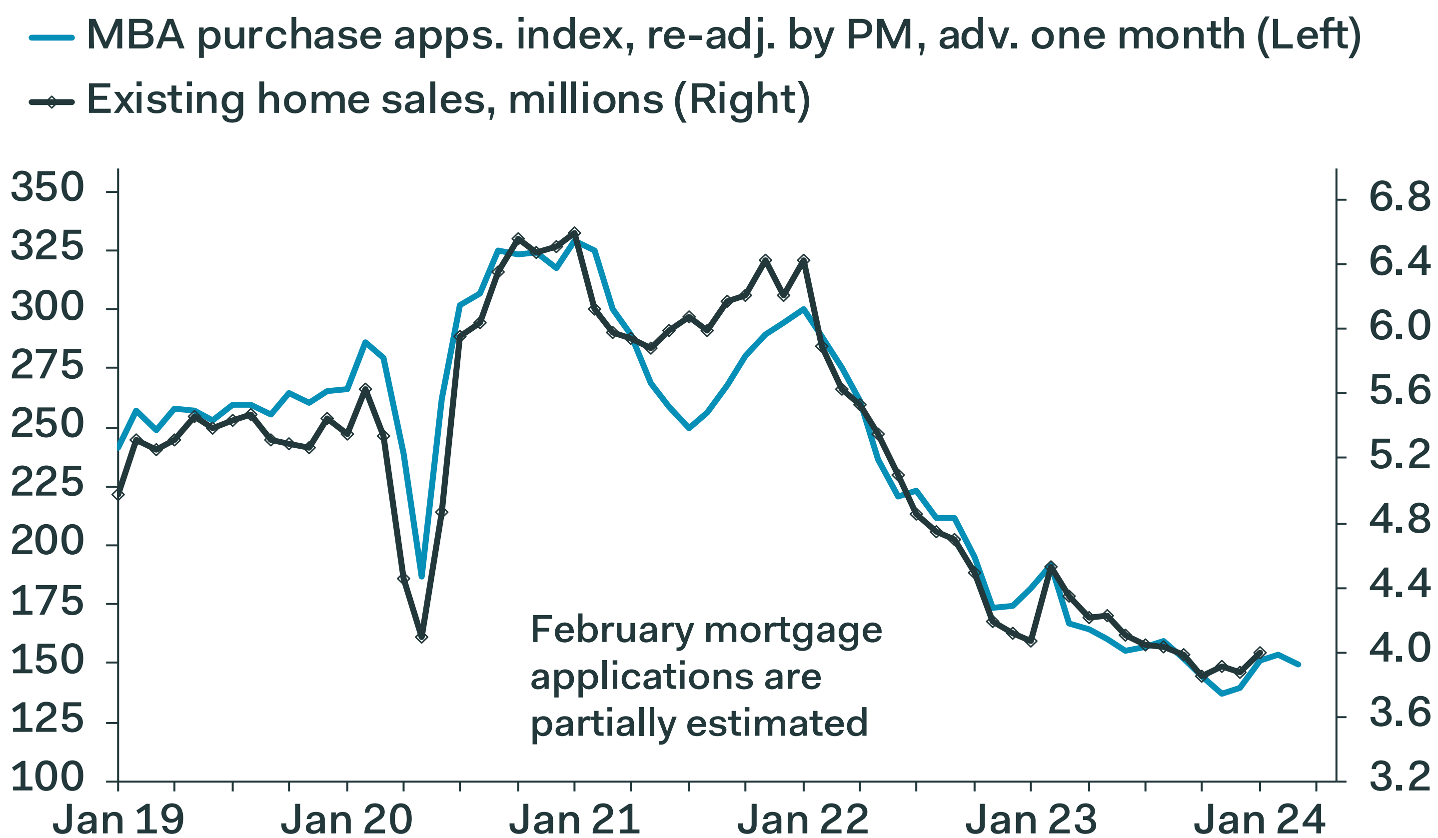
Datanote: Existing Home Sales, January

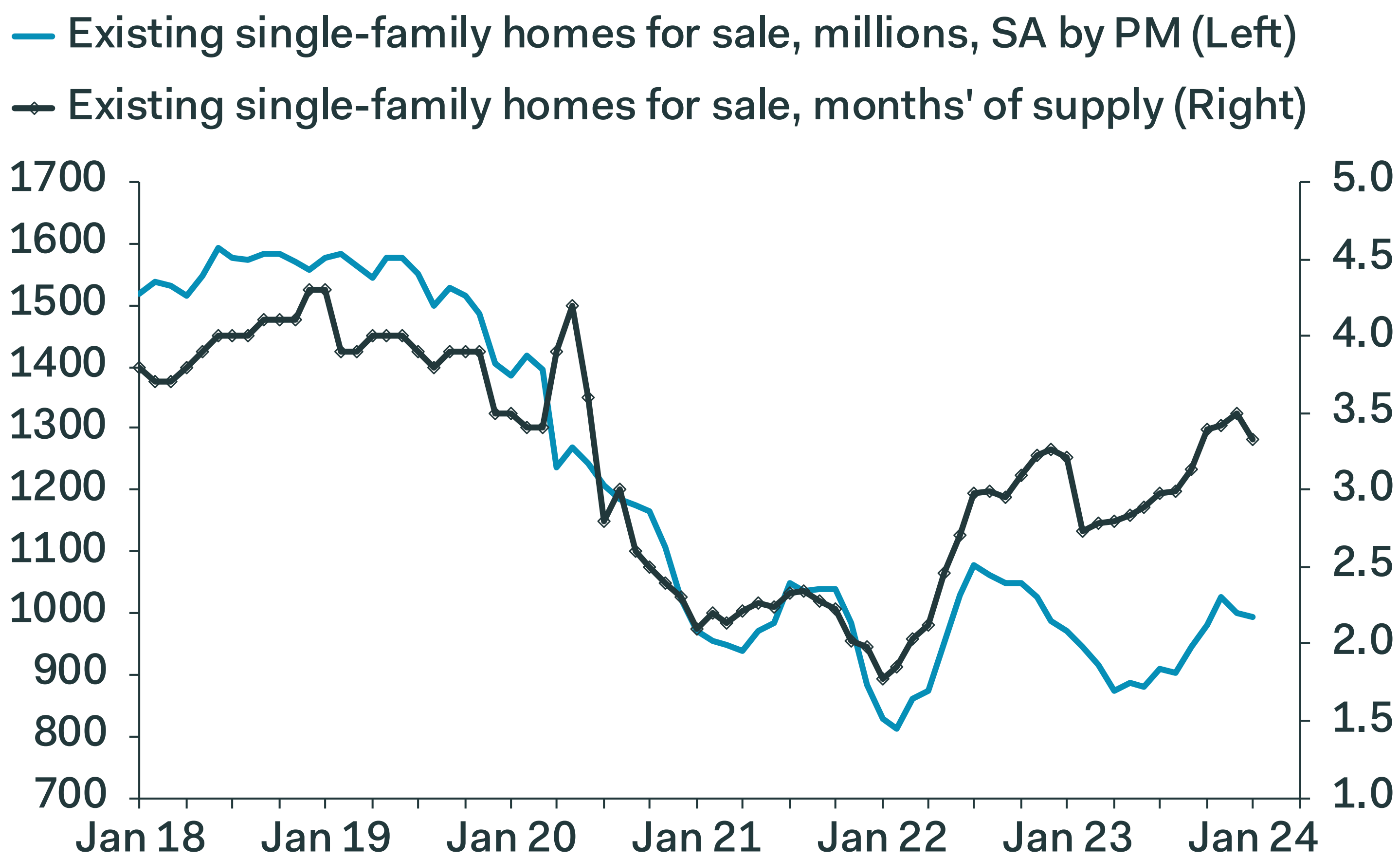
In one line: Housing market past the worst

-Existing home sales rose to 4.0M in January, from an upwardly-revised 3.88M, slightly above the consensus, 3.97M.

The jump in existing home sales, along with the upward revision to December's number, means that the low of 3.85M in sales in October was probably the cyclical trough. The increase so far is mainly a story of lower mortgage rates. At 7.06% in the latest weekly data, the 30-year conventional mortgage rate is still about 85bp below the October peak, although it has risen by around 35bp from the low in December. Mortgage applications for purchase have started to recover and we expect them to pick up further in the coming months. The drop in MBA's published numbers for mortgage applications for purchase so far in February is misleading, since residual seasonality in the series means that the MBA numbers fall sharply nearly every February. Moreover, we expect long-term interest rates to start falling again before long.

Alongside the recovery in demand, lower rates also ought to improve the supply picture, at least at the margin. A gulf between the sub-4% mortgage rates that most homeowners locked in during the early stages of the pandemic and prevailing market rates has meant it has been too expensive for most homeowners to move over the past couple of years. That said, the recovery in supply so far has been limited. In seasonally-adjusted terms, inventory of existing homes on the market slipped to 3.3 months of sales in January, from 3.5 months in December, still well below the pre-COVID norm of around four months. Tight supply probably explains the resilience of existing home prices, at least in nominal terms. Our seasonally-adjusted version of the NAR measure of median existing home prices jumped to an all-time high last month, although the monthly numbers are volatile.





Existing single-family homes for sale, millions, SA by PM (Left)
Existing single-family homes for sale, months' of supply (Right)
1700
1600
1500
1400
1300
1200
1100
1000
900
800
700
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24