Has Housing Demand Peaked?

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There are indications that the remarkable pandemic-fueled housing run may be slowing . . . to a brisk jog. Total home sales in 2020 were the strongest in 14 years, but as the virus was gradually contained in 2021 the urgency to flee more populated areas passed and sales have slowed. Affordability is falling as home prices climb to new record highs throughout the country while mortgage rates have begun to step higher.

There are still significant supply issues limiting homebuyers, but supply and cost problems plaguing builders are improving. Lumber prices are still extremely elevated, but dropping fast as mills ramp up production. As of today, the spot price of lumber was down -48% from its peak in early May. Skyrocketing lumber prices had been a poster child for the inflation debate, so the abrupt turnaround has eased some concerns.

Builder margins should improve as materials costs ease, while still-elevated buyer demand is likely to last well into the fall months. This is obviously positive for builders. The lingering problem is a lack of skilled labor. This fix won't be as easy as firing up the sawmills.

Freddie Mac reported this morning the 30-year average mortgage loan rate has climbed above 3.0% for the first time in 10 weeks. The 3.02% average rate is still historically cheap, but moving away from the 2.65% record low that began the year.

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On Tuesday, existing home sales for May fell -0.9% from a 5.85 million unit annualized pace to 5.73 million, the lowest since June 2020 and the fourth straight monthly decline. The number of existing homes on the market at the end of May was just 1.23 million, a 20.6% decline from the same period last year. At the current sales pace, this represents a still lean 2.5 month supply, up slightly from 2.4 in April. Limited supply continued to push prices higher in May. The median price for an existing home was up a stunning +23.6% year-over-year to a record $350,300.

On Wednesday, new home sales for May fell -5.9% to a 769k unit annualized pace, well below the median forecast of 865k. Despite slowing sales in three of the last four months dragging the pace down from 993k in January, sales remain up +9.2% year-over-year. Part of the slowdown is related to cost. The median price of a new home was $374,400 in May, up +18% year-over-year, while the average price was $430,600, a +16.8% increase over the same period a year ago. The months' supply climbed from 4.6 to 5.1 in May due to slower sales and the first increase in inventories in over a year. It's important to note that the majority of what counts for new home inventory is still in some phase of construction. The supply of completed new homes was just 0.6 months in May.

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A recent WSJ article indicated the home construction shortage is even more pronounced than inventories imply. The report by the National Association of

Realtors shows new construction is currently 5.5 million units below long-term historical levels. The entirety of the deficit occurred from 2010 to 2020 when new home construction fell 6.8 million units short of what was needed to meet new household formation and replacement of aging, damaged and destroyed homes. This suggests demand for housing will continue to outpace supply for the foreseeable future, which should fuel new construction and sector growth.

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Market Indications as of 2:22 P.M. Central Time

DOW	Up 343 to 34,217 (HIGH: 34,778)
NASDAQ	Up 105 to 14,377 (NEW HIGH)
S&P 500	Up 28 to 4,270 (NEW HIGH)
1-Yr T-bill	current yield 0.08%; opening yield 0.07%
2-Yr T-note	current yield 0.27%; opening yield 0.26%
3-Yr T-note	current yield 0.47%; opening yield 0.46%
5-Yr T-note	current yield 0.91%; opening yield 0.90%
10-Yr T-note	current yield 1.49%; opening yield 1.48%
30-Yr T-bond	current yield 2.10%; opening yield 2.10%