ECONOMIC UPDATE

REGIONS

June 22, 2023

May Existing Home Sales: Not Good, But Better Than It Looks. Kind Of

- Existing home sales rose to an annualized rate of 4.300 million units in May from April's (revised) sales rate of 4.290 million units
- Months supply of inventory stands at 3.0 months; the median existing home sale price fell by 3.1 percent on a year-over-year basis

Existing home sales rose to an annual rate of 4.300 million units in May, a marginal increase from April's (revised) sales rate of 4.290 million units. While that hardly seems a big deal, the not seasonally adjusted data show sales of 408,000 units, up 21.1 percent from sales of 337,000 units in April, marking the second largest May increase in the life of the current data series. That is more of a big deal than the middling increase in the headline sales number, in light of where mortgage interest rates are and how supply-constrained the market is. To help put the May number in better context, however, it helps to note that unadjusted sales fell in April which, excluding for obvious reasons April 2020, marked only the second time in the life of the data that unadjusted sales fell in the month of April. Moreover, even with the jump, unadjusted sales were down 22.0 percent year-on-year when adjusting for the extra sales day this May compared to last. So, whether you want to see a middling increase (headline sales), a monumental increase (unadjusted sales), or something in between (you pick), there's something in the May data for you. As our long-time readers know, our focus is always squarely on the not seasonally adjusted data, particularly the running twelve-month total of unadjusted sales, which we see as the most reliable indicator of the trend rate of sales. With the big year-on-year decline, that trend sales rate fell further in May, and is likely to fall further in the months ahead. Our sense is that the decline in sales in April could just reflect timing issues (existing home sales are booked at closing) that pushed some closings into May, so the most sensible thing to do is to just take the average of the two months. Which of course still leaves you with a falling trend sales rate which, an increase in inventories in May notwithstanding, is as much if not more a function of supply constraints than a function of higher mortgage interest rates. To that point, at May's sales rate, the level of inventory translates into 3.0 months of sales, up from recent months but still far below the 5.5-to-6.0 months typically associated with a balanced market.

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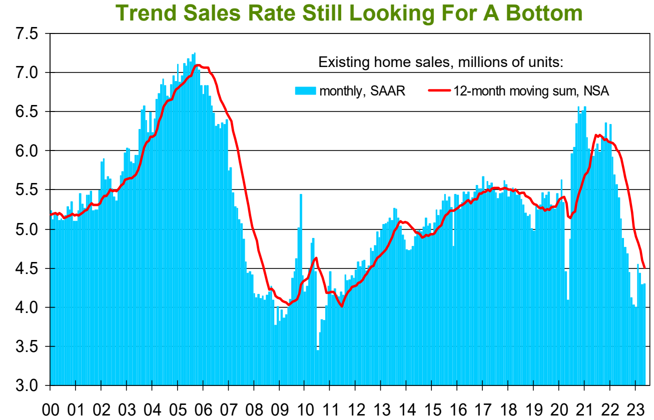
Trend Sales Rate Still Looking For A Bottom



As noted above, there were 408,000 existing homes sold in May on a not seasonally adjusted basis. This topped our forecast of 383,000 sales, but that sales were so much lower this May than last pushed the running twelve-month total of not seasonally adjusted sales down to 4.508 million units, down from 4.599 million units in April. As of May, the running twelve-month total is the lowest in any month since July 2012, and if we are correct in expecting further year-on-year declines, the trend sales rate will fall further in the months ahead. On a year-to-date basis through May, sales are down 24.4 percent nationally, with declines of 31.0 percent in the West, 26.2 percent in the Northeast, 22.2 percent in the South, and 21.9 percent in the Midwest. It helps to recall that the Northeast and West are the regions in which prices are the highest and in which inventory constraints have been more pressing.

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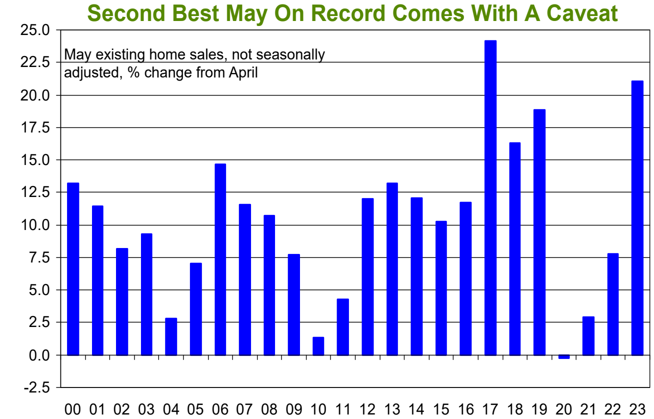
Second Best May On Record Comes With A Caveat



Inventories of existing homes for sale rose to 1.080 million units in May, topping our forecast and up 3.9 percent from April. While this is larger than the typical May increase, it comes off of a smaller than normal April increase. Of more relevance is that inventories are down 6.1 percent year-on-year, ending a run of six straight over-the-year increases. To a point we've been making since mortgage interest rates first began to shoot higher, median days on market fell to 18 days in May, down from 22 days in April and over thirty days in the first two months of this year. To be sure, there are seasonal patterns in the median days on market metric, which can be seen in the "U" shape in our bottom chart regardless of the actual level of the bars. That said, median days have fallen in each of the past three months and remain far, far below pre-pandemic norms. NAR reports that seventy-four percent of homes sold in May were on the market less than a month before going under contract. This is an indication of the degree of pent-up demand that remains in the market, higher mortgage interest rates notwithstanding, with those homes in the lower/middle price ranges that do hit the market not lasting very long. It is also worth noting that cash sales continue to account for at least one-quarter of all existing home sales, a mitigant against the impact of higher mortgage interest rates. That does not, however, provide any relief from lack of inventory, particularly as this year's spring increase was far smaller than normal. This is acting to funnel more and more buyers to the market for new homes, where builders with higher than desired spec inventories stand ready to facilitate sales.

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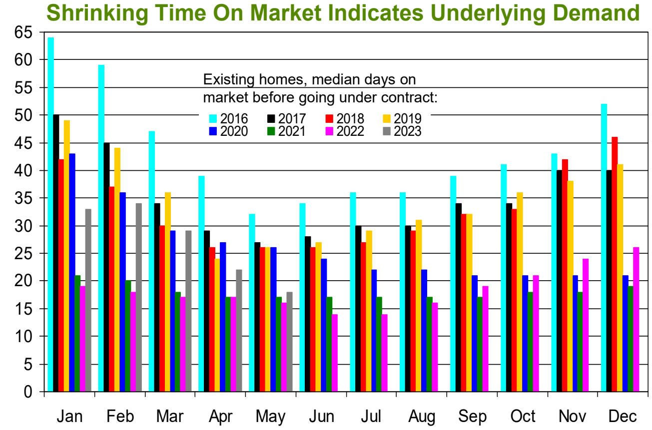
Shrinking Time On Market Indicates Underlying Demand



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