ECONOMIC UPDATE

REGIONS

May 22, 2025

April Existing Home Sales: Better Than The Headline, But As Good As It Gets For A While?

- Existing home sales <u>fell</u> to an annualized rate of 4.00 million units in April from March's sales rate of 4.02 million units
- Months supply of inventory stands at 4.4 months; the median existing home sale price <u>rose</u> by 1.8 percent year-on-year

Total existing home sales fell to an annual rate of 4.00 million units in April, ahead of our forecast of 3.96 million units but below the consensus forecast of 4.10 million units. While not seasonally adjusted sales of 349,000 units matched our forecast, the April seasonal factor was a bit less punitive than we expected, hence our miss on the headline sales number. Of perhaps more interest, inventories of existing homes for sale rose by nine percent in April, a larger increase than our forecast anticipated, which translated into a year-on-year increase of 20.8 percent and which leaves the level of inventories higher than at any point since September 2020. The median existing home sales price was up 1.8 percent year-on-year. While rising inventories are a least taking some of the pressure off price appreciation, that mortgage interest rates remain elevated means little relief from the affordability constraints that have for some time been weighing on sales and adding to what we for some time now have been pointing to as a pool of pent-up demand. As the April data show, prospective buyers have, at least thus far, been quick to pounce on any dips in mortgage rates, putting the term "buy the dip" in a new context. That said, should yields on longer-term U.S. Treasuries continue to push higher, the "dips" in mortgage rates may still leave them too high for many prospective buyers. If so, it's hard to see much upside for home sales in the months ahead.

As noted above, the not seasonally adjusted data show sales of 349,000 units in April, up 10.8 percent from March which, as it happens, matches the increase in unadjusted sales seen last April. Keep in mind that existing home sales are booked at closing, and April closings mostly reflect sales contracts signed from late-February through March. To our earlier point, this was a period in which mortgage interest rates drifted lower and in which applications for purchase mortgage loans pushed higher on a not seasonally adjusted basis. That was one factor behind our forecast of such a large increase in unadjusted sales in April – the 10.8 percent increase is considerably larger than the typical April increase. Even so, unadjusted sales were down 3.1 percent year-on-year, which pulled the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the trend rate of sales, lower in April, leaving it at 4.033 million units.

With the jump in April, the level of inventories is equivalent to 4.4 months of sales at the current sales pace. Though still short of the 5.5-6.0 months that would be consistent with a balanced market, with the exception of May 2020 this is the highest ratio since September 2016. In any given year, April is the month in which we typically see the largest increase in inventories, which of course reflects the heightened activity during the spring sales season. The 9.0 percent increase in inventories this April was right in line with the typical April increase, which is noteworthy given concerns over inventory being held down by elevated mortgage interest rates. Typical seasonal patterns suggest growth in inventories will slow over the next few months, but that slowdown could be more pronounced should mortgage interest rates hold at over seven percent. One implication of the recent run of rapid growth in inventories – April is the fourteenth straight month in which we saw double-digit year-on-year growth in inventories – is that homes are staying on the market longer, the relevant comparison here being a given month relative to the same month in prior years as there are clear seasonal patterns in time on market. At twenty-nine days, median time on market is the longest for April sales since 2017. Lengthening time on market has been one factor leading to cuts in asking prices, as more and more sellers are having to resort to lowering asking prices to facilitate sales. As we've noted, that does not necessarily mean they are taking a loss on the sale, but instead that they're realizing a smaller gain. But, with more inventory and higher mortgage rates making affordability constraints more pressing, it could be that there will be growing downward pressure on house prices over coming months. Indeed, some of the repeat sales house price indexes have already begun to show declining house prices in several markets across the U.S., and these are superior measures of patterns in house prices as they are not biased by the mix of sales the way the median sales price is. If we are correct in expecting sales to soften, downward pressure on house prices could become more intense and more broadly based geographically in the months ahead.

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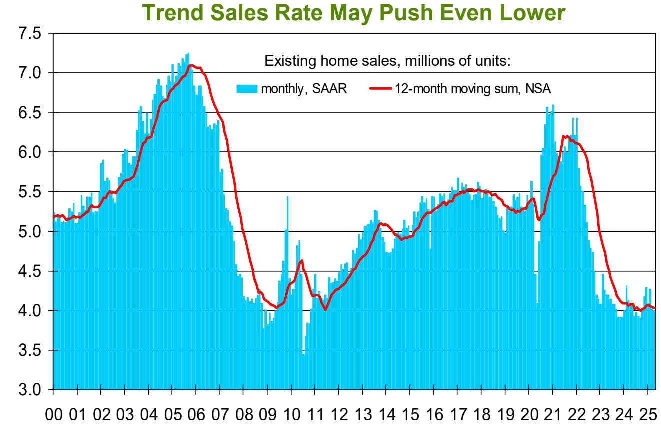
Trend Sales Rate May Push Even Lower



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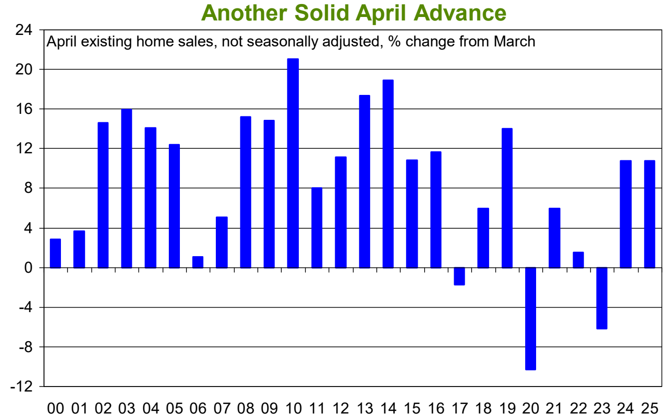
Another Solid April Advance



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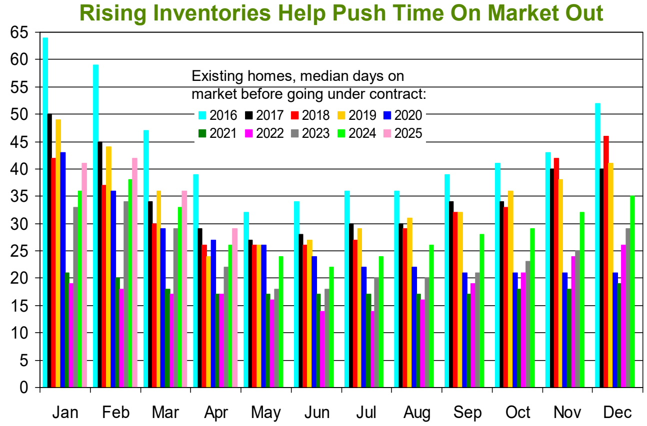
Rising Inventories Help Push Time On Market Out



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