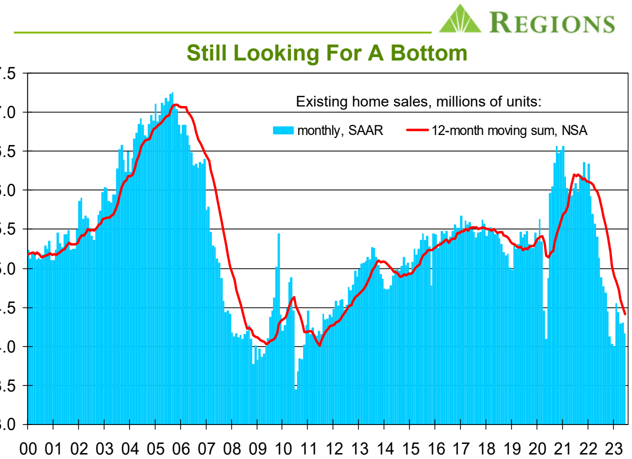
ECONOMIC UPDATE
REGIONS
August 22, 2023

July Existing Home Sales: There's A Bottom Down There . . . Somewhere

- Existing home sales fell to an annualized rate of 4.070 million units in July from June's sales rate of 4.160 million units
- Months supply of inventory stands at 3.3 months; the median existing home sale price rose by 1.9 percent year-on-year

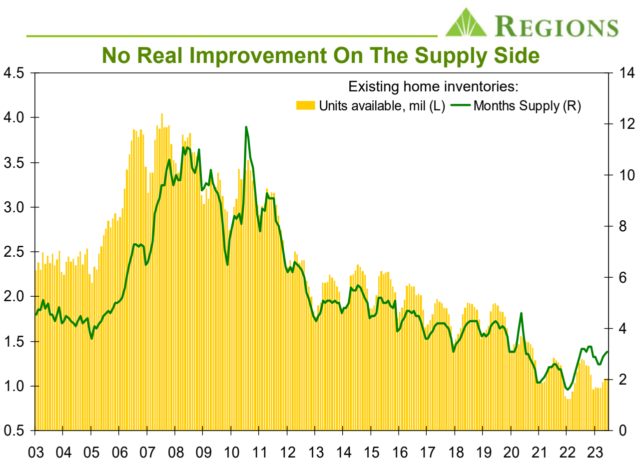
Total existing home sales fell to an annualized rate of 4.070 million units in July, just a bit short of our below-consensus forecast of 4.090 million units. On a not seasonally adjusted basis, there were 372,000 existing homes sold in July, below the 382,000 sales our forecast anticipated. Keep in mind that existing homes are booked at closing, so July closings would mostly reflect sales contracts signed from late-May through June. In other words, the July data on existing home sales reflect some, but by no means all, of the recent run-up in mortgage interest rates, effects that will be felt more fully in the August data. In addition to higher mortgage interest rates, lack of inventory also weighed on July sales, and while this is an old story, literally years old, it has been given a new twist by higher mortgage interest rates making current owners less inclined to trade up into a mortgage interest rate significantly higher than their existing rate. Turnover of the existing housing stock has for years been abnormally low, mainly reflecting demographic shifts, and is now even lower thanks to higher mortgage interest rates. This has helped steer prospective buyers to the market for new homes, but that there is still considerable pent-up demand for home purchases is evidenced by already low times on market being pushed lower while prices are once again being pushed higher, with the median existing home sales price up 1.9 percent year-on-year, ending a run of five straight months of over-the-year declines. At July's sales rate, inventories of existing homes for sale were equivalent to 3.3 months of sales, far short of the 5.5-to-6.0 months indicative of a balanced market.

Still Looking For A Bottom



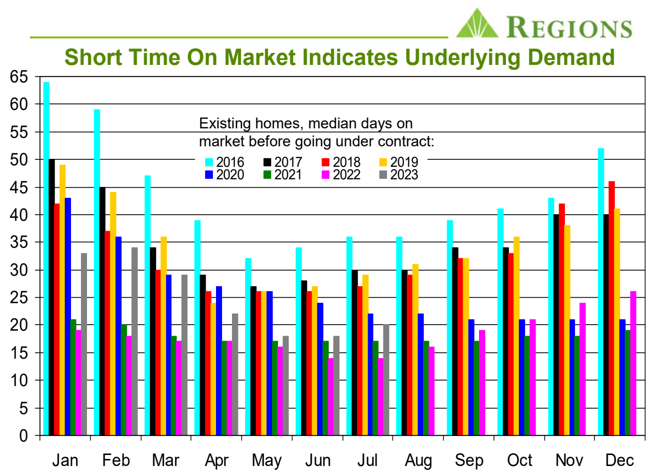
As noted above, there were 372,000 existing homes sold in July on a not seasonally adjusted basis, down 14.1 percent from June. While July is a month in which unadjusted sales typically decline, this year's July decline is far larger than is typical for the month. On an over-the-year basis, unadjusted sales were down 18.1 percent in July, marking the twentieth straight month in which sales were down on an over-the-year basis. This is reflected in the ongoing decline in the running twelve-month sum of not seasonally adjusted sales which, as of July, stands at 4.334 million units, the lowest such total since March 2012. On a year-to-date basis through July, sales are down 22.3 percent nationally, with declines of 27.2 percent in the West region, 25.2 percent in the Northeast, 21.1 percent in the Midwest, and 20.1 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.

No Real Improvement On The Supply Side



Inventories of existing homes for sale rose to 1.110 million units in July, up 3.7 percent from June, and while that is larger than the typical July increase (the NAR inventory data are not seasonally adjusted), it comes after an atypical decline in June and nonetheless leaves inventories down 14.6 percent year-on-year. While the months supply metric has ticked higher over the past few months after having slipped to 2.6 months during the first quarter of 2023, this recent move higher is more a reflection of the declining sales rate than of any meaningful improvement in physical supplies.

Short Time On Market Indicates Underlying Demand



That there is still pent-up demand for home purchases is seen in how little time homes are spending on the market once listed. NAR reports that seventy-four percent of homes sold in July were on the market less than a month before going under contract. While the median days on market metric rose to twenty days in July from eighteen days in June, that still leaves it well below pre-pandemic norms. Mounting frustrations over limited inventories have steered increasing numbers of prospective buyers to the market for new homes, where many builders have been able to use rate buydowns as a means of facilitating sales. Whether, or to what extent, that practice continues with mortgage rates now back over seven percent remains to be seen. Higher mortgage rates are no impediment to all-cash buyers, many but not all of whom are investors. All-cash sales accounted for twenty-six percent of all existing home sales in July and thus far in 2023 have accounted for twenty-seven percent of all sales, up from 25.5 percent of all sales in 2022. Though many have been surprised that house prices have not fallen sharply as higher mortgage rates have risen, we've maintained that limited inventories coupled with pent-up demand would mitigate downward pressures on prices. While that of course could change, it is unlikely to change any time soon.

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