ECONOMIC UPDATE

REGIONS

February 21, 2023

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January Existing Home Sales: Are Lean Inventories Still Holding Down Sales?

- Existing home sales fell to an annualized rate of 4.000 million units in January from December's (revised) sales rate of 4.030 million units
- Months supply of inventory stands at 2.9 months; the median existing home sale price rose by 1.3 percent on a year-over-year basis

Total existing home sales fell to an annualized rate of 4.000 million units in January, in line with the consensus forecast but well below our forecast of 4.370 million units. Our miss reflects not seasonally adjusted sales coming in below our expectations and the January seasonal adjustment factor being less giving than we anticipated. On a not seasonally adjusted basis, there were 231,000 existing homes sold in January, down 29.4 percent from December and the lowest monthly sales total since January 2009 (our forecast anticipated sales of 242,000 units). While there's no denying that January sales were weak, we do think it is worth asking what's behind that weakness. Or, put differently, even in a market as bad as this one has been, is it still possible for low inventories to be acting as a drag on sales?

That sales dropped off sharply in January is not news, as in any given year January is the weakest month for existing home sales. Still, this January's decline is a bit larger than the average January decline of 28.3 percent over the prior five years while our forecast called for a smaller than normal decline. One reason for this is that, after peaking at over seven percent in October, mortgage interest rates fell in November and December, and the weekly data from the Mortgage Bankers Association show purchase mortgage loan applications had responded to the dips in mortgage rates. Recall that existing home sales are booked at closing, so January closings mainly reflect sales contracts signed from mid-November through December. That January sales fell by even more than is typical for the month despite falling mortgage rates could reflect how tight the market remains. Despite a larger than normal increase in inventories in January, the months supply metric remained stuck at 2.9 months, well below the 5.5-6.0 months range consistent with a balanced market. To be sure, we by no means expected a rush of buyers back into the market; our forecast was for a 26.3 percent decline in unadjusted sales, and that sales were even weaker despite some relief on the mortgage rate front could be a sign that low inventories continue to disrupt sales, even with demand having weakened. As a side point, the January seasonal factor used to translate the raw monthly sales number into the seasonally adjusted annualized headline number was smaller than we had anticipated, and smaller than has been the case in past years. That, along with unadjusted sales falling short of our expectations, added up to us missing big on our forecast of the headline sales number. Also, since we're on the topic, with the January data the NAR has issued revisions to the seasonal factors used to adjust the raw sales data going back to 2019, but the estimates of not seasonally adjusted sales have not changed at all, meaning that nothing of any actual importance has changed.

For homes closed on in January, the median days on market before going under contract was 33 days, up from 26 days in December and the longest tenure since February 2020. Even with the increase in January, median time on market is still a bit below pre-pandemic norms, and NAR reports that fifty-four percent of homes sold in January were on the market less than a month before going under contract – recall that for much of 2022, that share was consistently over eighty percent. It is also worth noting that lengthening times on market are putting downward pressure on asking prices, with rising shares of selling prices falling below original asking prices. That is a far cry from selling prices coming in far above asking prices as was common between mid-2020 and mid-2022 when frenzied buyers bid up prices on limited offerings, often waiving inspection and accepting homes "as is."

In other words, the market is starting to look more normal with sellers no longer in complete control. That, however, does not mean sellers are without power, and that inventories remain so low and are likely to remain so will help sustain the sellers' advantage. Many associate sellers lowering asking prices as a sign of weakness on their part, but keep in mind that, given the extent to which house prices appreciated over the past few years, in many cases sellers can still walk away with a sizable gain even if they have to back off their original asking price in order to move a home. We've maintained all along that with there was still meaningful pent-up demand for home purchases that would be unleashed as affordability constraints eased. We think that is happening, gradually, and while mortgage rates may at present be the biggest drag on sales, that doesn't mean inventories are no longer a constraint.

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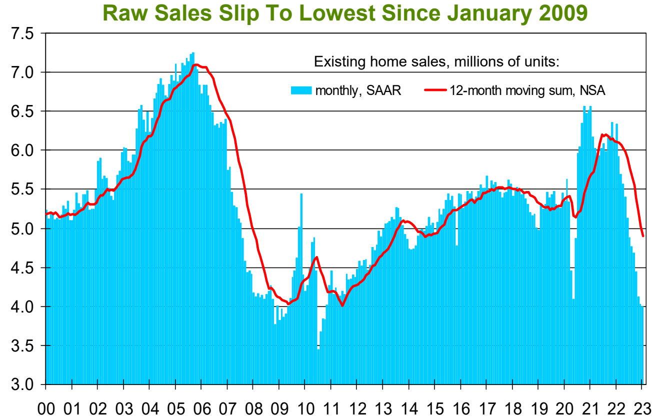
Raw Sales Slip To Lowest Since January 2009



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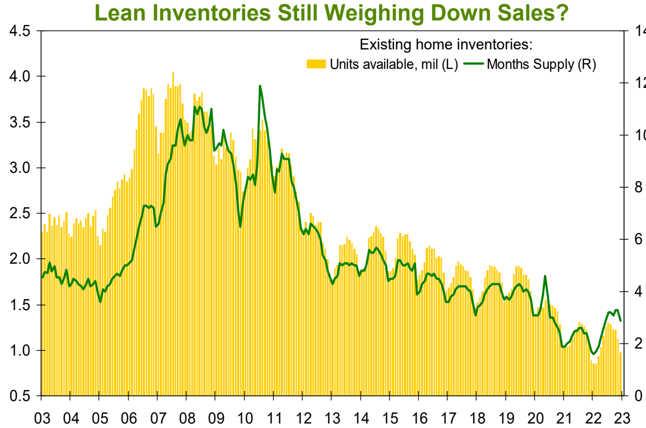
Lean Inventories Still Weighing Down Sales?



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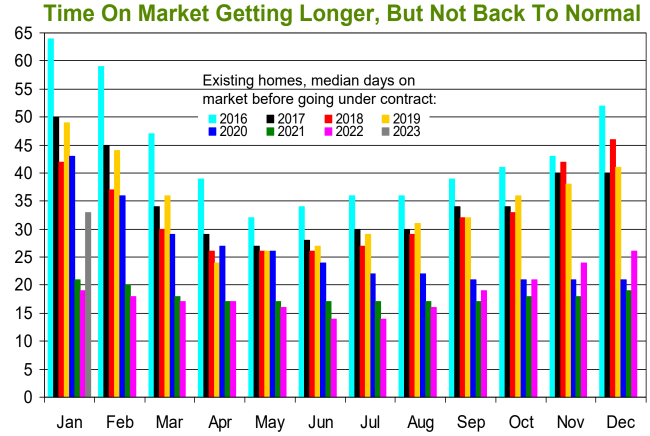
Time On Market Getting Longer, But Not Back To Normal



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