

Economic Indicator — September 21, 2022

Existing Home Sales Edge Lower in August

Lower Rates Bolster Buying in August

Summary

Home Buyers Jump on Lower Rates

- Existing home sales declined 0.4% in August, beating market consensus for a 2.3% drop. The better-than-expected outcome was likely owed to buyers jumping at the chance to lock in slightly lower mortgage rates. The average commitment rate for a 30-year fixed rate conventional mortgage was 5.2% in August, down from 5.4% in July.
- Elevated mortgage rates and increased economic uncertainty appear to be holding back both home buying and selling. After increasing in each of the past five months, total housing inventory declined 1.5% to 1.28 million during August, a level that is unchanged compared to the same month last year.
- Sellers, the vast majority of whom hold a mortgage with a rate under 5%, do not appear enthusiastic about trading to a new mortgage with a higher rate. This phenomenon is likely to keep inventories low and be supportive of home prices for the foreseeable future.
- Median existing home prices remained 7.7% above prior year levels, although prices have retreated over the past two months after reaching a record high in June. Further monthly drops seem likely as sellers reassess the current demand environment; however, low existing supply is likely to limit the extent of depreciation.
- The slight dip in mortgage rates which occurred in late July and early August temporarily boosted sales, but financing costs have moved up markedly since. Mortgage rates recently jumped to 6.02%, the highest since 2008, on higher-than-expected inflation and the anticipation for more hawkish monetary policy in response.
- Mortgage applications for purchase have been positive in two of the first three weeks of September. Sharply higher rental rates may be convincing buyers to move ahead with a purchase. The shock of September's leg up in mortgage rates may lead prospective buyers to back away once again, however.

Economist(s)

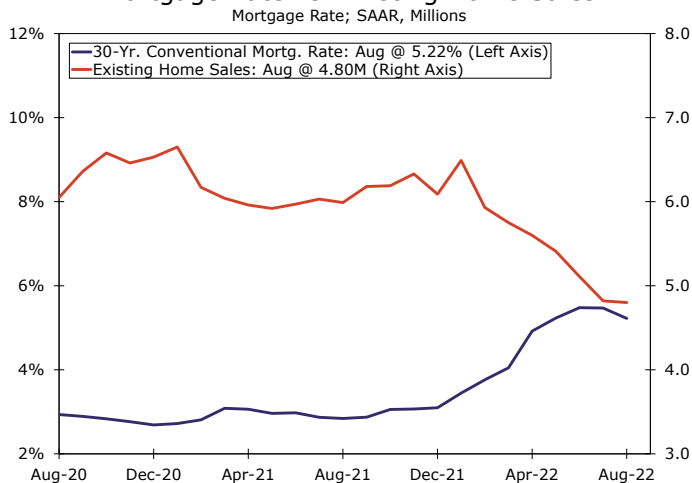
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Mortgage Rate vs. Existing Home Sales

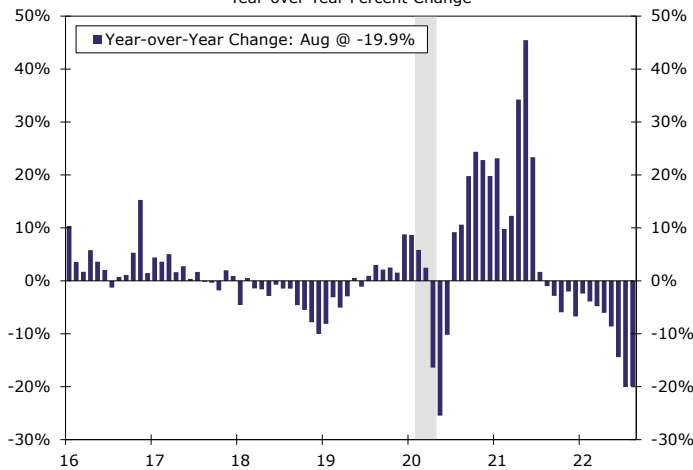


Source: National Association of Realtors, Freddie Mac and Wells Fargo Economics

Home Buying Holds Up Better Than Expected, but September May Bring a Sharper Decline Alongside Higher Rates

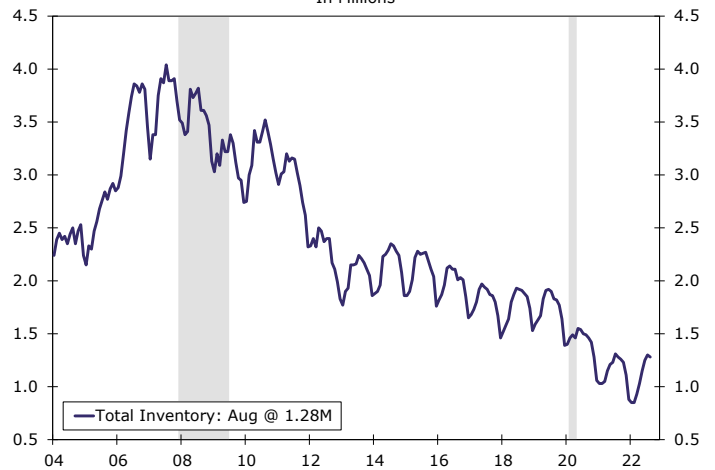
- Existing home sales declined 0.4% to a 4.8 million-unit annual pace. Resales have declined for seven consecutive months and total existing sales are now down 19.9% over the past year.
- Single-family sales dropped 0.9% during the month, while condo/co-op sales rose 4.0%.
- After increasing in each of the past five months, total housing inventory declined 1.5% to 1.28 million during August, a level that is unchanged compared to the same month last year. Similarly, months supply held steady at 3.2 months in August.
- The median existing home price was \$389,500 in August, a 7.7% yearly gain. Prices have declined on a month-over-month basis since June, however.
- Homes continue to sell quickly. For-sale homes remained on the market 16 days in August, up from 14 days in July but down from 17 days in August 2021.
- According to Redfin, 85% of current homeowners hold a mortgage with a rate under 5%. Many homeowners have refinanced into even lower rates over the past few years. With rates currently hovering over 6%, sellers are likely to hold their homes off the market, which will limit inventory growth and limit the extent home prices depreciate.

Existing Home Resales
Year-over-Year Percent Change



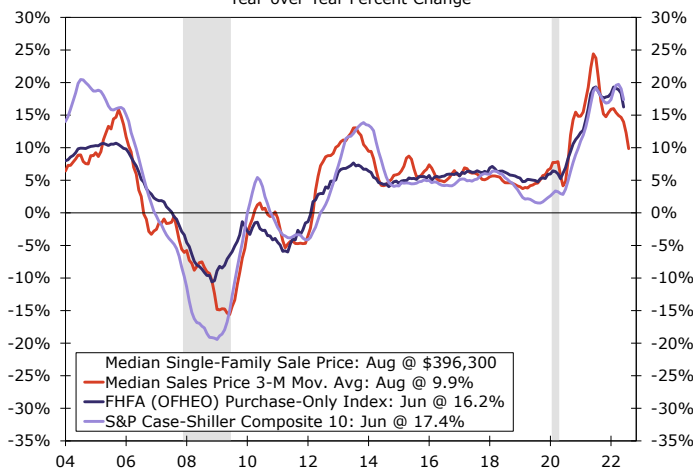
Source: National Association of Realtors and Wells Fargo Economics

Existing Home Sales: Total Inventory
In Millions



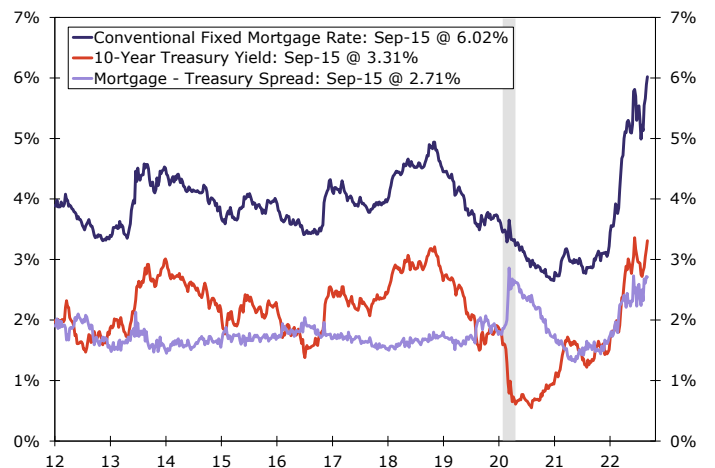
Source: National Association of Realtors and Wells Fargo Economics

Home Prices
Year-over-Year Percent Change



Source: National Association of Realtors, FHFA, S&P Case-Shiller and Wells Fargo Economics

30-Year Mortgage Rate vs. 10-Year Treasury



Source: Freddie Mac, Bloomberg Finance L.P. and Wells Fargo Economics

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