be that prospective sellers have opted to just stay put, as they just may not be willing to "trade up" into a higher mortgage rate while higher rates have thinned out the pool of potential buyers, particularly first-time buyers. As such, there has been a meaningful slowdown in the number of new listings coming on the market, which is weighing on the overall inventory numbers.

While median days on market for homes sold in August ticked up to 16 days from the all-time low of 14 days seen in June and July, this is still far shorter than has historically been the case, as we illustrate in our bottom chart. Moreover, NAR reports that eighty-one percent of homes sold in August were on the market for less than a month before going under contract. We've argued that even with months supply having moved higher over recent months, the market remains meaningfully undersupplied, as has been the case over the past several years. The time on market data suggest that there is still a pool of buyers ready to pounce, particularly with more and more sellers lowering asking prices. Moreover, at twenty-four percent in August, the share of all-cash transactions remains above average. We'd expect that as sellers adapt to the new market reality, initial asking prices will be "right sized," which would mean fewer cuts, but this could be a slow process. Also, it helps to keep in mind that a reduction in the asking price will still leave many sellers with a sizable gain on the sale of their home, just not as large of a gain as may have been the case a few months ago. Moreover, to the extent that sellers remain flexible on pricing, it could be that median time on market doesn't change all that much in the months ahead; should we see it lengthen to a meaningful degree, that would be a sign that demand has taken another leg down.

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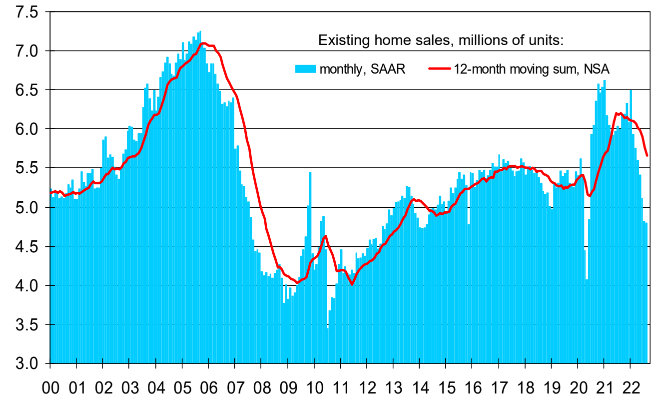
Still More Room To The Downside



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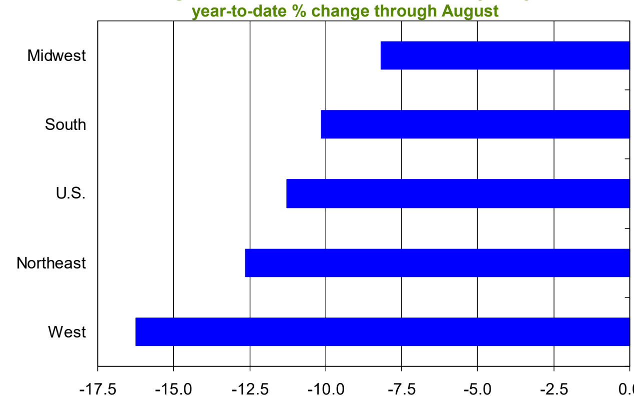
Existing Home Sales, Not Seasonally Adjusted

year-to-date % change through August



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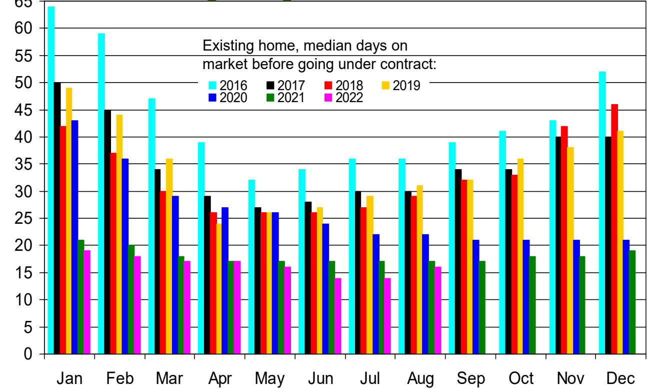
On The Market, But Still Not For Long Enough To Get Comfortable



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