Datanote: US Existing Home Sales, May

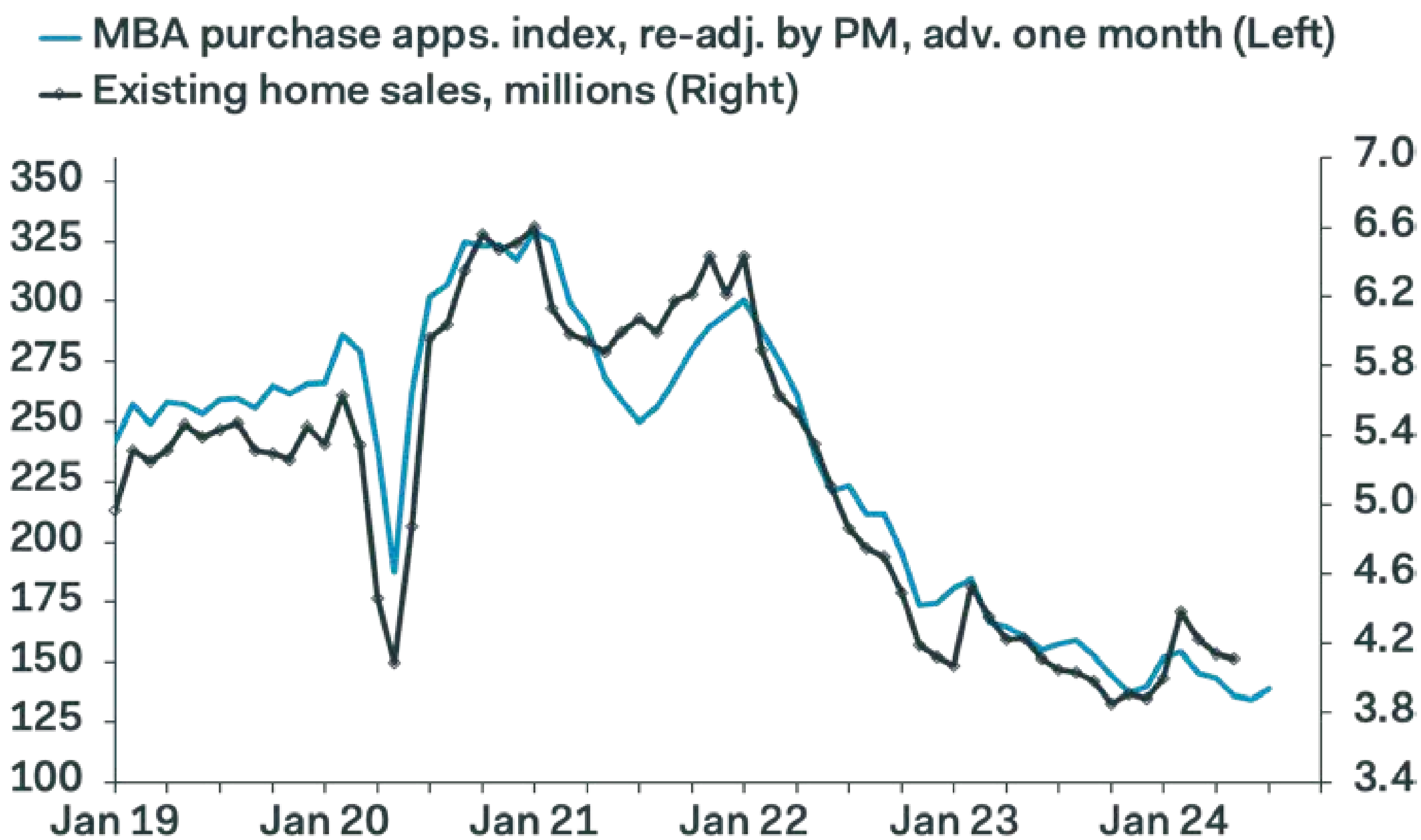
In one line: New mortgage rates still far too high for transactions to recover.

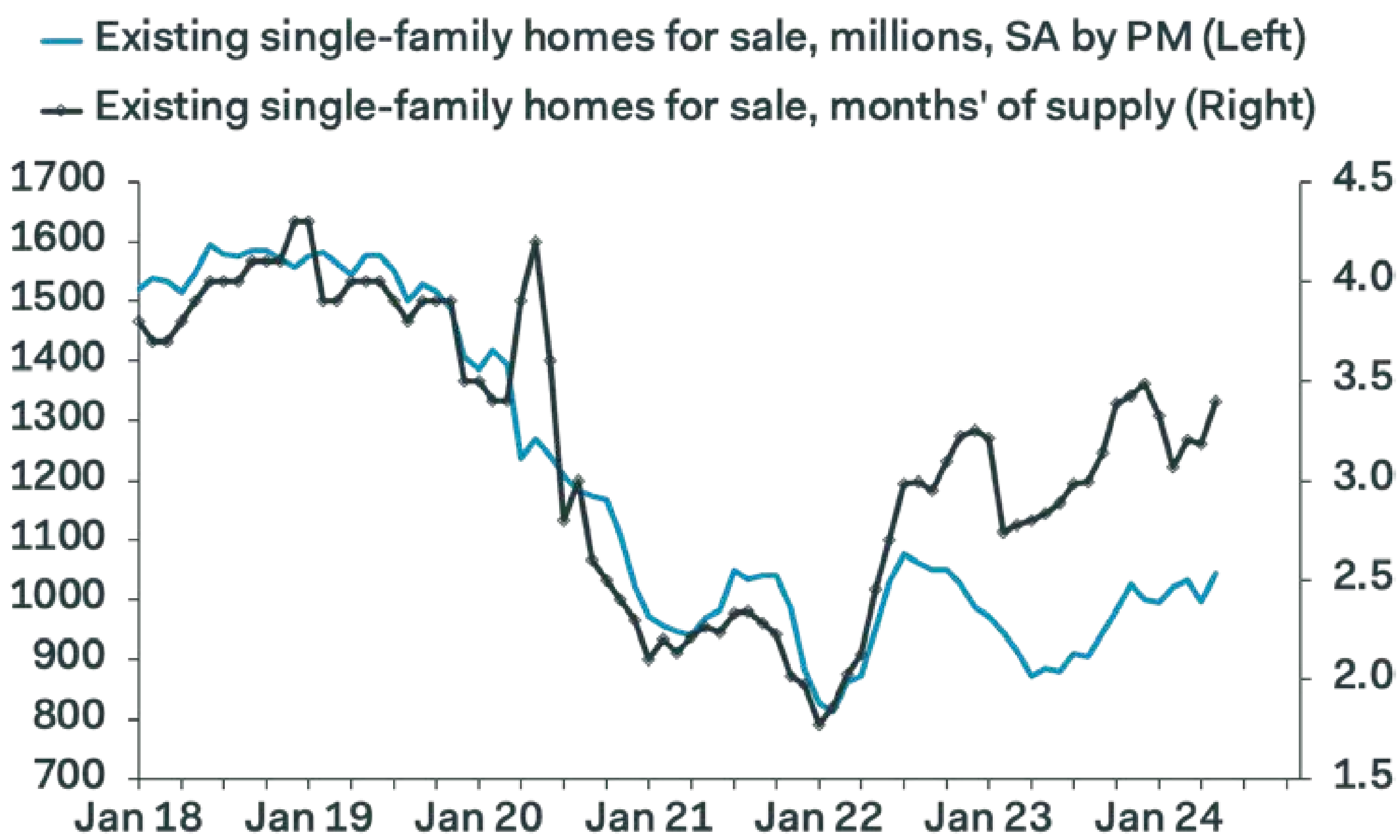
- Existing home sales fell to 4.11M in May, from 4.14M in April, trivially above the consensus, 4.10M.

The further slight decline in existing home sales in May was signalled by the weakening of the April MBA data on mortgage applications for home purchases, as well as by the drop in pending home sales index, to a four-year low. Our seasonally adjusted version of the MBA purchase index has remained extremely weak in May and early June, suggesting transactions will remain at rock bottom levels over the summer. High mortgage rates continue to impair both demand and supply. Few owners are listing their homes given the huge gap between new mortgage rates, 6.94%, and the average outstanding mortgage rate, 3.78%. Inventory increased to 3.6 months of sales in May—the highest since June 2020—from 3.3 months in April, but remained well below its 5.7 average in the 20 years before the Covid-19 pandemic. Tight inventory explains why the median existing home price increased by 5.7% year-over-year in May, slightly above the current 4.5% rate of growth in nominal personal incomes, despite high mortgage rates.

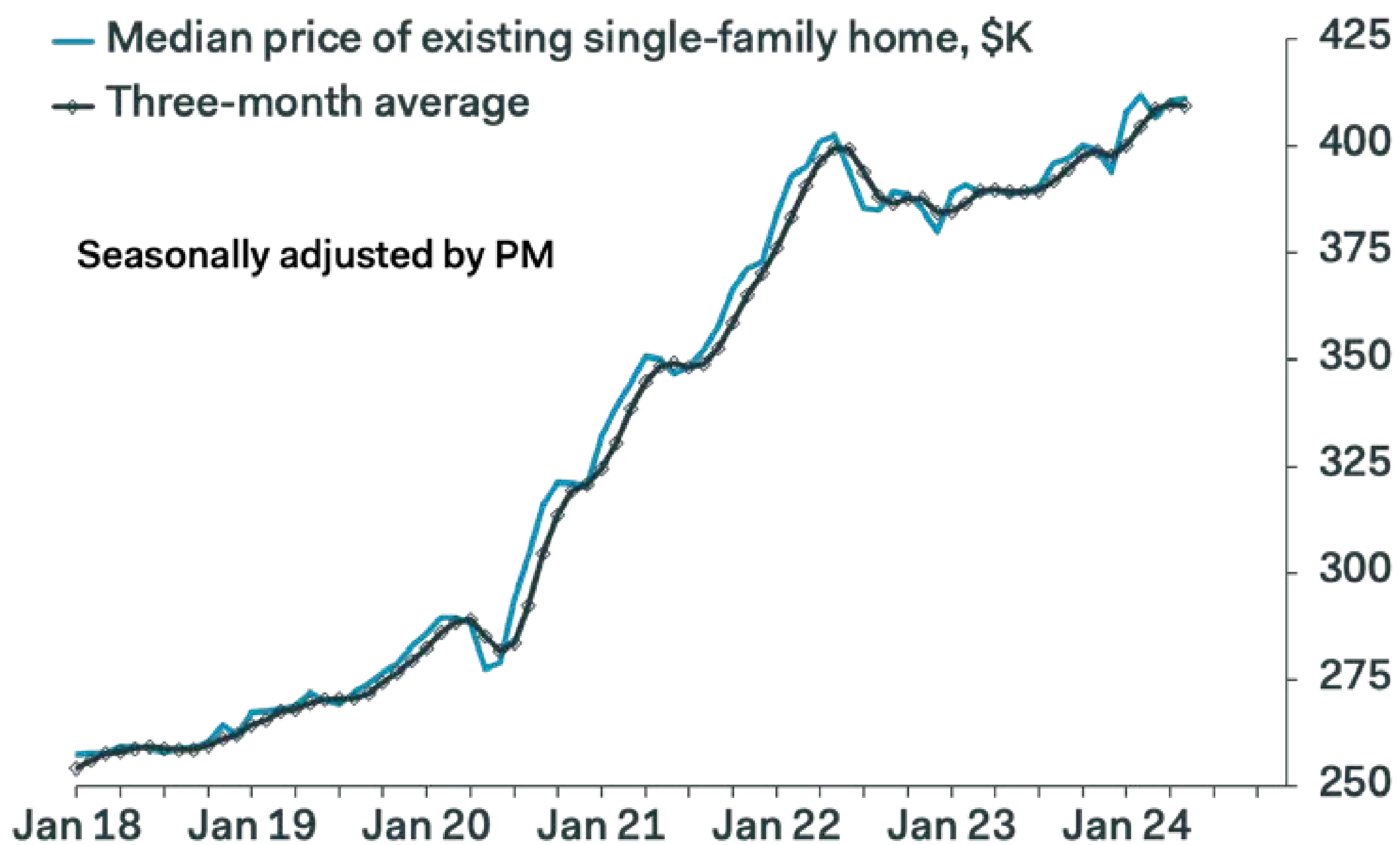
Looking ahead, we expect mortgage

rates to fall sharply as the Fed moves to stabilise the deteriorating the labor market, with policy rate cuts of 125bp this year and a further 150bp in 2025. Nonetheless, mortgage rates likely will remain above the effective interest rate on the stock for at least the next 18 months, continuing to discourage many owners from moving. In addition, a worsening labor market likely will persuade many potential buyers to rent a little longer. So our base case remains that existing home sales will flatline until the end of this year and then will recover only marginally in 2025.





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
4.5
4.0
3.5
3.0
2.5
2.0
1.5
Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24



Median price of existing single-family home, $K
Three-month average
Seasonally adjusted by PM
425
400
375
350
325
300
275
250
Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24