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Economics Group

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Existing Home Sales Tumble in September

Existing home sales continued to slide in September, with closings tumbling a much larger than expected 3.4% during the month. Sales fell throughout the country, and the median price of a home moderated as well.

When Should We Start Worrying About the Slide in Home Sales?

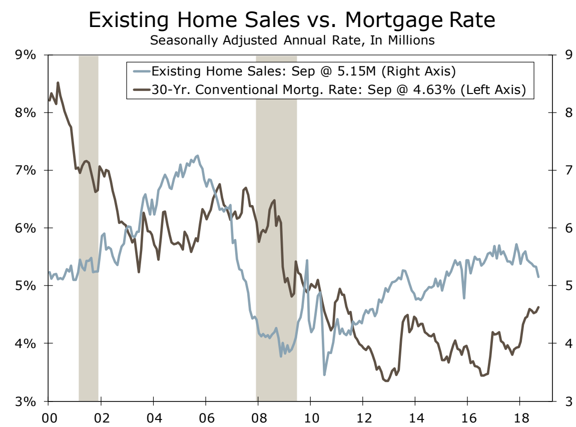
Existing home sales declined 3.4% in September, marking the sixth consecutive month that sales have fallen. Existing home sales track closings, which tend to reflect contracts signed one to two months earlier, so the most recent drop is not likely related to disruptions from Hurricane Florence. Unfortunately, the slide in housing is the real deal. Virtually every leading indicator of housing demand has been trending lower for several months, including pending home sales, mortgage purchase applications and the proportion of consumers stating that now is a good time to buy a home.

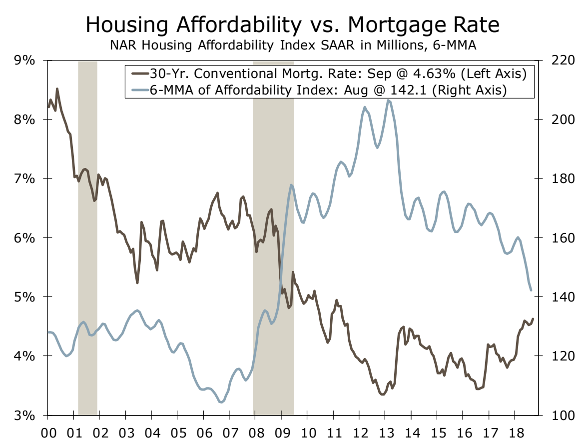
The slide in home buying has coincided with rising mortgage rates and follows years of rapid price increases, which have collectively taken a toll on affordability. Most of the drop in affordability this year, however, has come from rising mortgage rates. The latest housing affordability data do not reflect the most recent run-up in rates, which has sent a further chill through mortgage purchase applications.

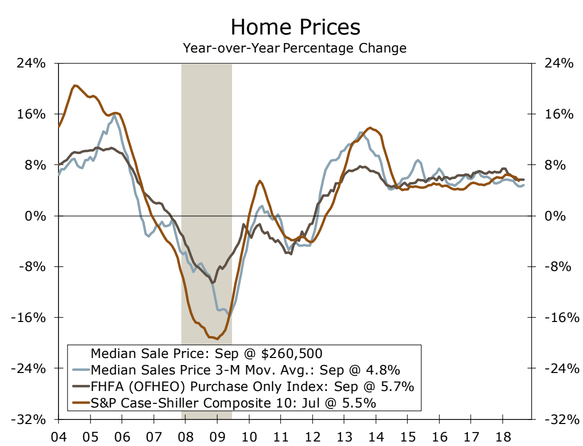
Earlier in the cycle, sales were primarily held back by the lack of for-sale inventory. The lack of homes for sale is less of an issue today. Inventories have been trending higher, as homes are not selling as quickly as they were a few months ago. Unsold inventory is currently at a 4.4-month supply, up from 4.3 months in August and 4.2 months a year ago. The National Association of Realtors (NAR) notes that homes sold in September typically stayed on the market for 32 days, up from 29 days in August but down from 34 days a year ago. Demand varies considerably by market and price point. Midland and Odessa, both in booming West Texas, are two of the strongest markets, as are Boston and Columbus, Ohio. Some of the hottest markets out West, however, have cooled considerably, particularly in higher priced markets such as the San Francisco area.

Home price appreciation has also cooled off. The latest data show the median price of an existing home sold in September was just 4.2% higher than it was one year ago. The year-over-year change in the median price has been trending lower for the past six months, and the moderation in the NAR series is evident in other price measures from FHFA and S&P/Case Shiller. With the momentum shift from sellers to buyers, homes are now more frequently selling below asking prices rather than above them, which reflects a more normal market.

We suspect the housing market will cool even further in coming months. Virtually every leading indicator of housing has weakened in recent months and interest rates have risen further. International buyers have also pulled back, and tax law changes have created another hurdle for potential buyers. With sales falling for the past six months, however, we may not see as much of a fall off this winter as we usually do. As a result, the seasonally-adjusted data might pop higher for a month or two during the typically slow winter months. Such a rise would not signal any fundamental improvement.







Source: NAR, Federal Housing Finance Agency, S&P/Case-Shiller, Freddie Mac and Wells Fargo Securities

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