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## December Existing Home Sales: Approaching A Bottom, But Little Upside Room

- Existing home sales fell to an annualized rate of 3.780 million units in December from November's sales rate of 3.820 million units
- Months supply of inventory stands at 3.2 months; the median existing home sale price rose by 4.4 percent year-on-year

Total existing home sales fell to an annual rate of 3.780 million units in December, falling short of our below-consensus forecast of 3.810 million units. On a not seasonally adjusted basis, there were 297,000 existing homes sold in December, weaker than the 307,000 sales our forecast anticipated and the lowest monthly total since February. Keep in mind that existing home sales are booked at closing, as opposed to when the sales contract is signed, so December closings mostly reflect sales contracts signed from late-October through November, which for the most part coincides with the recent peaks for mortgage interest rates. As if on cue, cash sales accounted for twenty-nine percent of all existing home sales in December, matching January and September as the highest shares in the data as far back as our tracking goes. Inventories of existing homes for sale fell to their lowest level since March and, despite the drop in sales, as of December inventories were equivalent to only 3.2 months of sales, far short of the 5.5-6.0 months consistent with a balanced market. This is yet another reminder that, despite higher mortgage interest rates having done a number on demand, the ongoing slide in sales has its origins on the supply side of the market. We see only limited room for improvement on the supply side of the existing homes market in 2024, at least barring a much more pronounced decline in mortgage rates than we anticipate, leaving only limited upside room for existing home sales this year. This will work to the advantage of homebuilders, as more of the demand for home purchases will be funneled to the market for new homes.

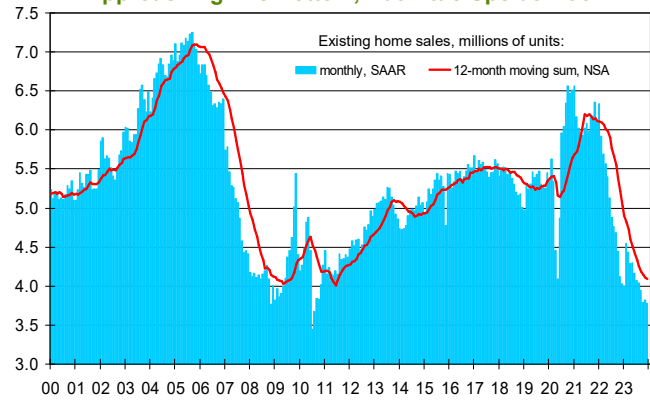
The 297,000 sales in December put total 2023 sales, not seasonally adjusted, at 4.087 units, down 18.7 percent from 2022, a year in which sales fell by 17.9 percent. Sales in the West region were down 22.4 percent in 2023, with sales in the Northeast down 21.4 percent, sales in the Midwest down 18.3 percent, and sales in the South down 16.5 percent. Recall that the Northeast and West are the regions in which prices are the highest and in which inventory constraints have been more pressing. We often note that we see the running twelve-month total of not seasonally adjusted sales as the most reliable gauge of the underlying sales trend and, at 4.087 million units as of December, the running twelve-month total is at its lowest point since July 2011.

NAR notes that December sales "look to be the bottom before inevitably turning higher in the new year" and further notes that "more inventory is expected to appear on the market in upcoming months." While we don't necessarily disagree with either point, we think the degree to which more inventory appears on the market is very much in question. While it is reasonable to expect lower mortgage rates to "unlock" more inventory of existing homes for sale, we think it will take more than one hundred basis points off of where rates are right now, right around 6.75 percent, to have a meaningful impact on inventories. While that would still put many sellers into a higher-rate loan on the purchase of a new home, there are ways to ease that differential, particularly as many sellers would walk away from their sale with considerable capital gains thanks to the robust house price appreciation seen over the past few years. That would give them latitude to put more equity into their next purchase as a means of managing down a monthly mortgage payment. We do not, however, anticipate such a pronounced decline in mortgage rates this year, and were we to see a decline of that magnitude it would more than likely be triggered by a significant deterioration in overall economic conditions. As such, we hold out less hope for the supply side of the market for existing homes in 2024 than NAR seems to. As we've contended for years, the only "fix" for existing home sales is more supply, and we don't hold out all that much hope for 2024.

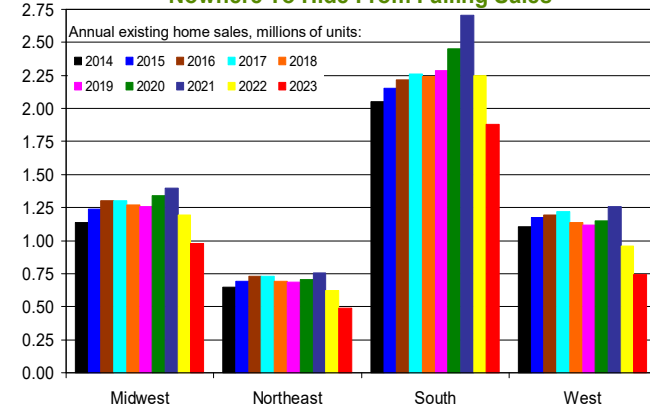
We've repeatedly pointed to what we see as considerable pent-up demand for home purchases as one factor holding up house prices despite higher mortgage interest rates. For 2023, the median existing home sales price was \$389,800, the highest on record, and as of December the median sales price was up 4.4 percent year-on-year. All-cash sales have been one way around higher interest rates, and at 27.4 percent for 2023 as a whole, cash sales continue to account for a significantly higher share of existing home sales than was the case in the years prior to the pandemic, but we'd be surprised to see that share maintained.



### Approaching The Bottom, But Little Upside Room




### Nowhere To Hide From Falling Sales




### Inventory Constraints Unlikely To Ease Much In 2024

