ECONOMIC UPDATE

REGIONS

May 22, 2024

April Existing Home Sales: Better Than The Headline Number Suggests

- Existing home sales fell to an annualized rate of 4.14 million units in April from March's (revised) sales rate of 4.22 million units
- Months supply of inventory stands at 3.5 months; the median existing home sale price rose by 5.7 percent year-on-year

Total existing home sales fell to an annual rate of 4.14 million units in April, below the consensus forecast of 4.21 million units and even further below our forecast of 4.27 million. That said, April existing home sales came in right about where we expected them to be. Wait, what? The not seasonally adjusted data show sales of 360,000 units, or, right about where our forecast of 361,000 units expected them to be. Our miss on the headline sales number reflects little more than the April seasonal factor employed by NAR to turn the not seasonally adjusted sales number into the seasonally adjusted and annualized headline sales number being smaller than we had anticipated, a point that would have to take on increased importance to rise to the level of triviality. To be sure, the more important task for us is to put the April sales data – the not seasonally adjusted data, that is – into proper context, and to do that we must first go back to the March data. As we noted in our analysis at the time, this year's March increase in not seasonally adjusted sales was the smallest on record in the life of the current series, though that blemish was covered up by friendly seasonal adjustment. Our take was that calendar effects held down March sales (recall that existing home sales are booked at closing), given that not only were there two fewer business days this March than last but that Good Friday fell into March this year rather than April and, while counting as a business day, it is reasonable to think not as much business got done on that day as would otherwise have been the case. We further noted that, if our premise were correct, some closings that would otherwise have taken place in March were pushed back to April, which factored into our forecast of unadjusted April sales. While we cannot quantify any such effect, our middle chart shows that this April saw a 10.8 percent increase in not seasonally adjusted sales, the largest such increase since 2019, which matches the average April increase in the pre-pandemic years. We also noted that steadily rising inventories of existing homes for sale thus far in 2024 would be a support for April sales. One could argue that, as with the March data, calendar effects had a hand in the April sales number, suggesting unadjusted sales were not as weak in March nor as strong in April as the data suggest, but splitting the difference suggests that we've clearly seen the bottom in existing home sales, at least by our preferred measure, i.e., the running twelve-month total of unadjusted sales. That leaves the question of how much upside there will be, the answer to which will be greatly impacted by the paths of inventories and mortgage interest rates.

Inventories of existing homes for sale rose by 9.0 percent in April, a bigger jump than our forecast anticipated and larger than the typical April increase, leaving inventories up 16.4 percent year-on-year. At April's sales rate, it would take 3.5 months to exhaust inventories of existing homes for sale, but while pushing higher this is still well short of the 5.5-6.0 percent range consistent with a balanced market. While we expect inventories to rise further in the months ahead, we do not anticipate inventories rising to the level that would equate with market balance. If we're correct, that will continue to work to the advantage of builders as increased shares of prospective buyers will be funneled to the market for new homes. Builders have taken on some risk in the form of rising spec inventories, in part in anticipation of some relief on the mortgage interest rate front, but any such relief would likely trigger a response on the supply side of the market for existing homes.

While that remains to be seen, we continue to point out the still-significant degree of pent-up demand for home purchases, largely a reflection of how chronically undersupplied the market has been for the past decade-plus. That house prices continue to push higher, at least in most markets, reflects underlying demand and limited inventories. In April, the median existing home sales price was up 5.7 percent year-on-year, in line with our expectations. NAR reports that more than one-quarter of homes sold in April sold for prices above the asking price. We'll also note that median days on market prior to a home going under contract fell to twenty-six days in April from thirty-three days in March. As in the rest of the home sales data, there are clear seasonal patterns in this metric, but it still remains below pre-pandemic norms and NAR reports that over two-thirds of homes sold in April were on the market less than a month prior to going under contract, indicative of underlying demand.

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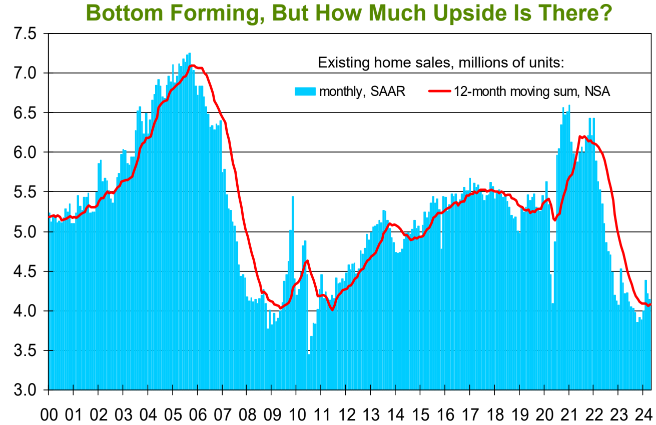
Bottom Forming, But How Much Upside Is There?



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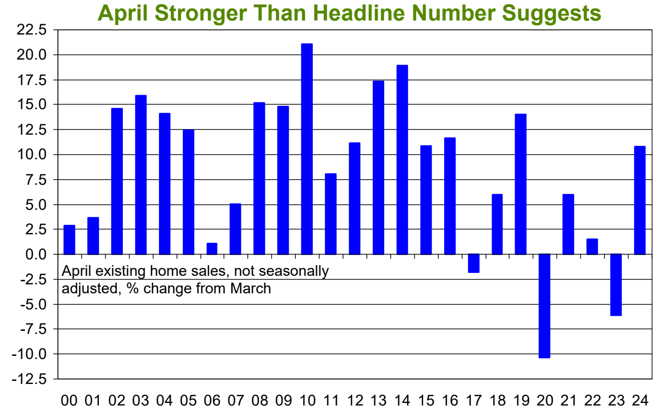
April Stronger Than Headline Number Suggests



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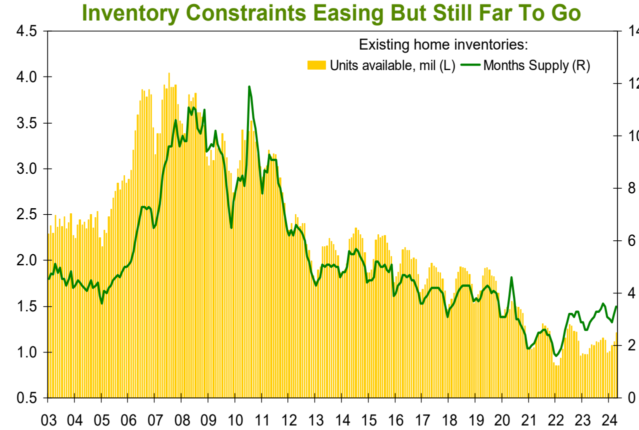
Inventory Constraints Easing But Still Far To Go



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