Existing Home Sales Lowest in 12 Years, But It Could Be Worse

Existing home sales data was released this morning by the National Association of Realtors for the month of January. It was fairly close to forecasts, but nonetheless slid to the lowest levels since 2011 for the second straight month (just edging out the initial lockdown lows of 2020).

It's no surprise to see sharp declines in sales given the massive shift in rates and housing sentiment that unfolded over the course of 2022. While there had been a glimmer of hope for a bounce over the past few months, rates are once again ripping up toward 7%. As such, it makes sense to ask: how bad is it?

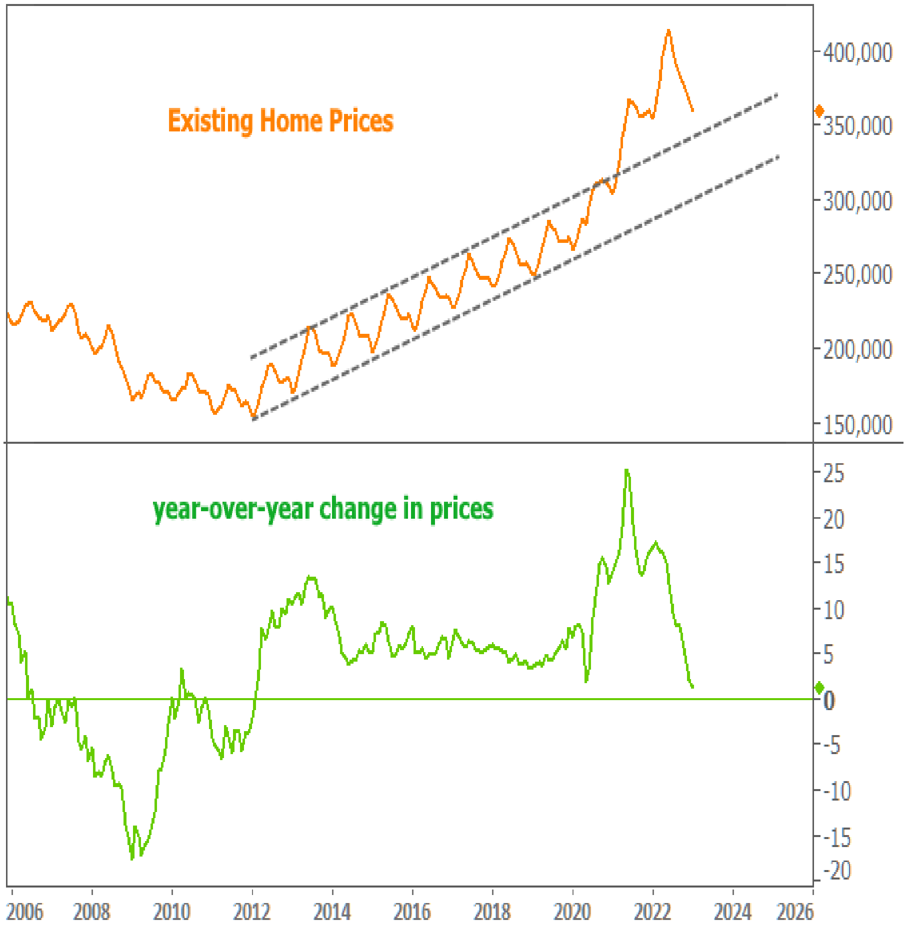
We can all already see how bad it CURRENTLY is. So the better question is how bad could things get. Alternatively, we could ask when things will get better. The second question is easy, but the answer isn't a huge relief in the short term.

Things will get better when inflation is firmly under control and the economy stops periodically showing signs of "running hot." Yes, I know that the idea of an economy "running hot" seems like a crazy thing to entertain for those of us in the housing/mortgage market, but in many sectors, it's a thing. Recent data confirms as much, as seen in the jobs report earlier this month and several reports since then.

On the topic of "how bad could things get," the good news is that the set-up could be a lot worse. Yes, the rate spike has been onerous, but let's not forget that the housing market was overheated in terms of prices. Even now, median prices remain far above the trend established over the past decade and still clocked year-over-year gains in January.

Jason Wood
Mortgage Advisor & VA Loan Specialist, VA Loan Guy - American Mortgage Network
www.valoanguy.us
P: (760) 350-3989
M: (760) 217-0820
1185 LINDA VISTA DR
SAN MARCOS CA 92078
317293

VA Loan Guy



Based on the explosive growth in prices during the early part of 2022, it's possible if not likely that we'll see year-over-year prices turn negative in the coming months, but unlike the slide that began in 2006, there's just not enough inventory available to fuel a big, sustained drop. There's no bubble that needs to be deflated, and a glut of new inventory is much less likely in the current environment where underwriting standards are far more stringent (compared to 2006) and where there isn't a fraction of as much systemic risk in the secondary mortgage market.

Bottom line: things aren't great, but at least this time around, the light at the end of the tunnel is actually connected to a brighter future as opposed to an oncoming train.