ECONOMIC UPDATE

REGIONS

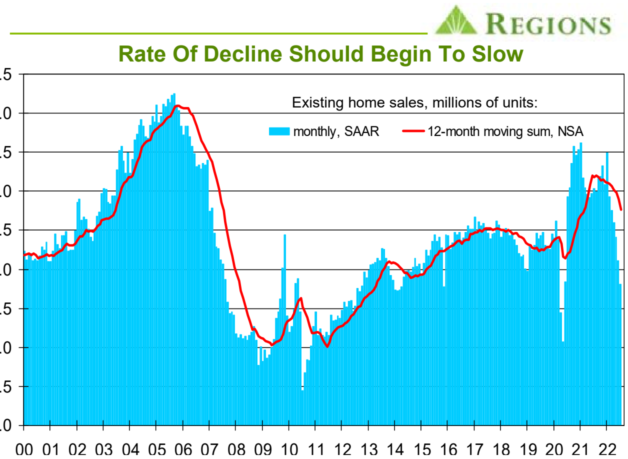
August 18, 2022

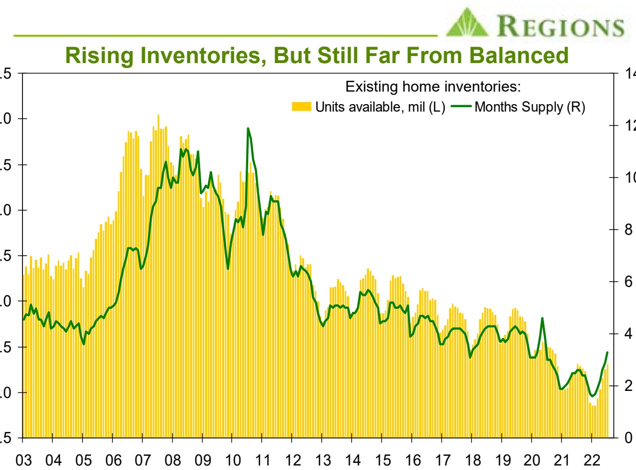
July Existing Home Sales: Falling Sales, Rising Inventories Leave Market Undersupplied

- Existing home sales fell to an annualized rate of 4.810 million units in July from June's (revised) sales rate of 5.110 million units
- Months supply of inventory stands at 3.3 months; the median existing home sale price rose by 10.8 percent on a year-over-year basis

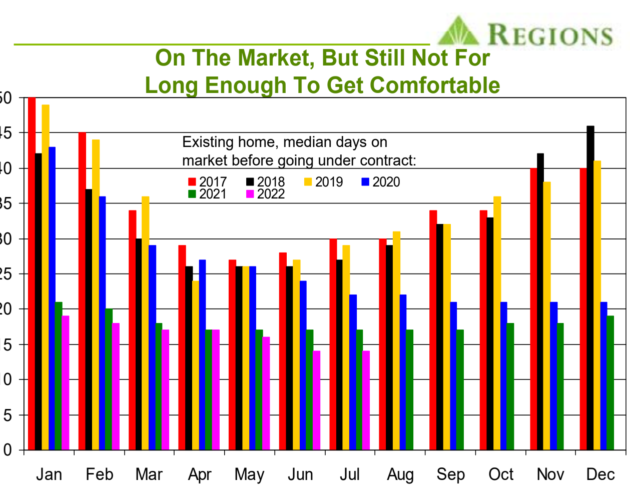
Total existing home sales fell to an annualized rate of 4.810 million units, falling short of expectations and, outside of the initial stages of the pandemic, the lowest monthly sales rate since November 2015. Existing home sales are booked at closing, so July sales largely reflect contracts signed from late-May through June, a period which captures the recent height of mortgage interest rates. On a not seasonally adjusted basis, there were 453,000 sales in July, well below our forecast of 477,000 sales and a decline of 13.7 percent from June. Inventories of existing homes for sale rose to 1.310 million units, up 4.8 percent from June but unchanged on an over-the-year basis, falling short of what we anticipated. Accounting for the drop in sales, inventories reflect 3.3 months of supply, and while this is up considerably from the all-time low of 1.6 months in January, it is still well below the six months that would be consistent with a balanced market. The median existing home sales price dipped from \$413,800 in June to \$403,800 in July, leaving it up 10.8 percent year-on-year – recall that in mid-2021 we were seeing year-on-year increases of over twenty percent.

As noted above, the not seasonally adjusted data show 477,000 sales in July, down 22.4 percent year-on-year. That decline is a bit overstated by there having been one fewer sales day this July than last, but even adjusting for that disparity still yields an over-the-year decline of 18.6 percent. As of July, the running twelve-month total of unadjusted sales, which we consider the most reliable gauge of underlying sales trends, stands at 5.764 million units, down 7.0 percent from the peak of 6.199 million units reached in August 2021. On a year-to-date basis through July, sales are down 10.3 percent nationally, with declines of 7.3 percent in the Midwest, 9.1 percent in the South, 13.0 percent in the Northeast, and 14.5 percent in the West. 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.





The increase in inventories was larger than is typical for the month of July but well below those seen over the prior several months. Keep in mind that the NAR inventory data are not seasonally adjusted, and typical seasonal patterns see inventories peaking in mid-summer then tailing off. In that sense, inventories are behaving in line with normal seasonal patterns, just with larger monthly changes, and to the extent that is the case, growth in inventories will slow further over coming months. We've argued that even with the increases in inventories and the declines in sales over the past several months, the market remains meaningfully undersupplied, as has been the case over the past several years. One indication of that is that even with overall sales falling, homes are still not staying on the market for very long before going under contract. In July, the median days on market held at 14 days, matching June as the all-time low, and NAR reports that 82 percent of homes sold in July were on the market for less than a month before going under contract. A number of sources show increasing numbers of sellers reducing asking prices in order to move homes, and it appears that buyers are responding to that. 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 in the sense that sellers do not want to take too much off the table right up front. 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.



Another point we think worth making is that, while the year-on-year gains in the median sales price are slowing rapidly, the various repeat sales price indexes have yet to show any such slowdown. That is largely a function of the repeat sales price indexes reflecting three-month moving averages and, as such, being slow to pick up turns in pricing patterns. We expect that once we get into the fall months, the rate of price appreciation reported in the repeat sales price indexes will slow sharply.

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