ECONOMIC UPDATE

REGIONS

July 20, 2023

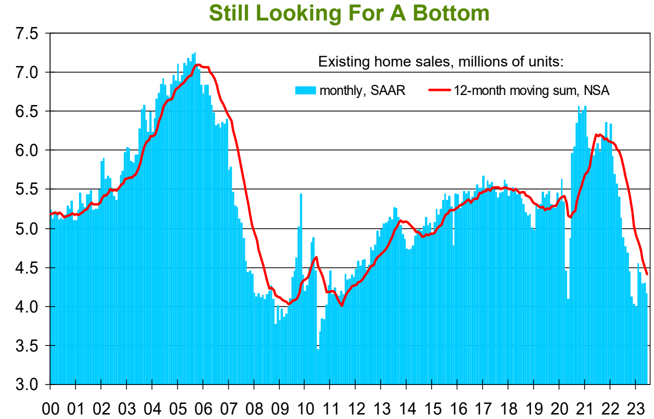
June Existing Home Sales: Still Looking For A Bottom

- Existing home sales fell to an annualized rate of 4.160 million units in June from May's sales rate of 4.300 million units
- Months supply of inventory stands at 3.1 months; the median existing home sale price fell by 0.9 percent on a year-over-year basis

June existing home sales were lower than our forecast and June existing home sales matched our forecast, all at the same time. At 4.160 million units, seasonally adjusted and annualized sales fell short of our forecast of 4.270 million units. On a not seasonally adjusted basis, the 434,000 sales matched our forecast – that we missed on the headline sales number reflects no more than the June seasonal adjustment factor being a bit less forgiving than we had anticipated, which has no actual consequences for anything that actually matters. As for what does actually matter, that existing home sales remain so weak is both a demand-side story and a supply-side story, with the line between the two obviously blurred by there being a large segment of homeowners who feel locked into their current home by an exceptionally low mortgage rate. Still, even at current mortgage interest rates, there are willing sellers, just not as many, and willing buyers, but that inventories of existing homes for sale remain so extraordinarily lean is pushing more and more prospective buyers into the market for new homes. Though the uptick in the months supply metric suggests some improvement on the supply side, that uptick is a function of the lower sales rate rather than an increase in supply, as there was no change in the overall level of inventory in June. Moreover, regardless of what the uptick in June may or may not mean, the more relevant point is that, at 3.1 months, months supply remains well short of the 5.5-to-6.0 months indicative of a balanced market.

REGIONS

Still Looking For A Bottom



As noted above, there were 434,000 existing homes sold in June on a not seasonally adjusted basis. While this reflects a 6.4 percent increase from May, that is a much smaller increase than is typical for the month of June, hence the unfriendly treatment in the seasonally adjusted data. On an over-the-year basis, existing homes were down 17.3 percent in June, and while the over-the-year declines are getting smaller, June marks the nineteenth straight month in which sales were down year-on-year. That is reflected in the sharp and steady decline in the running twelve-month total of not seasonally adjusted sales, which we show with the red line in our top chart. At 4.417 million units, that running twelve-month total is now at its lowest point since May 2012, and further declines in the months ahead are to be expected. On a year-to-date basis through June, sales are down 23.0 percent nationally, with declines of 29.1 percent in the West, 25.3 percent in the Northeast, 20.9 percent in the Midwest, and 20.8 percent in the South. 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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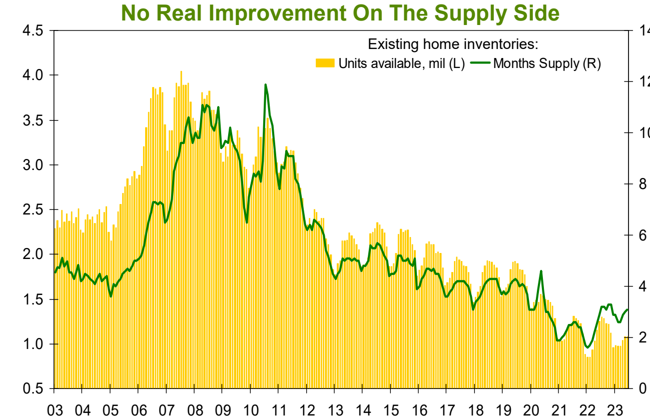
No Real Improvement On The Supply Side



At 1.080 million units, inventories of existing homes for sale were flat in June, contrary to the modest increase our forecast anticipated, which leaves inventories down 13.6 percent year-on-year. We are entering a time of seasonal weakness in inventories (the NAR inventory data are not seasonally adjusted), meaning that already lean inventories will likely become even more so in the months ahead. As we anticipated, there was a sequential increase in the median existing home sales price in June which nonetheless yielded an over-the-year decline of 0.9 percent. That decline, however, in part reflects the price mix of homes sold in each period, with higher-priced homes seeing a larger drop-off in sales than have lower-priced homes.

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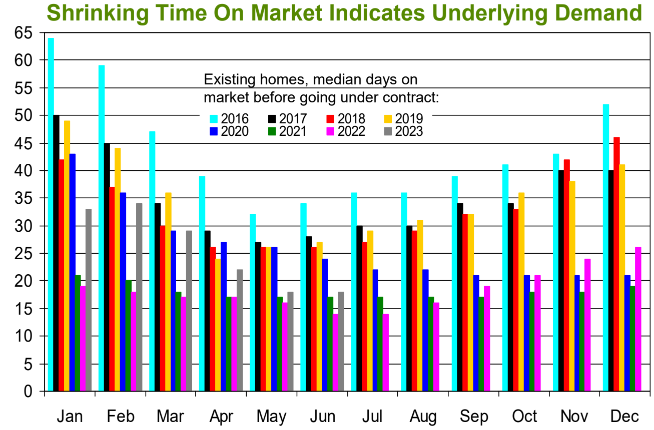
Shrinking Time On Market Indicates Underlying Demand



That said, that inventories are so lean while at the same time there remains pent-up demand for home purchases is mitigating downward pressure on home prices. To that point, NAR reports that seventy-six percent of home sold in June were on the market for less than a month before going under contract, and the median time on market held at eighteen days in June, still easily below pre-pandemic norms. NAR also reports that multiple offers remain a matter of course, with one-third of homes sold in June selling above their listing price. All-cash sales remain a counter to the effects of higher mortgage interest rates, with twenty-six percent of June sales being all-cash transactions. All cash, however, doesn't buy us any more inventory, which helps account for why builders are seeing more traffic these days which has pushed new single family construction and sales off of their recent lows. Builders with higher than desired spec inventories and the ability to offer concessions on financing rates are benefitting from a market for existing homes that has for some time been anything but normal and which will remain far from normal for some time to come.

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