ECONOMIC UPDATE
REGIONS
January 20, 2023



## December Existing Home Sales: Closing In On The Bottom?

- Existing home sales fell to an annualized rate of 4.020 million units in December from November's (revised) sales rate of 4.080 million units
- Months supply of inventory stands at 2.9 months; the median existing home sale price rose by 2.3 percent on a year-over-year basis

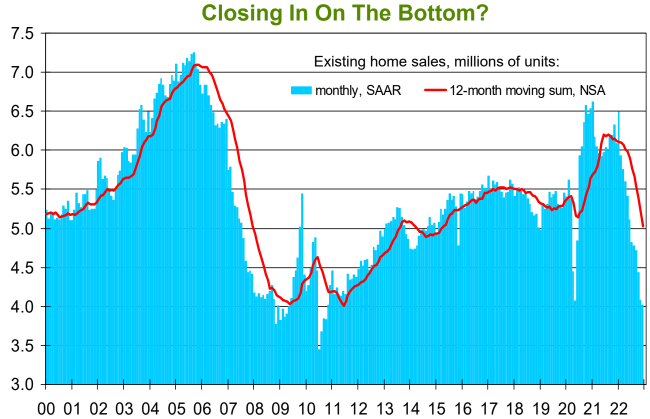
Total existing home sales fell to an annualized rate of 4.020 million units in December, a bit better than what we and the consensus expected but, really, talk about low bars to clear – expectations were for a sales rate of just under four million units. It helps to recall that existing home sales are booked at closing, which generally occurs 30-45 days after the sales contract has been signed, meaning that December sales largely reflect sales contracts signed at the peak (over seven percent) of mortgage interest rates from mid-October through mid-November. Despite the dramatic slide in sales, however, the market remains meaningfully out of balance, with inventories equivalent to just 2.9 months of sales at December's sales rate – a figure between 5.5 and 6.0 is generally considered as balanced. To that point, there were 970,000 existing homes for sale in December, a bit better than our forecast of 960,000 units, and while this is up 10.2 percent year-on-year it reflects a 13.4 percent decline from November, far larger than the typical December decline in listings. The median existing home sales price was up 2.3 percent year-on-year, in line with our forecast, but keep in mind the median price is skewed by the mix of sales, and the largest declines in sales of late have come in the highest price ranges, which is weighing on the year-on-year change in the median sales price. That said, we do expect the over-the-year change in the median sale price to slip into negative territory in the months ahead, but at the same time mortgage interest rates having drifted lower will help stabilize sales, as applications for purchase mortgage loans have been rather responsive to the decline in mortgage rates.

On a not seasonally adjusted basis, there were 327,000 existing homes sold in December, a smidge better than our forecast of 322,000 sales and slightly better than November's tally of 325,000 sales. While it is typical for unadjusted existing home sales to rise in the month of December, the increase in December 2022 was much smaller than the typical December increase, which comes as no surprise given where mortgage rates were when most of these sales contracts would have been signed. Still, all-cash transactions accounted for twenty-eight percent of all existing home sales in December, the highest monthly total since March, and for 2022 as a whole all-cash transactions accounted for 25.5 percent of all existing home sales, easily higher than the shares seen over the prior several years. Obviously, all-cash buyers are not impacted by mortgage rates, and that they are buying with cash very likely gives them some latitude in securing concessions from sellers.

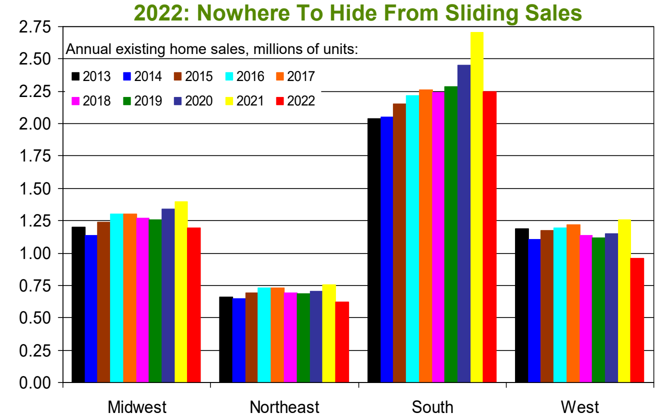
For 2022 as a whole, the not seasonally adjusted data show 5.026 million existing home sales, down 17.9 percent from the 6.120 million sales in 2021. The West region saw the largest decline – 23.9 percent – in sales in 2022, with sales in the Northeast region down 17.4 percent, sales in the South region down 16.8 percent, and sales in the Midwest region down 14.7 percent. That the West and Northeast regions saw the largest declines in sales is in keeping with these being the regions in which supply and affordability constraints are the most pressing. The 5.026 million total for 2022 marks the lowest annual total of existing home sales since 2014, and while we pay little attention to the annualized sales rates, we will note that December's sales rate is the lowest monthly sales rate since November 2010.

Median days on market rose to 26 days for existing homes sold in December, the longest tenure since May 2020 but nonetheless still considerably below pre-pandemic norms for time on market. NAR reports that fifty-seven percent of existing homes sold in December were on the market for less than a month, but recall that prior to mortgage interest rates taking flight those shares were consistently over eighty percent. We had for some time been noting that lengthening times on market would be one sign of the market normalizing, as would rising shares of sellers reducing asking prices and diminishing shares of "as is" (buyers waiving inspection) sales. Clearly, buyers, particularly cash buyers, are now wielding much more power than they've had in over two years. Whether or not that means the market is back to "normal" is a different matter. We've often noted that when the dust settles, or at least when mortgage rates and prices have fallen from the heights seen in 2022, the degree to which the market remains undersupplied will come back to the forefront which, come to think of it, was the normal state of the market prior to the onset of the pandemic.

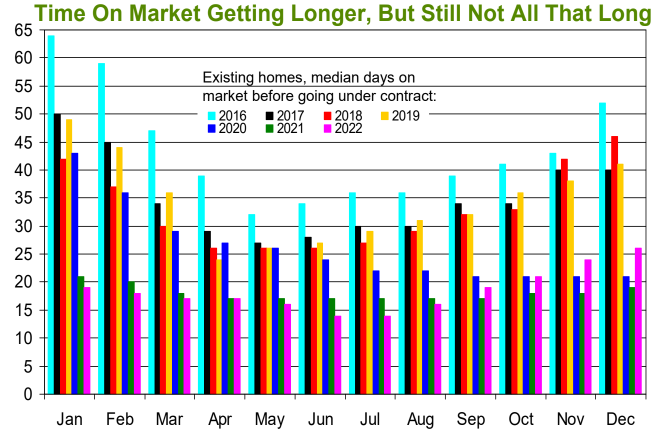
Closing In On The Bottom?




2022: Nowhere To Hide From Sliding Sales




Time On Market Getting Longer, But Still Not All That Long

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