



Economics Group

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Existing Home Sales Rebound in October

Resales rose a solid 1.9% during October. Lower mortgage rates continue to boost sales, which are up 4.6% over the year. Inventories are shrinking once again, however, exerting some upward pressure on home prices.

Resales Rebound, but Lack of Supply Limits the Upside

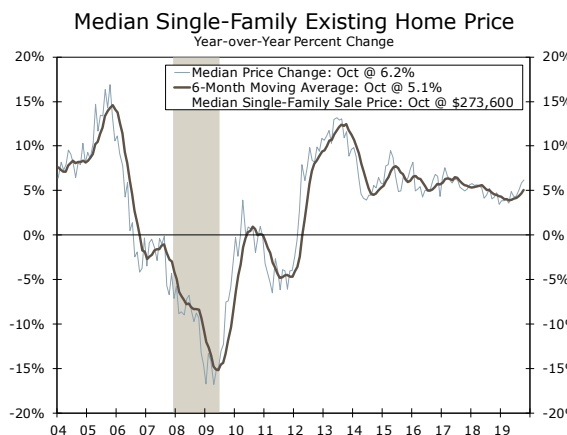
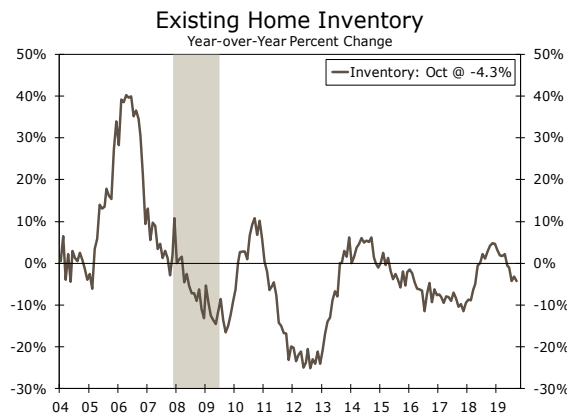
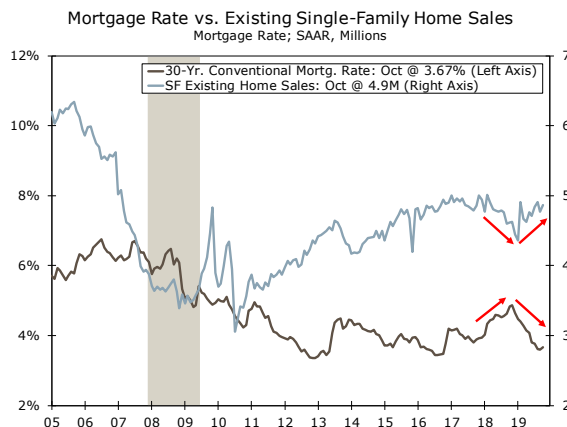
The housing market continues to move in the right direction thanks to lower mortgage rates. Existing home sales rose a solid 1.9% in October to a 5.46 million-unit pace. Resales are up 4.6% over the past 12 months. Single-family resales, which increased 2.1%, accounted for most of the gain. Sales of condos & co-ops, meanwhile, were essentially unchanged for the second straight month. Sales rose in the South (+4.4%) and Midwest (+1.6%), but fell in the West (-0.9%) and Northeast (-1.4%).

While the recent improvement in resales is encouraging, the gains over the past few months represent a reversal of last year's higher mortgage rate-induced slide. Furthermore, the recent improvement likely reflects a return to the slow and steady upward trajectory which has become a hallmark of this expansion. The gradual climb is partially explained by the reluctance of older generations to move from their current home, a trend which has slowed turnover and significantly reduced the inventory of homes on the market. After rising for nearly all of last year, inventories have now fallen back to historic lows. Inventories of single-family homes for sale declined 4.3% on a year-over-year basis in October, the fifth consecutive drop. For context, the 1.77 million units of inventory on the market was the lowest reading for October going back to 1999, when records began.

What's more, with fewer homes for sale, prices are rising a little more briskly. The median existing single-family home price rose 6.2% year-over-year to \$273,600, the fastest increase since July 2017. This presents a fundamental challenge, as 38.2% of single-family sales during October were priced between \$100-250K, more than any other price range. In short, even with low mortgage rates, the uptick in home prices means there are fewer affordable homes on the market, especially at the entry level, which represents the largest and fastest growing segment of buyers.

Further signs that housing supply and demand remain out of sync include the fairly quick pace at which homes continue to sell. According to the National Association of Realtors (NAR), homes that sold in October had remained on the market an average of 36 days, compared with 32 days during September, but right on par with the same month last year.

Lower borrowing costs should keep home sales on an upward trajectory. While mortgage rates have ticked higher in recent weeks, they remain historically low, averaging 3.7% during October, and will likely continue to support demand for resales. Mortgage applications for purchase have risen solidly in three of the past four weeks and are up 7.3% over the past year as of November 15. The pending home sales index, which leads actual closings by one to two months, rose in August and September, meaning there is a rising tide of resales in the pipeline waiting to close. Residential investment should once again contribute to GDP growth in Q4.



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