

Economic Indicator — May 22, 2024

Existing Home Sales Retreat in April

Affordability Concerns Loom Over the Spring Selling Season

Summary

Resale Market Takes a Step Back

Higher mortgage rates appear to be pouring water on the resale market. Existing home sales dipped for the second consecutive month in April, corresponding with a steady increase in the 30-year fixed rate over the months prior. Resales have still improved on balance this year, but higher interest rates threaten to set back the housing market recovery. Rising prices are also worsening affordability conditions and raising the hurdle for homeownership. There are several reasons to remain cautiously optimistic, however. Growing resale supply is a tailwind as April's slower sales pace led to the highest inventory count since October 2022. Furthermore, we expect mortgage rates to trend lower this year as inflation gradually subsides and the Fed begins easing policy in the fall.

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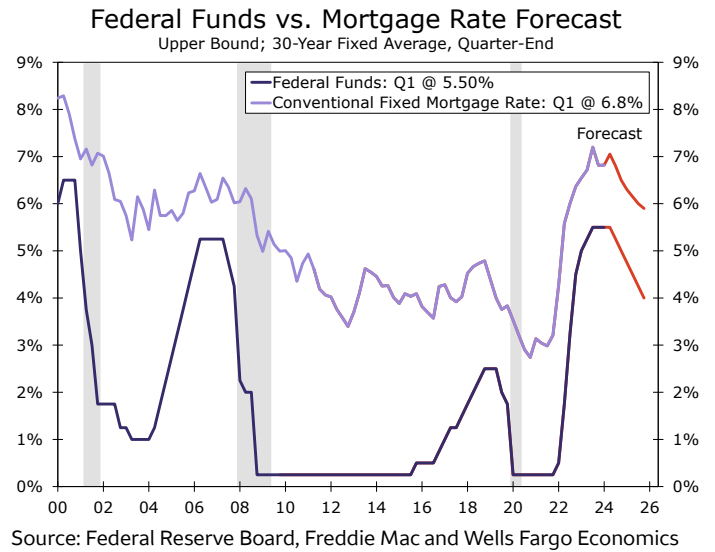
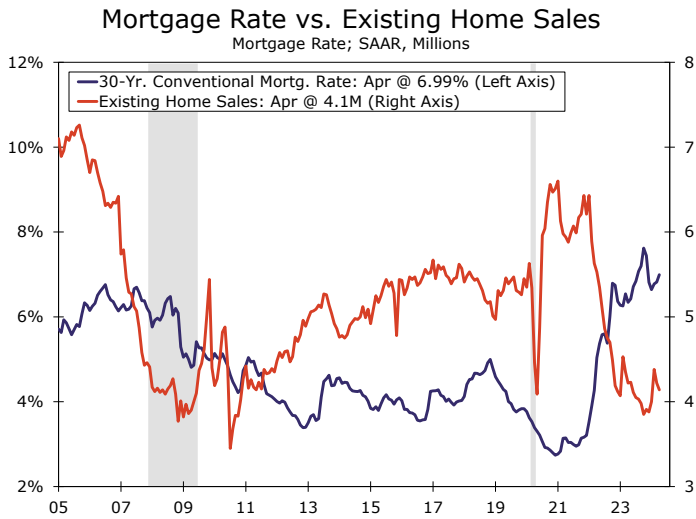
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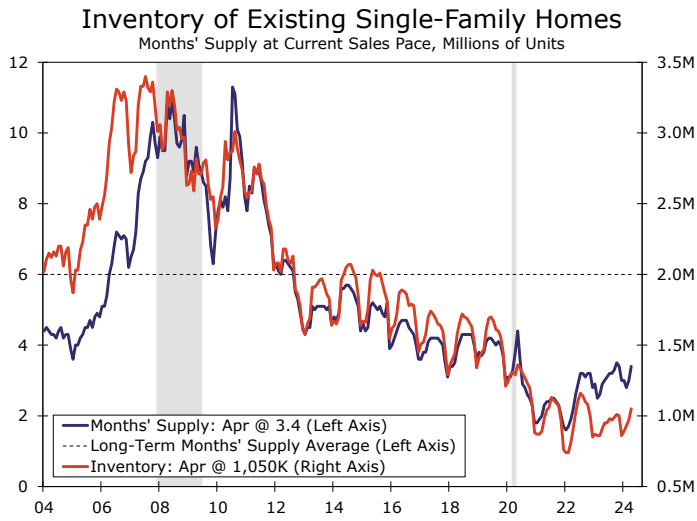
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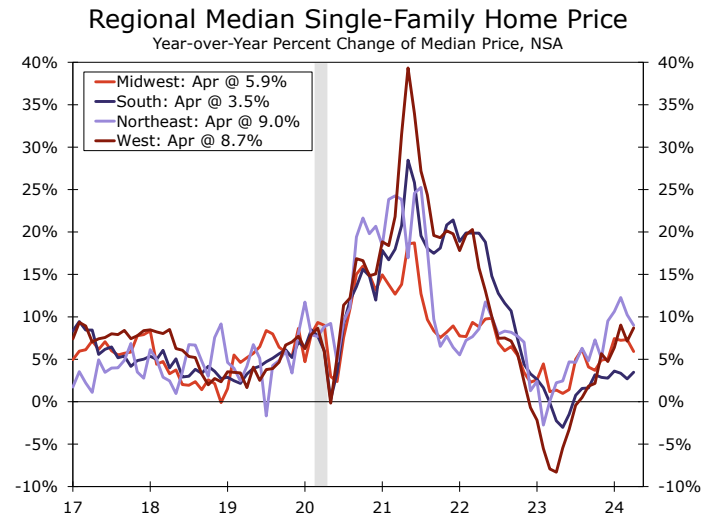
Rising Mortgage Rates Challenge Buyers

- Existing home sales unexpectedly notched its second consecutive decline in April, falling 1.9% to a 4.14-million unit pace. A 2.1% slump in single-family resales drove the decline. Condo and co-op sales were unchanged over the month.
- Although March's sales pace was revised slightly higher, April's dip brought the overall pace of resales 5.5% below the most recent peak in February. That said, resales are still running above last year's trough of 3.85 million in October.
- Rising financing costs likely weighed on the housing market in April. After a lull in rates in January, the 30-year fixed mortgage rate rose to 6.8% on average in February and March according to Freddie Mac. Mortgage rates went on to surpass 7.0% in April, keeping us cautious about the pace of sales over the next couple of months.
- Mortgage rate movements will likely be volatile as incoming data changes market expectations about the path of inflation and monetary policy. We expect inflation will continue to gradually subside this year, however, and look for the Fed to begin cutting its policy rate in September. An easing in monetary policy and inflation would likely send mortgage rates slightly lower and lift buyer demand.
- The slower sales pace contributed to a hefty supply bump in April. The number of single-family homes for sale rose 8.3% over the month to 1.05 million, the highest count since October 2022. April's inventory count could sustain 3.4 months' supply at the current sales pace, up from 3.0 months in February.
- Despite recent improvements, tight supply is still exerting upward pressure on home prices. The median single-family resale price rose 5.6% year-over-year in April, the highest reading this year.
- Although we expect lower-trending mortgage rates will give a boost to resales as the year progresses, moderating wage gains stemming from a softening labor market will likely limit the scope of recovery.
- Single-family sales retreated across all regions in April, most notably in the Northeast where resales were down 4.8% year-over-year. Despite the slower sales pace, lower inventory levels in the Northeast propelled the greatest overall rise in single-family prices.





Source: NAR and Wells Fargo Economics



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