Economic Indicator — April 18, 2024

Existing Home Sales Drop in March

Strained Affordability Continues to Weigh on Resales

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Summary

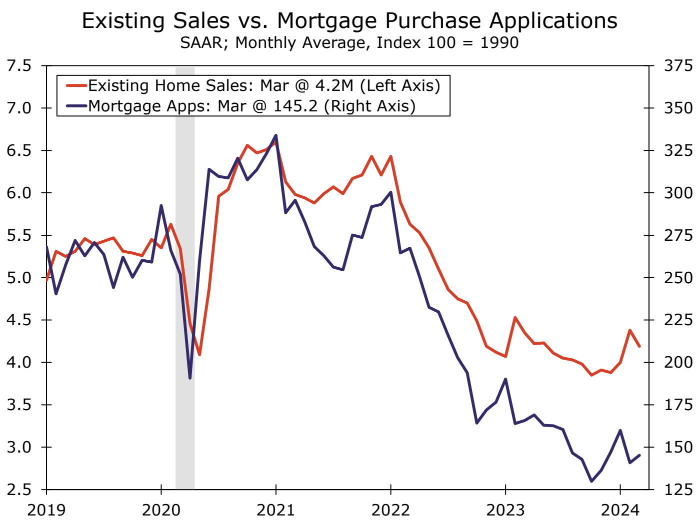
Spurt in Mortgage Rates Latest Obstacle for Housing

Existing home sales dropped 4.3% in March, a decline that was widely expected given the slip in mortgage applications for purchase during February. March's decline appears to be payback from the solid gains registered in the first two months of 2024 brought on by increased supply and a temporary dip in mortgage rates. Through the monthly volatility, the pace of existing home sales has edged up recently, with the average pace of resales averaging 4.2 million so far this year, up from last year's low of 3.85 million.

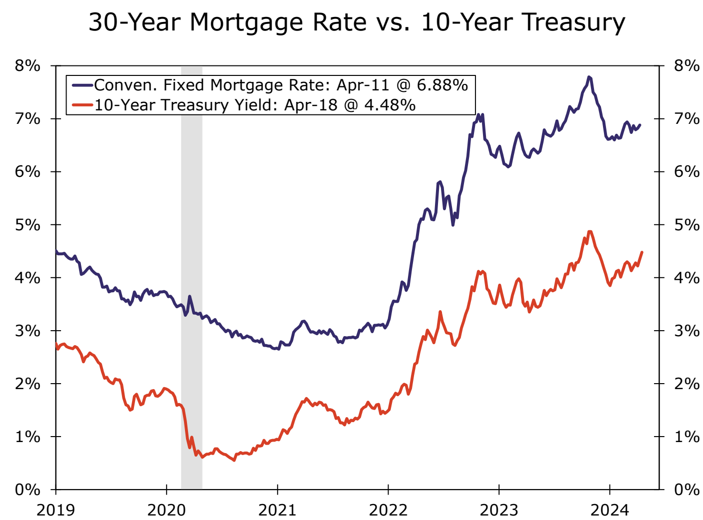
Resales should continue to gradually pick up from their current slow pace in coming months as a sturdy macroeconomic backdrop continues to be supportive of demand. The road ahead is not without obstacles, however. Mortgage rates have spurted higher in recent weeks, with the average 30-year mortgage rate trending toward 7.5% as of this writing. The leg-up in financing costs amid new inflation and monetary policy uncertainty stands to inflame affordability pressures and limit the extent home sales rebound this year.

Resale Recovery Hits a Speed Bump

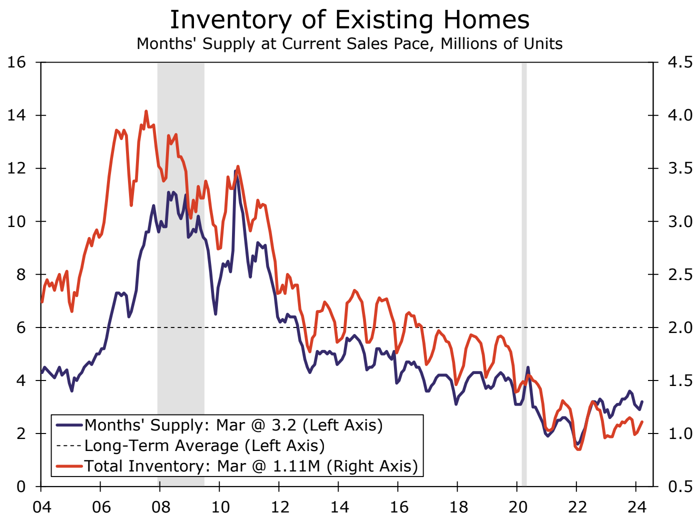
- Total existing home sales declined 4.3% to a 4.19-million unit pace in March. Single-family and condo/co-op sales fell 4.3% and 4.9%, respectively.
- The monthly drop in total resales ends a two-month streak of solid gains. On balance, home buying has picked up so far this year alongside rising inventory levels and slightly better affordability conditions. Affordability strains persist, yet the dip down in mortgage rates in the late 2023, less intense home price appreciation and steady income growth has removed some pressure.
- A sturdy macroeconomic backdrop has been another factor supporting sales in recent months. In particular, the labor market has been remarkably resilient, with strong job growth and low unemployment continuing as tailwinds for buyer demand.
- Although some moderation appears on the horizon, we expect the labor market generally to hold up well this year, which should foster a gradual strengthening in the pace of existing home sales.
- That noted, a recent leg-up in mortgage rates may delay the resale recovery. According to Mortgage News Daily, 30-year mortgage rates averaged 7.4% on April 17th, up from the recent low of 6.6% reached in mid-December.
- The spurt higher in financing costs follows a similar rise in Treasury yields spurred by stubborn inflation, and as a result, new uncertainty on the timing and magnitude of rate cuts from the Federal Reserve.
- March's decline in resales was presaged by a drop in mortgage purchase applications in February. Since then, mortgage purchase applications have turned around on trend, with the most recent reading showing a 5.0% gain in the week ending April 12. The small rise in mortgage applications suggests resales may resume recovery in coming months, although the spike in financing costs over the past few weeks likely will limit the extent the pace of sales can rebound.
- Inventory remains low, but a brightening supply picture should also help nurture a stronger pace of sales. The count of existing homes available for sale at the end of March rose to 1.11 million units, up 4.7% from February and 14.4% from a year ago.
- Total inventory was the equivalent of 3.2 months' supply at the current sales pace, up from 2.9 in February and 2.7 months one year ago. That said, the increase is attributable to the slower overall sales pace in addition to the increase in inventory count.
- Tight inventory continues to place upward pressure on prices, with the median single-family sale price now up 4.7% from a year ago.



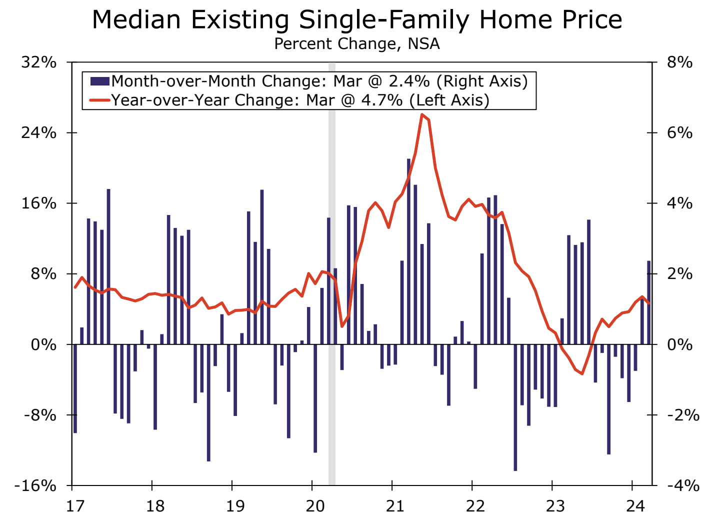
Source: NAR, Mortgage Bankers Association and Wells Fargo Economics



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



Source: NAR and Wells Fargo Economics



Source: NAR and Wells Fargo Economics

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