

Economic Indicator — January 20, 2022

Existing Home Sales Drop in December

Summary

Record Low Inventories and Rising Prices Bring a Respite in Resales

- Existing home sales dipped 4.6% to a 6.18 million-unit annual pace in December, ending a three-month streak of gains.
- For all of 2021, existing home sales totaled 6.12 million units, which is up 8.5% from 2020 and is the highest annual level since 2006.
- Limited inventories have constrained buying activity and pulled prices higher. Total existing inventory fell to an all-time low of 910,000 units, down 18% from November. The median price for all existing homes rose 15.8% over the year to \$358,000.
- First-time buyers accounted for 30% of total purchases in December, up from 26% in November. Investors accounted for 17%, up from 15%.
- Sales of single-family homes fell 4.3% to a 5.52 million-unit pace, while sales of condos & co-ops fell 7% to a 660,000-unit pace.
- The median price for single-family homes rose 16.1% over the year to \$364,300, while the price of condos & co-ops rose 11.9% to \$305,100.
- Mortgage rates are on the rise. According to Freddie Mac's Primary Mortgage Market Survey, the average 30-year fixed rate mortgage rose to 3.56% during the week ending January 20, the highest since March 2020.

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Sales End 2021 on a Soft Note

Existing home sales took a breather in December. Overall resales dipped 4.6% to a 6.18 million-unit pace during the month, ending three straight months of gains. Sales of single-family homes fell 4.3% to a 5.52 million-unit pace, while sales of condominiums & co-ops fell 7% to a 660,000-unit pace.

For all of 2021, the preliminary data show existing home sales totaled 6.12 million units, which is 8.5% higher than they were in 2020 and marks the highest level for existing home sales since 2006. Full-year sales of single-family homes rose 6.8% to 5.41 million homes, while sales of condos & co-ops surged 22.3% to 707,000 units. The surge in condo & co-op sales was driven by strong growth in the Northeast and South Florida, as well as the heightened search for more affordable housing.

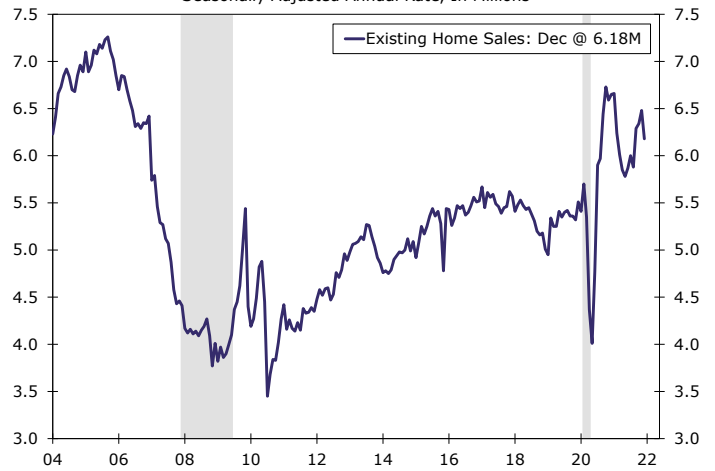
While it may be tempting to blame December's decline on the ultra-transmissible Omicron variant, existing sales reflect contracts that take one or two months to close, meaning that the bulk of the slowdown likely predates the winter surge in new infections. While Omicron may have slowed the closing process, we feel December's drop is primarily due to a historic shortfall of homes for sale which has significantly constrained buying activity. Unfortunately, that shortfall has worsened. Inventories plummeted to an all-time low of 910,000 homes in December, equating to just a 1.8 months' supply. Inventories have now declined on a year-over-year basis for 31 consecutive months. The worsening deficit of homes for sale continues to pressure home prices.

Low Inventories Hold Back Sales

Inventories of existing homes ended the year at a record low, and the median price of an existing home rose 16.9% in 2021 to \$346,900. Price appreciation moderated during the second half of the year. The median price of an existing single-family home rose 17.7% over the year to \$353,400 in 2021, while the price of condos & co-ops rose 11.7% to \$297,400. The sharpest run-up in prices occurred during the first half of the year, and price appreciation has moderated in recent months.

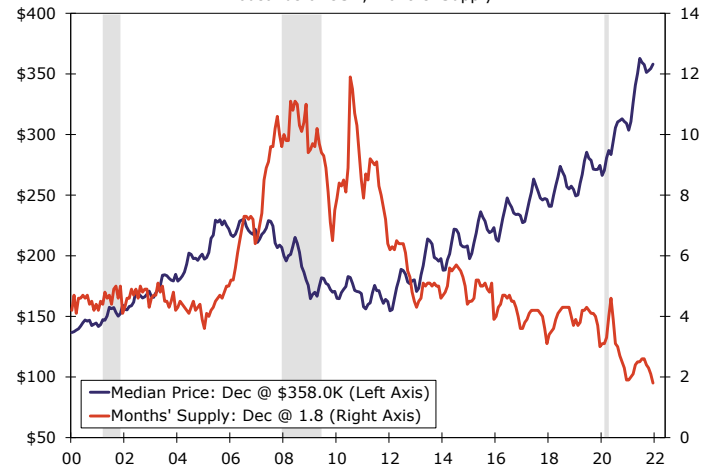
While resales ended 2021 on a downbeat, sales are still running at a fairly robust pace than at any time during the 2007 to 2019 period. Demand for housing is being driven by the rising tide of millennials reaching a point of their lives where they are marrying, having children and buying their first homes. First-time buyers accounted for 30% of total purchases in December, up from 26% the prior month and down slightly from 31% a year ago. The pandemic also allowed many families to build up savings, as they moved back in with relatives, worked remotely and ventured out less often. While demographics have stoked demand, sales have been restrained by the lack of homes available for sale and dramatic surge in home prices this past year.

Existing Home Sales
Seasonally Adjusted Annual Rate, In Millions



Source: National Association of Realtors and Wells Fargo Economics

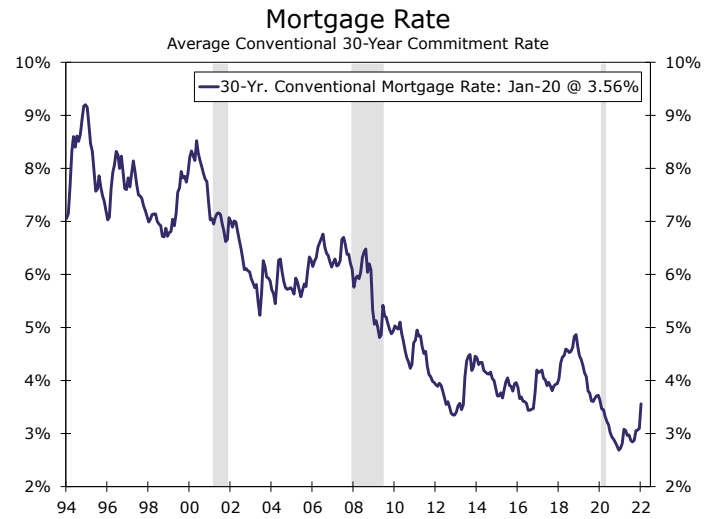
Median Existing Home Price vs. Inventory
Thousands of USD; Months' Supply



Source: National Association of Realtors and Wells Fargo Economics

Buyers Attempt to Stay Ahead of the Mortgage Rate Curve

Existing home sales skipped a beat in December, but several signs suggest activity will remain strong in 2022. Mortgage applications for purchase have started off the year on the right foot by rising solidly in the first two weeks of January. The recent increase in mortgage applications indicate that some buyers are attempting to get ahead of rising mortgage rates. According to Freddie Mac's Primary Mortgage Market Survey, the average 30-year fixed rate mortgage rose to 3.56% during the week ending January 20, the highest since March 2020. Higher mortgage rates will certainly be a test for home sales in 2022. Rising incomes and strong job growth, however, should provide a healthy offset and bolster buyer activity, even if mortgage rates continue to climb. Moreover, even though we expect the Fed to raise rates fairly aggressively this year and next, mortgage rates should remain relatively low from a historic standpoint.



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