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May Existing Home Sales

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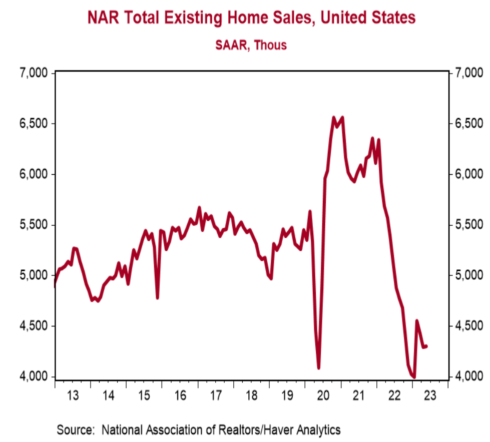
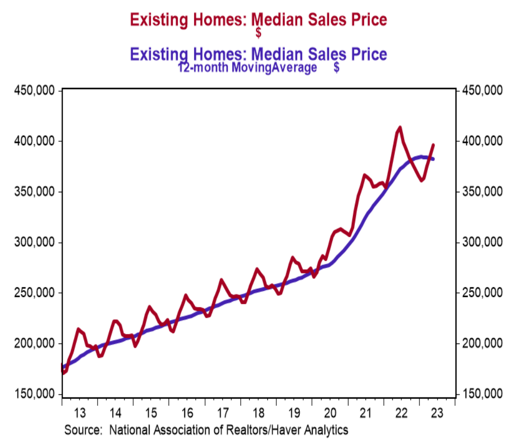
- Existing home sales increased 0.2% in May to a 4.300 million annual rate, narrowly beating the consensus expected 4.250 million. Sales are down 20.4% versus a year ago.
- Sales in May rose in the West and South but fell in the Midwest and Northeast. The gain in May was entirely due to condos/co-ops. Single-family home sales fell in May.
- The median price of an existing home rose to $396,100 in May (not seasonally adjusted) but is down 3.1% versus a year ago.





Implications: There wasn't much to get excited about in today's report on existing home sales, which eked out a small gain in May. We expect the outlook to be choppy moving forward as the housing market faces a series of crosswinds. First, mortgage rates that are currently hovering near 7% remain a headwind to activity. Assuming a 20% down payment, the rise in mortgage rates since the Federal Reserve began its current tightening cycle in March 2022 amounts to a 32% increase in monthly payments on a new 30-year mortgage for the median existing home. The shock of higher financing costs on non-homeowners (potential buyers) meant a short-term reduction in sales in 2022; but that negative impact should be diminishing as people adapt to a higher level of rates. While financing costs remain a burden, the good news for prospective buyers is that median prices have fallen 3.1% in the past year, which should help boost future sales. Meanwhile, many homeowners will be reluctant to sell due to a "mortgage lock-in" phenomenon, after buying or refinancing at much lower rates before 2022. That should limit future sales (and inventories). While we expect a continued moderation in national listing prices, a tight inventory of existing homes should prevent a repeat of 2008. Case in point, the months' supply of homes (how long it would take to sell existing inventory at the current very slow sales pace) was 3.0 in May, well below the benchmark of 5.0 that the National Association of Realtors uses to denote a normal market. Finally, a weakening economy in which the Federal Reserve doesn't act quickly to cut rates, because of high inflation, could be a headwind for home sales later this year. On top of this, new fee changes that went into effect May 1st as part of the Federal Housing Finance Agency's push for affordable housing will effectively subsidize homebuyers and refinancers with riskier credit ratings by charging higher fees to those with good credit scores. These changes are likely to cause extreme confusion and result in pricier monthly mortgage payments for most homebuyers. Adding this altogether, expect sales and prices to drag on in the year ahead, with no persistent recovery in housing until at least late 2023 or early 2024. In employment news this morning, initial claims for jobless benefits remained unchanged at 264,000. Meanwhile, continuing claims declined 13,000 to 1.759 million. On the manufacturing front, the Kansas City Fed index, a measure of factory activity in that area, fell to -12 in June from -1 in May, signaling contraction.

Existing Home Sales	May-23		Apr-23	Mar-23	3-month	6-month	Yr to Yr
Seasonally Adjusted Unless Noted, Levels in Thous.	% Ch.	level	level	level	moving avg.	moving avg.	% Change
Existing Home Sales	**0.2%**	**4300**	4290	4430	4340	4267	-20.4
Northeast	**-2.0%**	**500**	510	520	510	512	-25.4
Midwest	**-2.9%**	**990**	1020	1040	1017	1018	-20.8
South	**1.5%**	**2020**	1990	2050	2020	1962	-16.5
West	**2.6%**	**790**	770	820	793	775	-25.5
Median Sales Price ($, NSA)	**2.6%**	**396100**	385900	375400	385800	374783	-3.1

Source: National Association of Realtors