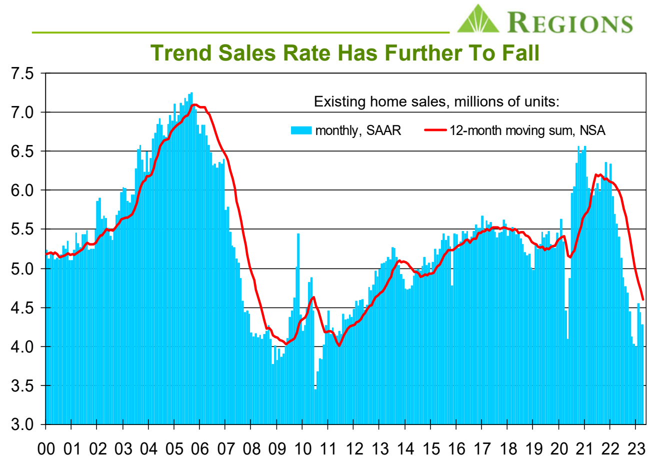
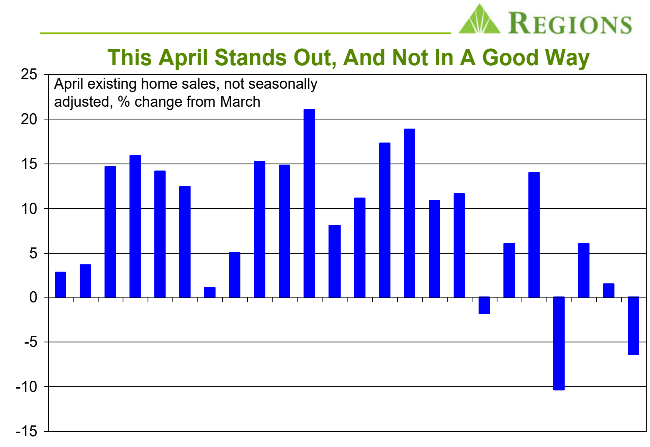
ECONOMIC UPDATE
REGIONS
May 18, 2023

April Existing Home Sales: The Headline Number Is Bad, The Real Number Is Way Worse

- Existing home sales fell to an annualized rate of 4.280 million units in April from March's (revised) sales rate of 4.430 million units
- Months supply of inventory stands at 2.9 months; the median existing home sale price fell by 1.7 percent on a year-over-year basis

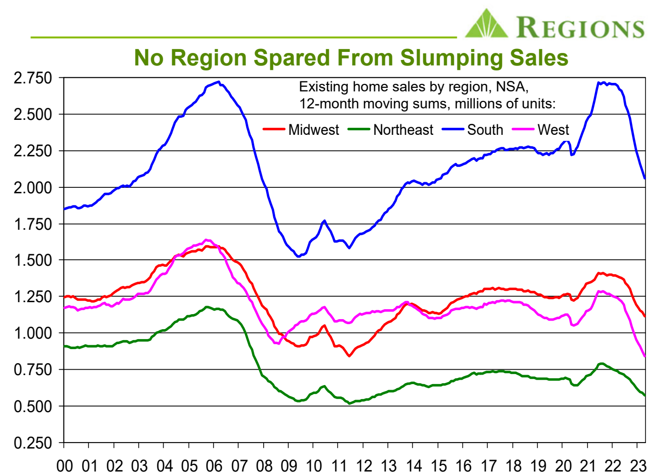
April may or may not actually be the cruelest month, but in terms of existing home sales, it certainly feels that way. Oh, sure, the headline sales number, a seasonally adjusted and annualized sales rate of 4.280 million units, fell in line with expectations, ours and the consensus. If that seems neither cruel nor kind, it is the not seasonally adjusted data that deliver the blow. On a not seasonally adjusted basis, there were 336,000 existing homes sold in April, making a cruel mockery of our forecast of 359,000 sales. More pointedly, the 336,000 sales in April reflect a 6.4 percent decline from March which, with the obvious exception of 2020, makes this April only the second in the life of the current series in which sales declined. That unadjusted sales were so far below our forecast while the headline sales rate was so close to expectations is a function of an overly generous April seasonal factor making the headline sales number look much better than is actually the case. And, even with that, the headline sales number is nothing to, well, write home about. On an over-the-year basis, sales were down 27.4 percent in April, but there was one less sales day this April than last, so adjusting for that disparity yields an over-the-year decline of 23.8 percent. While inventories of existing homes for sale rose by 7.2 percent in April, a larger increase than our forecast anticipated, that increase is nonetheless smaller than the typical April increase. In most years, inventories start to build in February ahead of the spring sale season, with April typically seeing the largest increase in inventories of any month. While this April's increase will most likely be the largest monthly increase of this year, the spring inventory build basically didn't happen this year, and we'll argue that, higher mortgage interest rates notwithstanding, lack of inventory remains a meaningful drag on sales. To that point, at April's sales rate, the level of inventory translates into 2.9 months of sales, far below the 5.5-to-6.0 months typically associated with a balanced market.





As of April, the running twelve-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying trend rate of sales, stood at 4.598 million units, the lowest such total since October 2012. Moreover, with over-the-year changes in unadjusted sales deeply negative and likely to remain so for some time, the trend sales rate has much further to fall. As illustrated in our bottom chart, each of the four broad geographic regions has seen a significant decline in its trend sales rate, and one thing that stands out is that the trend sales rate in the West region is lower than has ever been the case, even in the depths of the 2007-09 recession. As a side point, we noted above how an overly generous seasonal factor made a lousy headline sales number look a bit less so; had last April's seasonal factor been used to adjust this year's sales, the April headline print would have been 4.040 million units. This is yet another illustration of why we have no use for the seasonally adjusted and annualized basis on which the data on residential construction and sales are reported.

To our point about lack of inventory remaining a drag on sales, the median days on market metric fell to 22 days in April from 29 days in March, each well below pre-pandemic norms. NAR reports that seventy-three percent of homes sold in April were on the market for less than a month before going under contract, which is down a bit from the over eighty percent reads that had been common but still far above anything resembling normal. We've noted that while not necessarily embracing them, buyers seem to at least have come to terms with current levels of mortgage interest rates. Prospective sellers, not so much, as many are simply unwilling to trade up to a much higher mortgage rate than they now have on their current home. This is limiting inventories of existing homes for sale, and that in turn is funneling more and more prospective buyers into the market for new homes, where it has not been uncommon for builders to buy down mortgage rates to facilitate sales. This only gets us so far, however, given that existing homes account for a much, much larger share of total home sales than do new homes, but this does suggest limited upside for existing home sales for some time to come. It is worth noting that while the median existing home sales price has been down year-on-year for three months running, that is more a reflection of the mix of sales, as sales of higher-end homes are off much more sharply than lower-priced homes. Even so, it is still surprising that the over-the-year price declines are not more pronounced.



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