ECONOMIC UPDATE

REGIONS

October 20, 2022

September Existing Home Sales: Further Down To Go For Sales, But How Much Further?

- Existing home sales fell to an annualized rate of 4.710 million units in September from August's (revised) sales rate of 4.780 million units
- Months supply of inventory stands at 3.2 months; the median existing home sale price rose by 8.4 percent on a year-over-year basis

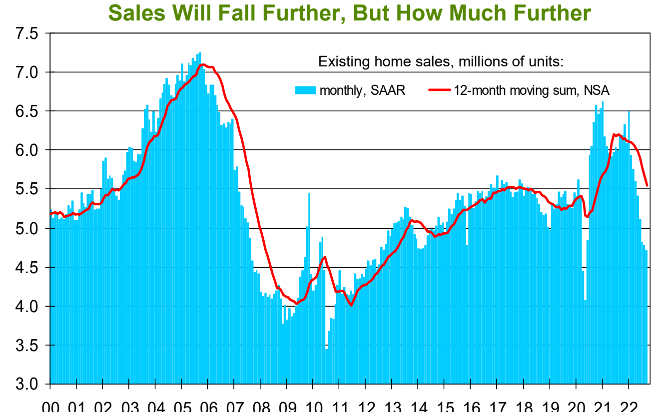
Total existing home sales fell to an annualized rate of 4.710 million units in September, in line with the consensus forecast but below our forecast of 4.910 million units. On a not seasonally adjusted basis, there were 428,000 existing homes sold in September, shy of our forecast of 434,000 sales. Unadjusted sales were down 9.7 percent from August, which is actually smaller than the typical September decline, and down 21.6 percent year-on-year. Clearly, higher mortgage interest rates are pushing home sales down, but higher mortgage rates are reflected in the data on existing home sales with somewhat of a lag, given that existing home sales are booked at closing. For instance, September closings largely reflect sales contracts signed from around mid-July through late-August when mortgage rates, though having risen, were nonetheless still comfortably below six percent. With mortgage rates now having crossed the seven percent threshold, existing home sales will fall further in the months ahead. That said, we'll note that even with sales having dropped off, the market remains undersupplied. There were 1.250 million existing homes available for sale in September, matching our forecast, down 0.8 percent year-on-year and equivalent to 3.2 months of sales at September's sales pace, well short of the 5.5-to-6.0 months that would reflect a balanced market. Moreover, while time on market has edged higher over the past two months, it nonetheless remains far below normal, and NAR reports that more than a quarter of homes sold in September sold above the listing price. The median existing home sales price was up 8.4 percent year-on-year in September, a larger increase than we expected but still considerably smaller than those seen in 2021 and earlier this year.

As noted above, the not seasonally adjusted data show 428,000 sales in September and the 9.7 percent decline from August was smaller than the typical September decline, as we anticipated would be the case. Our miss on the headline sales number largely reflects the seasonal adjustment factor being smaller than we anticipated, which is of no relevance. As of September, the running 12-month total of unadjusted sales stood at 5.545 million units, the lowest total since November 2020. As our middle chart shows, each of the four broad regions has seen sales fall. Nationally and in each of the four broad regions, the running 12-month total of unadjusted sales (which we see as the most useful gauge of underlying sales trends) topped out in August 2021 and as of September is down 10.6 percent nationally and down by 15.2 percent in the West, 13.7 percent in the Northeast, 9.0 percent in the South, and 7.5 percent in the Midwest. Note that the Northeast and West regions are the two highest-priced regions, meaning a given increase in mortgage interest rates will be felt more acutely in these regions than in the Midwest and South. We'll make two other points here. First, sales began to trend lower well before mortgage interest rates began to rise, which was obviously a supply, or lack thereof, story which has transitioned into a demand story. Also, despite the sharp decline, the running 12-month total of sales is still higher than it was in the two-plus years prior to the pandemic. Sure, sales have further to fall, but we've maintained from the start that there is a floor under demand, in part due to how chronically and persistently the market has been undersupplied. If we're correct on this point, the magnitude of the decline in sales won't approach that seen with the decline that began in 2006.

Median days on market rose to 19 days for existing homes sold in September, up from the record low of 14 days for sales in June and July but well shorter than the average of 33 days in the three Septembers prior to the onset of the pandemic. NAR notes that many listings are attracting multiple offers and, again, that over a quarter of September sales were at prices above the initial listing price. As mortgage rates go higher, more prospective sellers are "locked in" place, either unwilling or unable to trade up to a higher mortgage rate. At the same time, however, adjustable rate loans are accounting for a higher share of purchase mortgage applications than at any time since 2008 (and, no, now is not then) while sizable equity cushions also help sellers absorb the blow from higher mortgage rates. The point isn't that these factors will stop sales from falling, but rather that they will help mitigate the magnitude of the decline in sales. Market conditions are obviously not ideal, but as pricing becomes more reasonable (after more than two years of being just plain nuts), homes are still trading which, again, we trace back in part to how undersupplied the market has been.

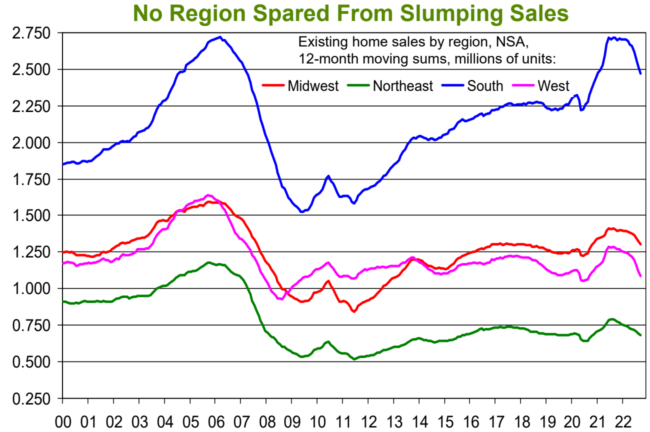
REGIONS

Sales Will Fall Further, But How Much Further



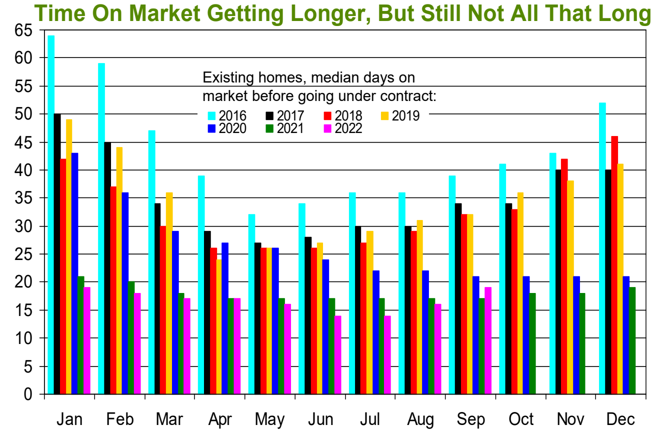
REGIONS

No Region Spared From Slumping Sales



REGIONS

Time On Market Getting Longer, But Still Not All That Long



Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com