Data Release: Existing home sales stumble in April

- Existing home sales unexpectedly fell by 3.26% to 5.04 million units (annualized) in April. The number of units sold was considerably below the 5.23 million annualized pace expected by the market. Previous months’ sales were revised up from 5.19 to 5.21 million.

- The single-family segment led the declines, with sales down 3.3% relative from the month prior. Sales were flat in the condo/co-op segment.

- Median prices increased by 8.9% y/y, accelerating from 7.1% y/y in March to their fastest pace in more than a year. Single-family homes led the price gains, with values increasing 10% from the previous year. By comparison, prices of condo/co-op units were up just 0.4% relative to their year-ago level.

- The share of distressed sales was 10%, unchanged from the prior month, but down from 15% a year ago.

- First-time homebuyers accounted for 30% of transactions, unchanged from the prior month and up only 1 percentage point since a year ago.

- Investors accounted for 14% of sales in March, unchanged for the past three months, but down from 18% a year ago.

- The inventory of unsold homes rose 10%, with 2.2 million properties currently listed, however this was still 0.9% below the year-ago level. With demand outpacing supply, an average property spent only 39 days on the market – the second shortest time since National Association of Realtors began tracking data in May 2011. The inventories increased in relative terms due to lower sales volumes in April, with the months’ supply increasing to 5.3 months.

Key Implications

- This is not the report markets were hoping for as it runs counter to the positive momentum seen in other housing indicators, such as housing starts and the pending home sales index, with the latter leading existing sales by 1-2 months. Some of decline likely reflect a payback following last month’s hefty and upwardly revised gain. Helping to mitigate the disappointment is the fact that the setback was only partial, leaving some of the gains seen in the prior months intact with sales remaining above the 5-million threshold.

- Tight inventory rather than weakening demand appears to be the main factor restraining activity in the housing sector. Acceleration in median home prices growth also supports this view, with prices for single-family homes rising at the fastest pace since October 2013. Rising home prices should entice some homeowners to put their house on the market, helping to alleviate supply bottlenecks in the coming months.

- Looking through monthly volatility, the underlying buying conditions remain favorable. Despite the recent uptick, mortgage rates are still below their year-ago levels and within 50 basis points of all-time lows. Moreover, ongoing improvements in the labor market, as well as the slew of new initiatives aimed to
make homeownership more affordable, such as 3% down payment and lower costs of mortgage insurance and lower FICO score thresholds at federal agencies, will continue support demand from both new and returning home-buyers. Rapidly rising rents will also continue to tilt the scales in favor of homeownership.

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