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Economic Indicator — August 18, 2022

Existing Home Sales Drop Again in July

Higher Mortgage Rates Continue to Upend the Housing Market

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Summary

Resales Decline in July

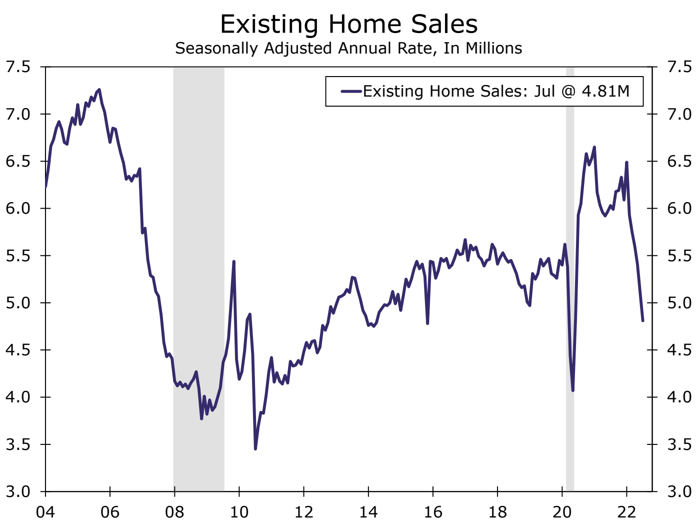
- Existing home sales fell 5.9% to a 4.81 million-unit pace during July, the sixth straight monthly drop.
- Single-family sales declined 5.5%, while condo and co-op sales fell 9.1%.
- Total sales are now running 20.2% below the pace registered during the same period last year. The culprit behind the retreat in resales is higher mortgage rates, which have significantly further reduced affordability and pushed prospective buyers to the sideline.
- Inventories continue to rise as buyers tap the brakes and more homeowners seek to sell their homes before the market cools off even further. Unsold inventory increased to 1.31 million in July. Inventories, which are now back to June 2021 levels, are still low by historical standards, but rising quickly. Months' supply improved to 3.3 months, up from 2.9 in June.
- Rising inventories and slowing buyer demand has led to a softer pace of home price appreciation. The median single-family home price rose 10.6% year-over-year, slower than the 12.6% yearly gain posted last month. On a month-over-month, not seasonally-adjusted basis, median single-family prices declined by $10,300 to $410,600.
- Homes are still selling quickly. Homes closed during the past month were on the market for an average of just 14 days on the market, unchanged from June, and down from 17 days in June 2021. According to the National Association of Realtors, 82% of homes sold in July were on the market for less than a month.

High Mortgage Rates Drag Down Sales in July

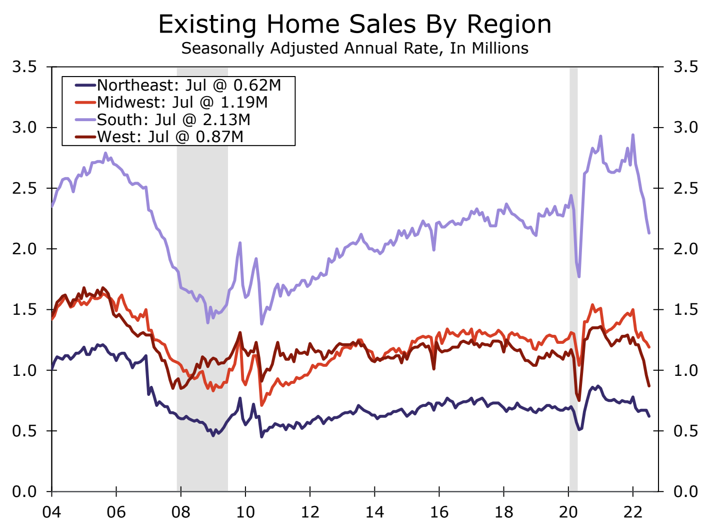
The housing downturn continued in July. Existing home sales fell 5.9% to a 4.81 million-unit pace during July, the sixth-straight monthly drop. Single-family sales declined 5.5%, while condo and co-op sales fell 9.1%. Single family sales fell to a 4.31 million-unit pace, marking the slowest pace sine June 2020 when sales came to a grinding halt due to the onset of the pandemic. Total sales fell in every region during the month, with the West region posting the sharpest decline. Resales fell 9.4% to a 870,000 unit pace in the West, which translates to a 30.4% yearly decline. Higher mortgage rates have hit the West especially hard. Not only is the region home to several of the least affordable housing markets in the country, it is also home to multiple tech hubs where hiring appears to be moderating ahead of much of the rest of the country. Elsewhere, the Northeast posted a 7.5% monthly drop, while the Midwest and South slipped by 3.3% and 5.3%, respectively.

The broad-based slowdown in sales has allowed inventories to rise. Unsold inventory increased to 1.31 million in July. At the current sales pace, this equates to a months supply of 3.3 months, up from 2.9 in June. Before COVID ignited a race for more space and surge in home buying, months supply averaged 4.3 in 2019 as a whole, meaning inventories are still relatively low even with recent gains. That homes continue to sell relatively quickly is further evidence that supply remains tight. Homes put up for sale lasted an average of just 14 days on the market, unchanged from June, and down from 17 days in July 2021. According to the National Association of Realtors, 82% of homes sold in July were on the market for less than a month.

Slightly more supply and slowing buyer demand is leading to a softer pace of home price appreciation. The median single-family home price rose 10.6% year-over-year, slower than the 12.6% yearly gain posted last month. On a month-over-month, not seasonally-adjusted basis, median single-family prices declined by $10,300 to $410,600. Still-tight supply is likely to support home values, but further moderation in terms of yearly gains appears on the horizon.



Source: National Association of Realtors and Wells Fargo Economics



Source: National Association of Realtors and Wells Fargo Economics

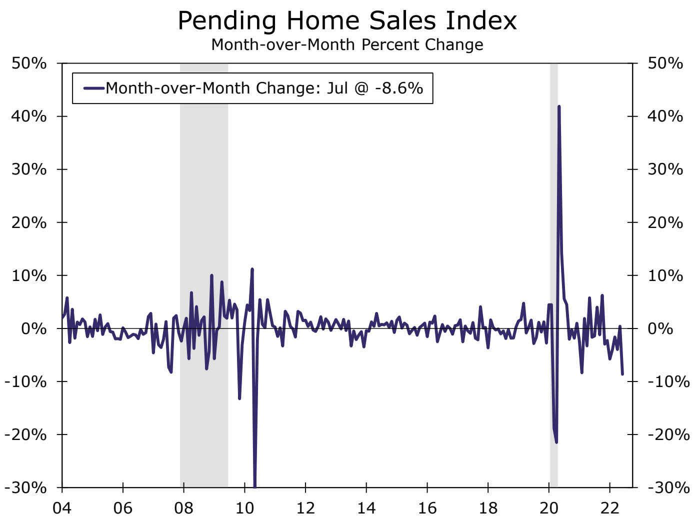
Fed is Keeping a Close Watch on Housing

The culprit behind the pull-back in single-family sales has been higher mortgage rates which have significantly reduced affordability. Borrowing costs have come down slightly in recent weeks. According to Freddie Mac's Primary Mortgage Market Survey, the 30-year fixed-rate mortgage rate averaged 5.13% as of August 18, down from 5.81% in late June.

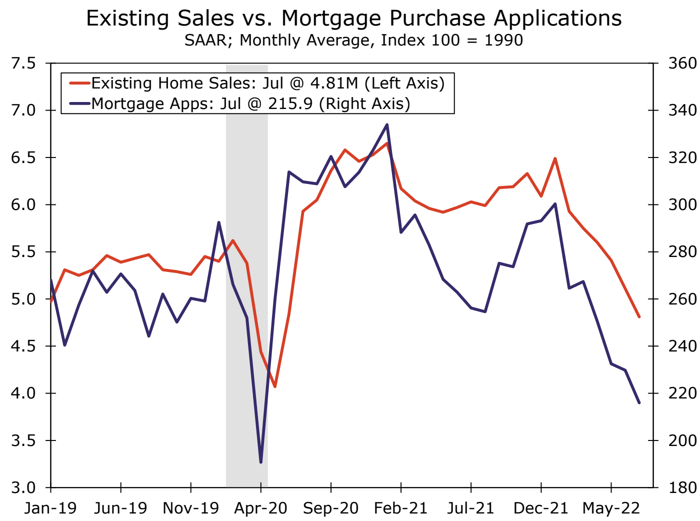
Fed officials pay particularly close attention the housing market and are monitoring how higher mortgage rates are impacting home sales and housing prices in order to gauge how tighter monetary policy is affecting the broader economy. Released yesterday, the minutes for July's FOMC meeting revealed that the committee remains committed to keeping a restrictive policy stance, but is open to slowing the pace of tightening if inflation is clearly on the path back towards the 2% target.

In regard to housing, meeting participants noted that “In contrast to many other borrowing rates, residential mortgage rates fell since the June FOMC meeting, in line with the drop in longer-term yields, but remained near their highest levels since 2010.” Participants also remarked that “slowing in the housing sector reflected the emerging response of aggregate demand to the tightening of financial conditions associated with the ongoing firming of monetary policy." Moreover, committee members observed that "housing activity had weakened notably, reflecting the impact of higher mortgage interest rates and house prices on home affordability" and that "this slowdown in housing activity would continue and also expected higher borrowing costs to lead to a slowing in other interest-sensitive household expenditures, such as purchases of durable goods."

We agree with the Fed's assessment that home sales likely have further to fall. As of August 12, mortgage applications for purchase have declined on a week-to-week basis in seven of the previous eight weeks. The National Association of Realtors' Pending Home Sales Index, which captures contract signings and lead existing sales by one or two months, dropped 8.6% in July. Slightly lower mortgage rates, softer home value appreciation and rising inventories should eventually help stabilize housing activity. That noted, higher financing costs are certain to weigh on home sales in the months ahead.



Source: National Association of Realtors and Wells Fargo Economics



Source: National Association of Realtors, Mortgage Bankers Association and Wells Fargo Economics

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