ECONOMIC UPDATE

REGIONS

October 19, 2023

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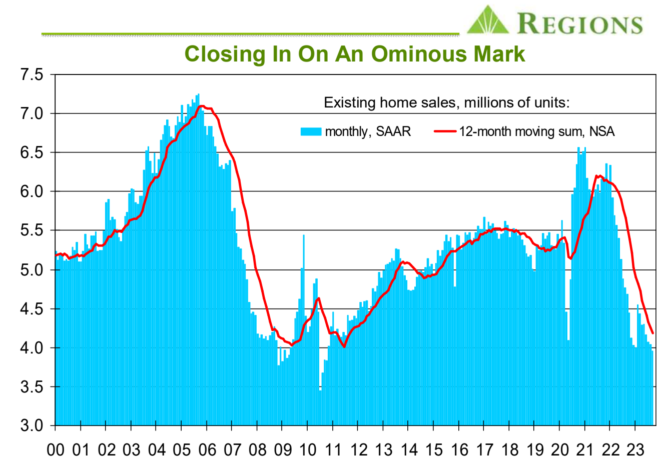
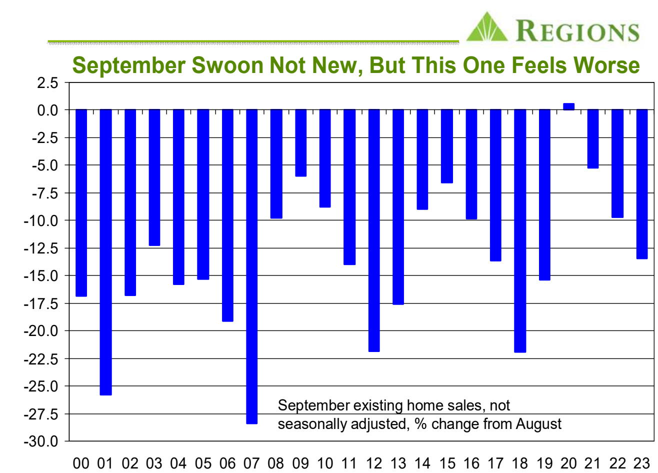
September Existing Home Sales: Not So Boldly Going To Where No One Wants To Go Again

- Existing home sales fell to an annualized rate of 3.960 million units in September from July's sales rate of 4.040 million units
- Months supply of inventory stands at 3.4 months; the median existing home sale price rose by 2.8 percent year-on-year

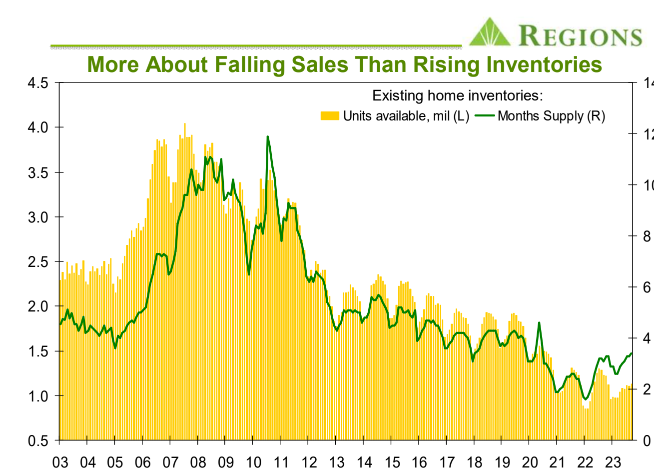
Total existing home sales fell to an annualized rate of 3.960 million units, ahead of the 3.890 million units we and the consensus forecast expected. At the same time, however, on a not seasonally adjusted basis there were 347,000 existing homes sold in September, a touch lighter than our forecast of 349,000 sales. That unadjusted sales came in below our forecast while the headline sales number came in above our forecast is simply a function of the seasonal adjustment factor for the September data being more supportive than we had anticipated, which of course is totally irrelevant – our regular readers know we base our analysis on the trends in the unadjusted data. Speaking of which, with unadjusted sales down 18.9 percent year-on-year, the running twelve-month total of not seasonally adjusted sales, which we see at the best read on the underlying sales trend, fell to 4.180 million units. As seen in our top chart, this puts the trend sales rate in sight of a rather ignominious, um, milestone – in the life of the current data series, the lowest twelve-month total of unadjusted sales is 4.103 million units, reached in April 2011. While the trend sales rate in this cycle may not actually sink that low, that we're even having this discussion is a testament to how the combination of chronically lean inventories and higher mortgage interest rates, and, yes, it has been a joint effort, have walloped existing home sales. That said, it is interesting that inventories of existing homes for sale actually rose in September, rising 2.7 percent from August. This is notable in that September is typically the start of a seasonally weak period for inventories (the NAR inventory data are not seasonally adjusted), and while September's increase caught us off guard – our forecast anticipated a modest decline – it nonetheless leaves inventories down 8.1 percent year-on-year. With the modest increase in inventories and the decline in sales, as of September inventories are equivalent to 3.4 months of sales, though this still falls well short of the 5.5-6.0 months consistent with a balanced market. While the inventory-to-sales ratio could push higher in the months ahead, that will likely be more of a reflection of further declines in sales than a meaningful build in inventories.



As noted above, there were 347,000 existing homes sold in September on a not seasonally adjusted basis, down 13.5 percent from August. As our middle chart indicates, sales sagging in September is nothing new, but this September's decline feels worse, in part because this is the largest September decline since 2019, and in part because there isn't a rebound in sales on the horizon as there typically would be at this point in the year, which again goes back to both inventories and mortgage rates. On a year-to-date basis through September, sales are down 21.9 percent nationally, with declines of 26.5 percent in the West region, 24.4 percent in the Northeast, 20.9 percent in the Midwest, and 19.7 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.



As we've been noting ever since mortgage interest rates first started to climb, there is some degree of pent-up demand for home purchases stemming from a prolonged period of the market being meaningfully undersupplied. To be sure, the higher rates go, more and more of that pent-up demand will evaporate. That said, NAR reports that sixty-nine percent of homes sold in September were on the market for less than a month, with a median days on market of twenty-one days. NAR further reports that about a quarter of homes sold in September were sold above list price, with many homes drawing multiple offers and increasing numbers of buyers waiving contingencies such as inspections and appraisals. All of which suggests that, while perhaps waning as mortgage rates rise further, pent-up demand has not come close to drying up. It is also worth noting that twenty-nine percent of September sales were all-cash transactions, matching this January as the highest share over the past several years, while all-cash transactions have accounted for just over twenty-seven percent of all existing home sales thus far in 2023.



Despite rising, the level of inventories marks the lowest September total on record in the life of the current data series, and inventory picture doesn't seem likely to brighten any time soon. This to some degree reflects more and more prospective sellers being "locked in" by rising mortgage interest rates. As such, sales are likely to fall further in the months ahead.

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