

Economic Indicator — February 22, 2024

Existing Home Sales Jump in January

Lower Mortgage Rates Help Boost Resales to Start the Year

Summary

Homebuyers Take Advantage of Falling Rates

Existing home sales started 2024 on a positive note, increasing 3.1% as single-family sales accounted for the entire gain. The 4.00 million-unit annual pace of total resales represents a moderate rebound from December's near cycle low and marks the fastest pace since last August. Supporting the headline, sales in the West, South and Midwest posted solid gains while sales in the Northeast were unchanged for the second straight month. Unlike new home sales which are measured at the time of the contract signing, existing home sales are measured at the time of the closing and thus may not reflect the current mortgage rate environment. We have seen significant improvement in mortgage rates over the past few months with the average 30-year fixed mortgage rate standing at 6.8% as of last week, down from nearly 7.8% in late October. As such, the strengthening in existing home sales seen in January is the anticipated catch-up to the contracts that were signed late in the fourth quarter as mortgage rates fell. The pending home sales index, which leads existing home sales by 1-2 months, jumped 8.3% over the month in December. The favorable performance of mortgage rates last month points to another positive monthly gain in January which, in turn, would be supportive of further existing home sales growth in the near-term. While certainly a good start to the year, headwinds for would-be homebuyers persist. Inventory on the market climbed 2% to about one million homes last month, though inventory remains relatively limited. With homebuyers taking advantage of lower mortgage rates, low levels of inventory have kept upward pressure on prices. The combination of relatively higher mortgage rates and higher home prices will continue to make housing less affordable to many potential homebuyers.

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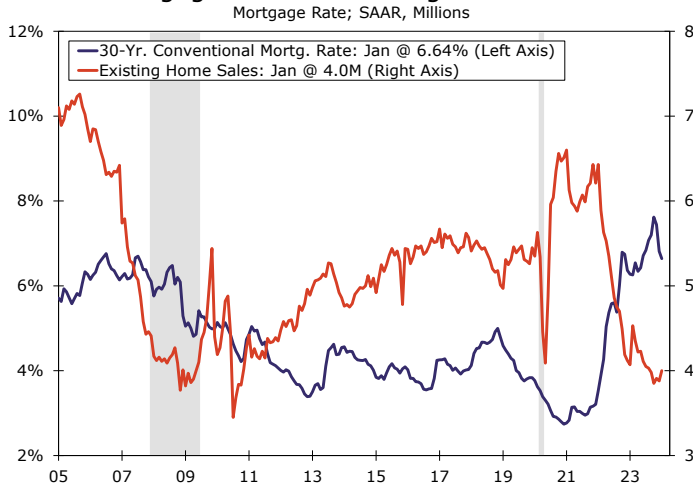
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Strong Start to 2024 Presaged by Leading Data

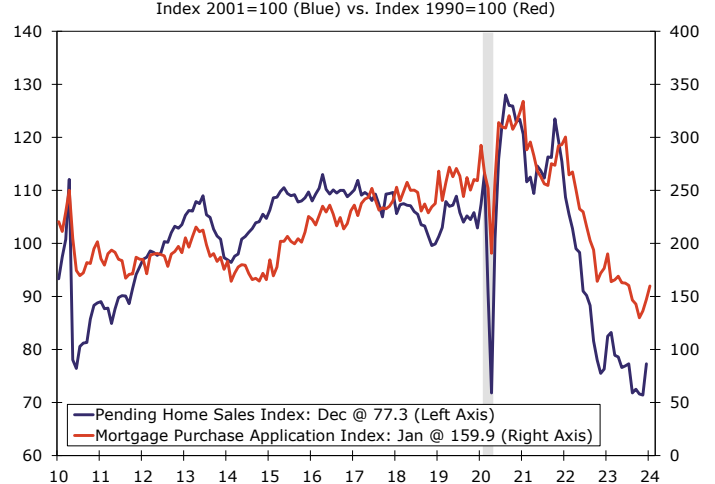
- Total existing home sales picked up 3.1% over the month to reach a 4.00 million-unit pace in January, the strongest run-rate since August 2023. The strong start to 2024 was driven entirely by single-family sales, which rose 3.4%. At the same time, sales for condos and co-ops were flat over the month.
- Revised data revealed December's sales dip to be softer than first observed, although the 3.88 million-unit-pace is still just a touch above the cycle low. Single-family sales were revised down slightly while condo sales were upwardly revised to reflect a decline of just 2.4% compared to an initial drop of 7.3%
- The boost in resales was presaged by a pickup in both pending home sales and mortgage applications for purchase. The Pending Home Sales Index, also published by the National Association of Realtors, is a reliable leading indicator for the resale market. The index jumped 8.3% over the month in December, coinciding with a pullback in mortgage rates from their peak in October. Purchase applications have enjoyed a similar boost, rising 23.1% from October to January.
- Although demand rebounded in January, supply limitations continue to weigh on the resale market. Resale inventory rose 2.0% to 1.01 million in January, doing little to make up for the 12.4% drop in inventory the previous month.
- At the current monthly sales pace, total inventory was equivalent to 3.0 months' supply, down from 3.1 in December and 3.5 in November. High prevailing rates have produced a "lock-in" effect, discouraging prospective sellers who hold low mortgage rates from listing their homes. In our view, the supply picture will likely not improve until falling interest rates spur prospective sellers back into the market.
- Tight supply is also serving to drive up home prices. The median existing home sales price stands at \$379,100, marking the highest sales price ever for the month of January and the seventh consecutive month of year-over-year price gains.
- Homes are spending more days on the market compared to a year ago. Properties averaged 36 days on the market in January, up from 33 days a year ago. Homes typically spend more time on the market during the doldrums of winter, and we can expect homes to sell faster as we head into the busy spring selling season.

Mortgage Rate vs. Existing Home Sales

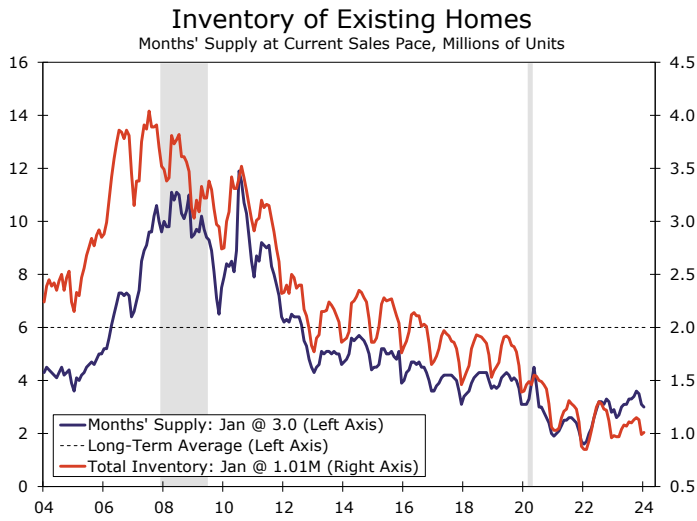


Source: NAR, Freddie Mac and Wells Fargo Economics

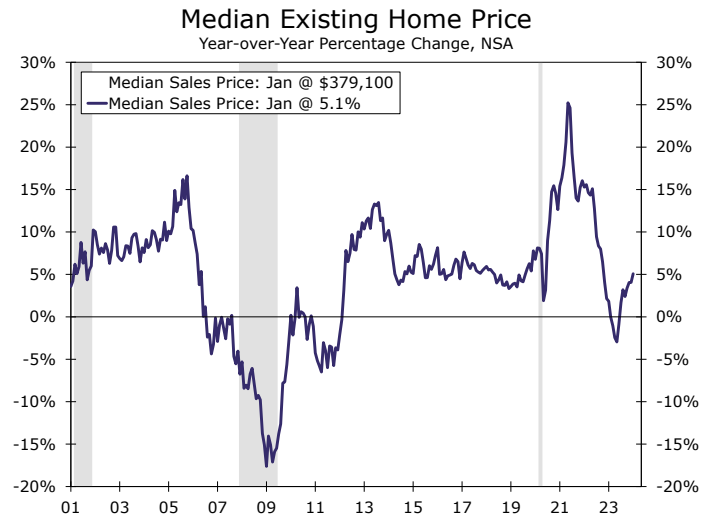
Pending Home Sales vs. Mortgage Purchase Apps



Source: NAR, MBA and Wells Fargo Economics



Source: NAR and Wells Fargo Economics



Source: NAR and Wells Fargo Economics

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