

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.

Economist(s)

Mark Vitner

Senior Economist | Wells Fargo Economics
Mark.Vitner@wellsfargo.com | 704-410-3277

Charlie Dougherty

Economist | Wells Fargo Economics
Charles.Dougherty@wellsfargo.com | 704-410-6542

Nicole Cervi

Economic Analyst | Wells Fargo Economics
Nicole.Cervi@wellsfargo.com | 704-410-3059

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.

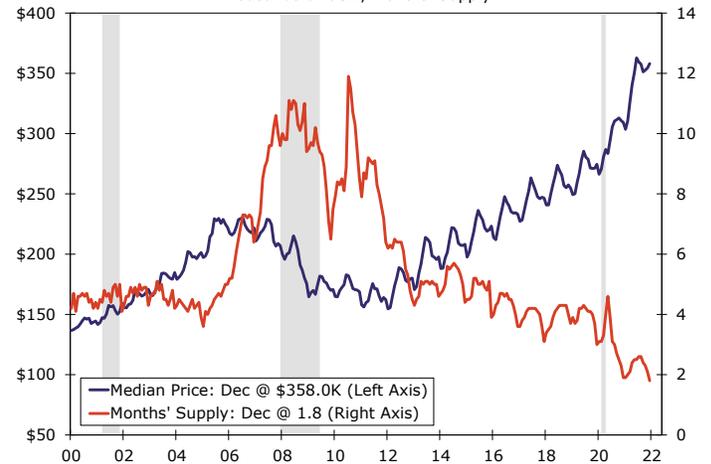
While resales ended 2021 on a downbeat, sales are still running at a fairly robust pace than at any time during the 2007 to 2019 period. Demand for housing is being driven by the rising tide of millennials reaching a point of their lives where they are marrying, having children and buying their first 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

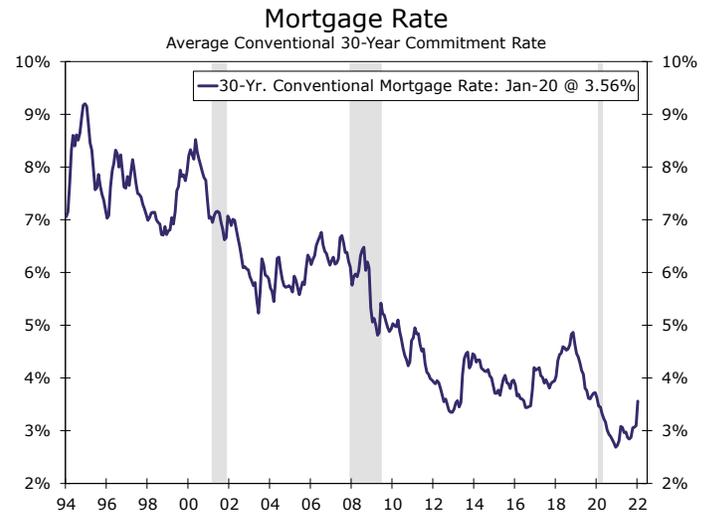
Median Existing Home Price vs. Inventory
Thousands of USD; Months' Supply



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.



Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

The 2022 Annual Economic Outlook: Restoring Balance in the Post-Pandemic Economy is available at wellsfargo.com/economicoutlook

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Mark Vitner	Senior Economist	704-410-3277	Mark.Vitner@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Charlie Dougherty	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	704-410-1437	Sara.Cotsakis@wellsfargo.com
Jessica Guo	Economic Analyst	704-410-4405	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2022 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE