

Economic Indicator — October 21, 2021

Existing Home Sales Surge 7% in September

Summary

Existing home sales easily topped expectations in September, with overall sales jumping 7% to a 6.29 million-unit annual pace. Sales of single-family homes rose 7.7%, while sales of condominiums and co-ops were up 1.4%. Sales rose in all four regions of the country. The affordability migration continues to drive sales in the South and Mountain West. The influx of buyers into the South and Mountain West from areas with much higher home prices, particularly the Northeast and West Coast, is pulling median home prices up sharply in these areas. Nationwide, the median price of an existing home rose 13.3% in September, on a year-over-year basis. Prices for single-family homes are up 13.8%, while prices for condos and co-ops are up 9.3%.

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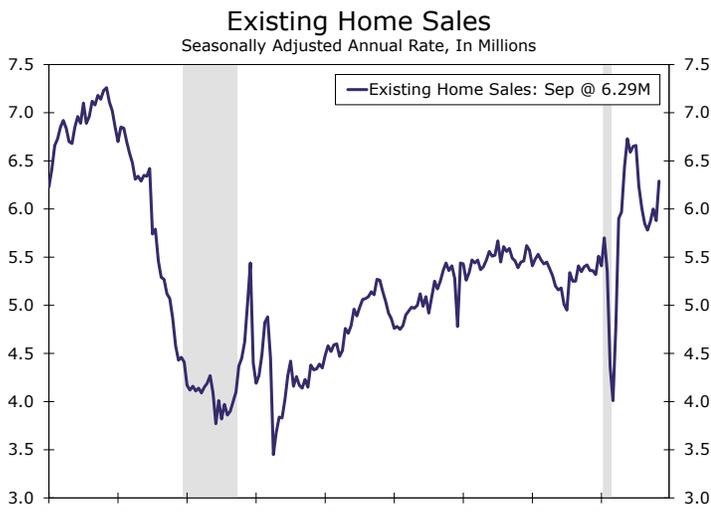
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Source: National Association of Realtors and Wells Fargo Securities

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Resales Ramp-Up in September

Existing home sales appear to be heating up just as the weather starts to cool down. Sales of existing homes jumped 7.0% to a 6.29 million-unit annual pace in September. The monthly gain was broad-based, with sales of single-family homes (7.7%) and condominiums and co-ops (1.4%) rising notably. The robust upturn in overall sales was presaged by a recent surge in pending home sales, which leads existing sales by one or two months. September's outsized gain, however, easily bested consensus expectations and more than makes up for the modest decline registered in August.

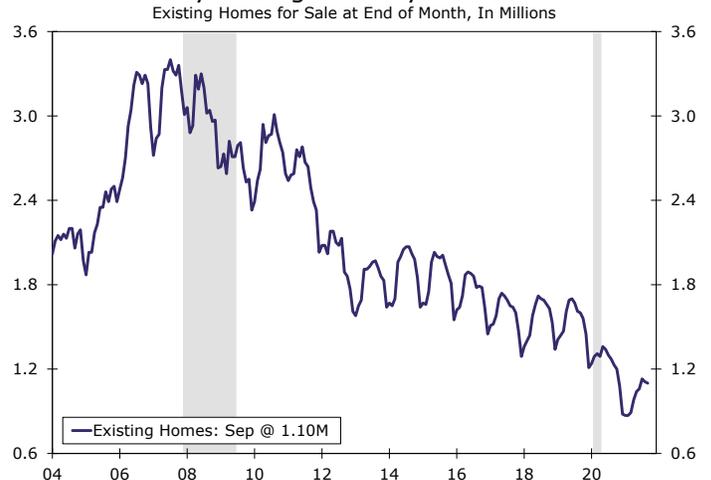
September's turnaround in resales underscores the notion that the slowdown in sales experienced earlier in the spring was more due to a lack of inventory, particularly at lower price points, rather than weakening demand. Single-family inventories declined 0.9% to 1.1 million units in September. Inventories had been gradually rising for much of the summer and are still slightly higher than they were at the start of the spring selling season. Single-family inventories hit a low of 870,000 units in January and February 2021. To be clear, inventories are still exceptionally tight, but even the marginal improvement we saw this spring and summer was enough to foster a stronger pace of sales.

Home Prices Continue to Moderate

The modest improvement in inventory levels has taken some of the air out of fast-rising home prices. The median price of a single-family home was \$359,700 in September, up 13.8% over the year. This marks a considerable moderation compared to the yearly gains well over 20% seen in May and June. We expect the housing market to gradually move back toward some semblance of balance, meaning home prices will likely continue to moderate but remain firmly in positive territory. A rising tide of Millennial home buyers should support demand over the next few years. Inventories should also improve as higher home prices entice sellers to put their homes on the market.

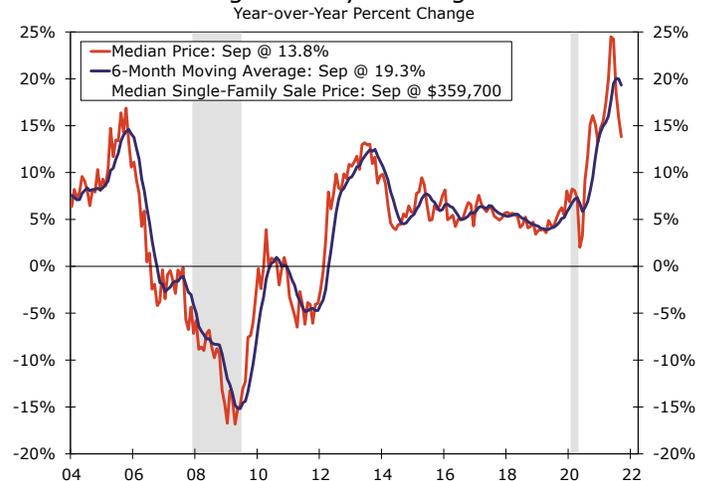
This process may take some time to play out. Higher home prices are currently putting homes out of reach for many, which is accelerating the move to more affordable areas of the country. The affordability migration continues to drive sales in the South and Mountain West. Total resales rose 8.6% in the South and 6.5% in the West. The Midwest and Northeast increased 5.1% and 5.5%, respectively. The influx of buyers in the South and Mountain West, many flush with cash from the sale of the homes in higher-priced markets, is pulling median home prices sharply higher. The median price for a single-family home has risen 15.1% over the past year in the South. Meanwhile, prices rose 9.2% in the Midwest, 9.7% in the Northeast and 7.9% in the West. Within the South, there has been a surge of home buying at higher price points, which has pulled the median sharply higher.

Inventory of Single-Family Homes for Sale



Source: National Association of Realtors and Wells Fargo Securities

Median Single-Family Existing Home Price



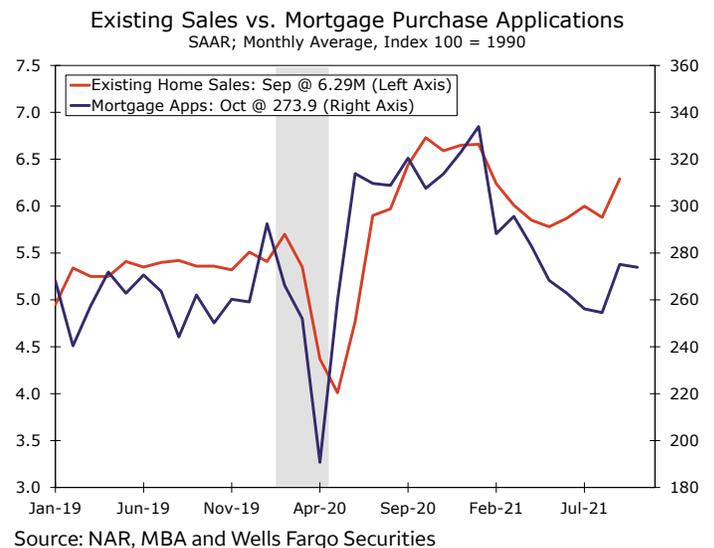
Source: National Association of Realtors and Wells Fargo Securities

Homes Are Still Selling Very Quickly

Low inventories, intense competition and fast-rising prices have left many buyers discouraged, especially first-time buyers who are more sensitive to rising prices. First-time buyers accounted for 28% of total sales, below the 31% share realized one year ago. Disheartened buyers are still remaining vigilant in their search for a home to purchase, and homes that are put on the market do not last very long. The average number of days homes spent on the market was just 17 days in September, down from 21 days a year ago. The National Association of Realtors notes that 86% of the homes sold in September had been on the market for a month or less.

Despite affordability concerns, overall buying conditions remain relatively favorable, which should support a sturdy pace of sales in the months ahead. Mortgage rates have risen slightly in recent weeks, reaching a six-month high of 3.05% during the week of October 15. Mortgage applications for purchase fell 4.9% during that same period. It is important to remember, however, that mortgage applications can be extremely volatile on a week-to-week basis.

September's surge in existing home sales is reassuring. Housing was one of the first sectors to signal that the broader economy was slowing. That slowing appears to have been driven by the lack of supply, and sales perked up when more homes came on the market. The broader economy is likely to respond much the same way, with growth perking up as supply concerns ebb, even if that improvement is fairly modest.



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