ECONOMIC UPDATE
REGIONS
March 21, 2024

February Existing Home Sales: Signs Of A Bottom Forming, But Will It Hold?

- Existing home sales rose to an annualized rate of 4.38 million units in February from January's sales rate of 4.00 million units
- Months supply of inventory stands at 2.9 months; the median existing home sale price rose by 5.7 percent year-on-year

Total existing home sales rose to an annual rate of 4.38 million units in February, just down the block from our forecast of 4.33 million units but leaving the consensus forecast of 3.95 million at an interstate rest stop several states over. On a not seasonally adjusted basis, there were 271,000 existing homes sold in February, better than our forecast of 264,000 sales and up 15.8 percent from January. Inventories of existing homes for sale rose by 5.9 percent in February, a smaller increase than our forecast anticipated and which, at the February sales rate, leaves inventories equivalent to 2.9 months of sales, the first time this metric has been below 3.0 months since last March and still far short of the 5.5-6.0 months consistent with a balanced market. Recall that existing home sales are booked at closing, so February closings would mostly reflet sales contracts signed from mid-December through January, a time during which mortgage interest rates were falling, even if from an elevated starting point. At the same time, however, February saw a pick-up in investor activity, which accounted for twenty-one percent of all sales, and a pick-up in cash sales, which accounted for one-third of all sales. While to some extent prospective buyers, and sellers for that matter, may be coming to terms with the reality that there is limited downside room for mortgage interest rates, it is also the case that investors, many of whom are armed with cash, are readily taking advantage of any improvement in supply. As such, rising supply may not bring much, if any, relief on the pricing front. The median sales price was up 5.7 percent year-on-year in February. We continue to think that, barring a much more pronounced decline in mortgage interest rates than we anticipate, there is limited upside room on the supply side of the market for existing homes in 2024. If so, that will work to the advantage of homebuilders, as more of the demand for home purchases will be funneled to the market for new homes.

As noted above, the not seasonally adjusted data show sales of 271,000 units in February. While this reflects a year-on-year increase of 0.7 percent, keep in mind that there was one more sales day this February than last, and adjusting for that leaves sales down 4.3 percent year-on-year. On a month-to-month basis, unadjusted sales fell in the Northeast region but rose sharply in each of the three remaining regions. Inventory constraints are more pressing in the Northeast, which helps account for that region's outsized price increases. The median sales price in the Northeast region was up 11.5 percent year-on-year in February, outpacing gains in the other regions though, at 9.1 percent, the West region, which also faces supply-side challenges, was not far behind. As of February, the running twelve-month sum of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying trend sales rate, stood at 4.092 million units, marking a third straight month right at the 4.09 million unit mark. We've been looking for a bottom to form, and that appears to be happening, but the two questions that remain are whether that bottom will hold and, if so, how much upside there is for sales in the months ahead. The answer to the first question will in large measure depend on the path of mortgage interest rates, while the answer to the second question will in large measure depend on the path of inventory.

Back in times less strange, in any given year February would mark the start of an inventory build ahead of the spring sales season. That inventories rose 5.9 percent in February, the largest February increase since 2013 (the NAR inventory data are not seasonally adjusted), may seem to herald a return to more normal conditions, but that increase comes after a long stretch of inventories having hovered near the lowest on record in the NAR data. While it is likely that coming months will see further builds in inventories, keep in mind that there remains a considerable degree of pent-up demand for home purchases, which has been building for more than a decade. Between that pool of prospective buyers and the pool of eager investors, rising inventories are unlikely bring much more balance to the market – the obvious caveat here is that conditions in individual markets will vary. It is interesting to note that median days on market rose to 38 days in February, the longest tenure since January 2020 but still far shorter than pre-pandemic norms. Note, however, that rising time on market could be a by-product of rising inventory and, as such, would not indicate sellers losing control over the market, something unlikely to happen any time soon.

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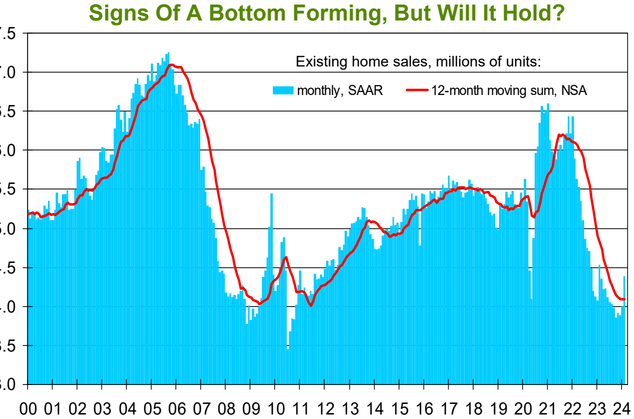

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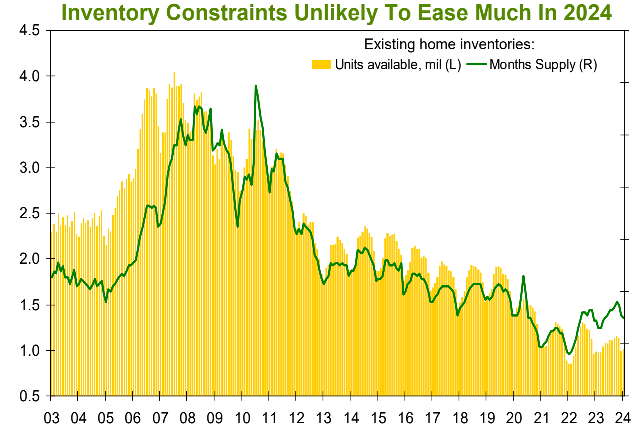
Inventory Constraints Unlikely To Ease Much In 2024



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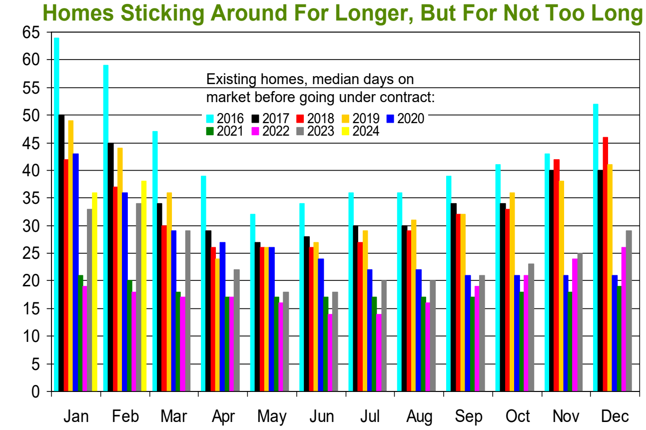
Homes Sticking Around For Longer, But For Not Too Long



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