



Economics Group

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Existing Home Sales Slip in April

Existing home sales declined 0.4% to a 5.19 million-unit pace during April. Despite lower mortgage rates, resales have fallen in five of the past six months and are down 4.4% from the same month a year ago.

Existing Home Sales Post Small Decline

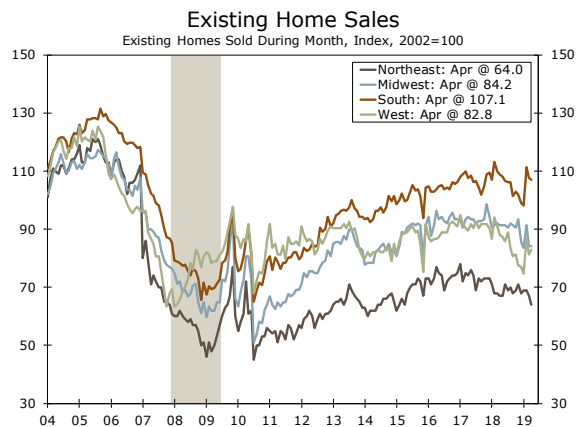
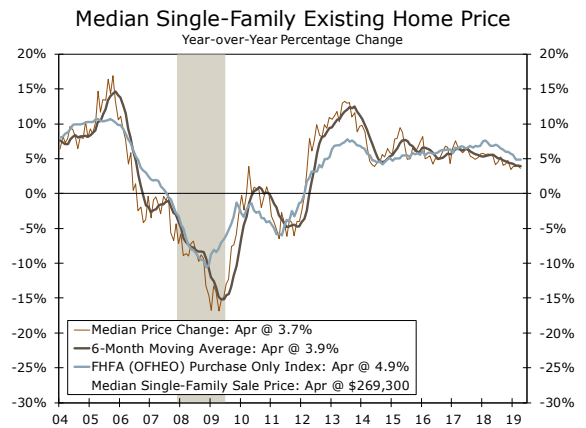
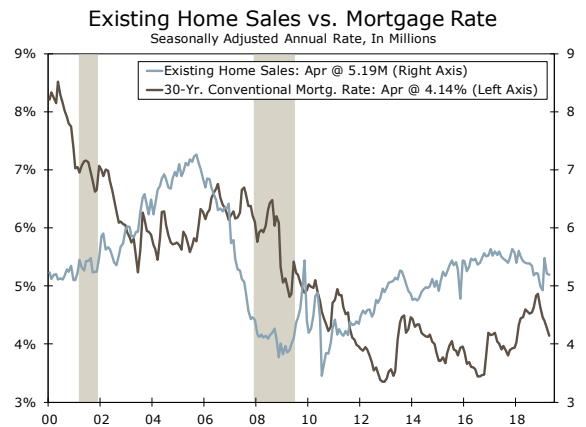
Lower mortgage rates have helped stymie the sharp pullback in home sales seen last year but have clearly not reversed it. During April, total resales fell well below expectations, dropping 0.4% to a 5.19 million-unit pace. With the exception of an 11.2% surge in February, which set the high-water mark for the year at a 5.48 million-unit pace, total sales have declined in five out of the previous six months. Still, while somewhat underwhelming, existing sales remain at a fairly solid pace and are running just slightly below their year ago pace through April, thanks to the surge in sales during February.

Much of April's decline in total sales was due to a 1.1% drop in the single-family segment. Condo and co-op sales fared slightly better and rebounded 5.6% during the month. The West was the lone region to post an increase in April, with sales rising 1.8%. Sales in the Midwest were flat during the month. The Northeast and South each posted declines, with total sales declining 4.5% and 0.4%, respectively.

The National Association of Realtors (NAR) also reported further moderation in home prices. The median sales price of a single-family home rose 3.6% year-over-year to \$267,300. Price gains have cooled relative to the 5.5% year-over-year increase registered last April. More moderate price appreciation follows a slower pace of sales, but also reflects somewhat stronger demand for homes at lower price points. Sales of higher priced homes appear substantially weaker, especially in markets such as California and the Northeast, which have been disproportionately impacted by the new limits on the deductibility of state and local taxes. Lower sales will weigh on Q2 residential investment, via lower realtor commissions.

A mismatch between strengthening entry level demand and scarce entry level supply is also likely playing a role in this year's underwhelming sales pace. That said, we expect some improvement in this area. On a year-over-year basis, inventories rose 1.7% during April and have improved for the past nine months. Homes also continue to sell fairly quickly. The NAR noted that 53% of homes sold during April were on the market for less than a month. Furthermore, homes remained on the market for an average of 24 days in April, down from 36 days in March and down from 26 days last April.

A significant breakout in existing home sales is unlikely this year but sales should be stronger than they have been the past few months. Easter came late this year, which likely hurt April's sales. Mortgage rates fell to 4.14% in April, the lowest point since early last year. The combination of lower rates and easing prices has led to a pickup in purchase applications. While volatile week-to-week, purchase applications have trended higher this year. Through May 10, the purchase application index is 4.0% above the level averaged last year during that same period. We expect existing homes sales to rebound in May, possibly even with a big catch-up number.



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