

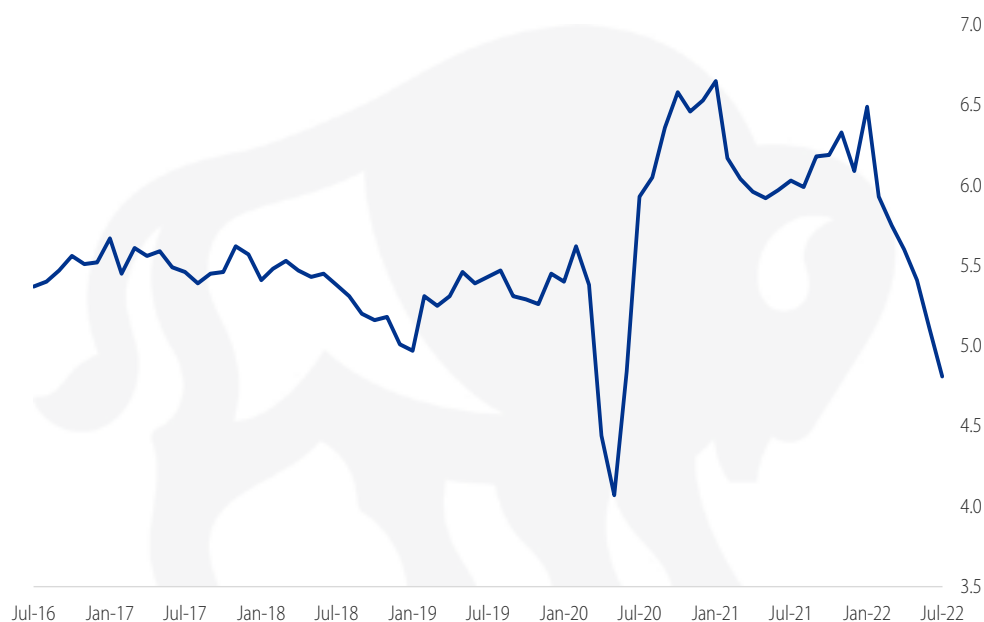
U.S. Housing Market Cooling

There is little question that the U.S. housing market is no longer firing on all cylinders, but a cooling-off period isn't unwelcome.

Yesterday, Freddie Mac reported the average 30-year fixed mortgage rate had declined from 5.22% to 5.13%. This is down from the June peak of 5.81%, but still more than 200 basis points higher since the year began. Housing is notoriously rate-sensitive, so sales were expected to moderate.

Earlier this week, existing homes sales, which make up roughly 90% of all sales, fell -5.9% last month to a 4.81 million unit seasonally-adjusted annual pace, *the slowest since May 2020* as elevated lending rates and record home prices continue to take a toll. The National Association of Realtors (NAR) reported sales of previously owned homes have declined over six consecutive months and are now down -26% since January, *the steepest six-month drop since the data series began in 1999*. According to the NAR Chief Economist, "We're witnessing a recession in terms of declining home sales and home building ... but not in home prices as inventory remains tight."

US Existing Home Sales (Seasonally adjusted annual rate, millions)



Source: National Association of Realtors

In fact, the average days on market held steady at 14, down from 18 in February with 82% of homes sold within 30 days. The month's supply (at the current sales pace) climbed from 2.9 to 3.3 months, but this is still mighty lean. Industry experts view a six- to seven-month supply as normal, while five months is considered tight.

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The median selling price for an existing home actually dropped from a historical high of \$413,800 in June to \$403,800 in July; now *just* +10.8% higher on a year-over-year basis.

Also this week, July housing starts dropped -9.6% to a 1.45 million unit annual pace, well below the 1.53 million unit median forecast and the *slowest since January 2021*. Starts are down -8.1% year-over-year, although there's a significant difference in the housing type. Multi-unit starts are up +18% on an annual basis, while single family home starts are down -18.5%.

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Building permits fell -1.3% in July to a 1.67 million unit pace, down almost -12% since the year began, and the lowest since last September. Single-family home permits were -11.7% lower than last year at this time, while multi-unit permits are up +23.5%.

Homebuilder sentiment as measured by the National Association of Homebuilders/Well Fargo dropped for the eighth straight month in August and is now at the lowest level since May 2020. The 49 measure indicates significant deterioration in homebuilder outlook from the 84 reading when the year began. A number below 50 indicates more builders view conditions as poor rather than favorable. A separate index of buyer traffic fell from 37 to 32 in August, down from 71 in December.

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New home sales data for July is scheduled to be released on Tuesday, but the cooling trend is already well established. Total seasonally-adjusted, annualized sales of new homes in June were down -8.1% to a 590,000 unit pace, the slowest since April 2020. Through June, sales have declined every month in 2022, and are now down -30% since the year began. The forecast for July suggests that new home sales will continue trending lower.

Lending rates are likely to remain high for the foreseeable future, which means any relief for homebuyers would come in the form of lower prices. Given the extreme price runup over the past two years, any discount is welcome.

Market Indications as of 10:23 A.M. Central Time

DOW	Down -301 to 33,698 (HIGH: 36,800)
NASDAQ	Down -267 to 12,698 (HIGH: 16,057)
S&P 500	Down -55 to 4,228 (HIGH: 4,797)
1-Yr T-bill	current yield 3.25%; opening yield 3.18%
2-Yr T-note	current yield 3.28%; opening yield 3.20%
3-Yr T-note	current yield 3.30%; opening yield 3.22%
5-Yr T-note	current yield 3.12%; opening yield 3.02%
10-Yr T-note	current yield 2.99%; opening yield 2.87%
30-Yr T-bond	current yield 3.23%; opening yield 3.13%

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