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Economics Group

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Existing Home Sales Dip in June

Existing home sales slipped 1.7% during June to a 5.27 million-unit pace. Despite the drop, sales remain fairly solid and lower mortgage rates will likely keep resales on an upward trend for the remainder of the year.

Resales Skip a Beat

Low mortgage rates have yet to translate to a sustained pick-up in home sales. Total existing home sales fell 1.7% during June to a 5.27 million-unit pace. Both single-family and condo sales weakened during the month, dropping 1.5% and 3.3% respectively. Compared to a year earlier, total sales are down 2.2%. The South, which accounts for 43% of total sales, declined 3.4% during the month. The West also saw a similar 3.5% drop in sales. Meanwhile, the Northeast and Midwest rose 1.5% and 1.6%, respectively.

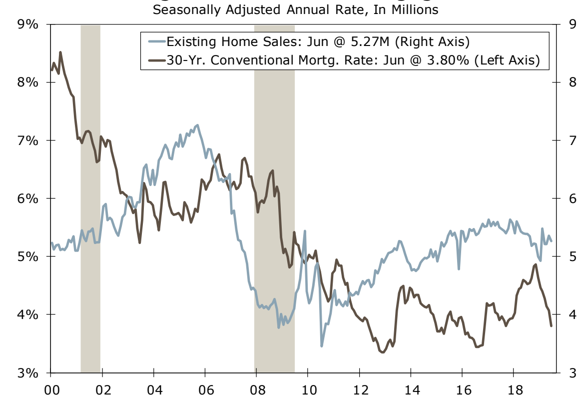
Although sluggish, sales remain fairly solid. Total sales during May were revised higher and over the past three months have averaged 5.28 million. This marks a significant improvement from the final three months of 2018, when the shock of higher mortgage rates slowed sales to an average 5.14 million-unit pace. Still-low inventories of homes for sale helps explain the subdued nature of sales recently. While there has been some improvement on this front over the past year, inventories remain well below historical levels. Total inventories rose 1.0% to 1.93 million, which is essentially the same level as June of last year. Furthermore, there continues to be a shortfall of homes for sale at the entry level, a segment where demand continues to strengthen. During June, first time buyers accounted for 35% of total sales, a notable increase from 31% last year.

More moderate price appreciation also reflects somewhat stronger demand for homes at lower price points. The median single-family home price eased 4.5% year-over-year to $288,900. Released separately today, the FHFA House Price Index also moderated to a 5.0% year-over-year, the slowest pace since 2015. While we anticipate prices to continue to cool, strengthening demand in the face of limited supply will keep home price appreciation firmly in positive territory in coming months. Easing prices are also helping homes to sell fairly quickly. The National Association of Realtors noted that 56% of homes sold during June were on the market for less than a month. Moreover, homes remained on the market for an average of 27 days, which is roughly on par with the average 26 days in May and June of last year.

Slowing global growth and intensifying trade frictions are also likely playing a role in slowing resales. The NAR recently reported foreign purchases have pulled back significantly over the past year, notably from Chinese buyers. That said, we expect the downturn in mortgage rates to keep resales on an upward trend for the remainder of the year. Over the past four weeks, the 30 year commitment rate has averaged 3.76%, the lowest since 2016. An upturn in mortgage purchase applications also reflects an improvement in buying conditions. Through July 12, the purchase application index is up 6.9% over the year. Furthermore, pending home sales, which represent signed contracts and lead closings by one-to-two months, increased 1.1% during May.

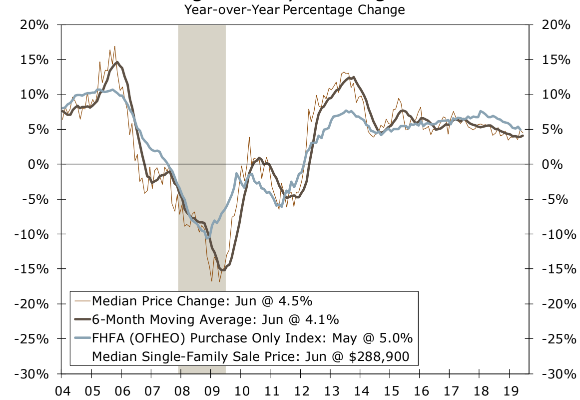
Existing Home Sales vs. Mortgage Rate

Seasonally Adjusted Annual Rate, In Millions



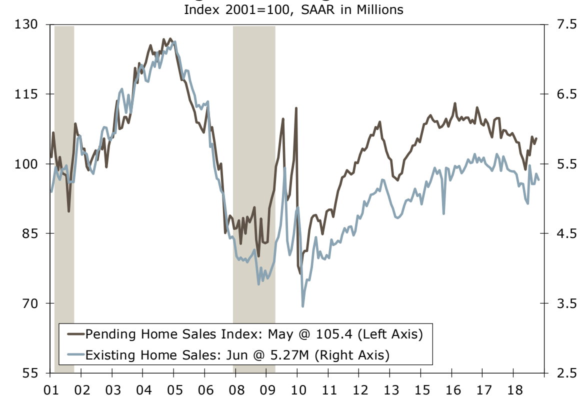
Median Single-Family Existing Home Price

Year-over-Year Percentage Change



Pending vs. Existing Home Sales

Index 2001=100, SAAR in Millions



Source: National Association of Realtors, Freddie Mac, FHFA and Wells Fargo Securities

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