# New Home Sales Up but Housing Still Stuck in Low Gear

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The housing market has been stuck in low gear for the last couple years, caught between elevated mortgage rates and lack of homes available for sale. With the Fed's communication blackout this week and little major economic data on the calendar, it's a good opportunity to revisit where housing stands today.

## Rate Challenged

Any hopes for lower mortgage rates have largely faded in recent months. The average 30-year mortgage rate currently sits around 6.6%, 50bps higher than earlier this year as Treasury yields moved higher amid renewed Middle East tensions, higher energy prices and inflation expectations.

While today's rates are more than 100bps lower than the peak levels in 2023, they remain well above the sub-3% mortgage rates many homeowners secured during the pandemic. This disparity continues to fuel the powerful lock-in effect. Millions of homeowners have little incentive to sell their home to replace a 3% mortgage with financing costs more than double that level. As a result, housing turnover remains low despite a low unemployment rate and ongoing household formation.

## New Home Sales Up In June

New home sales continue to chug along. Today the Census Bureau reported that June home sales rose to an annualized pace of 628k units from a revised 618k in May, continuing a modest improvement into the Summer months before school starts.

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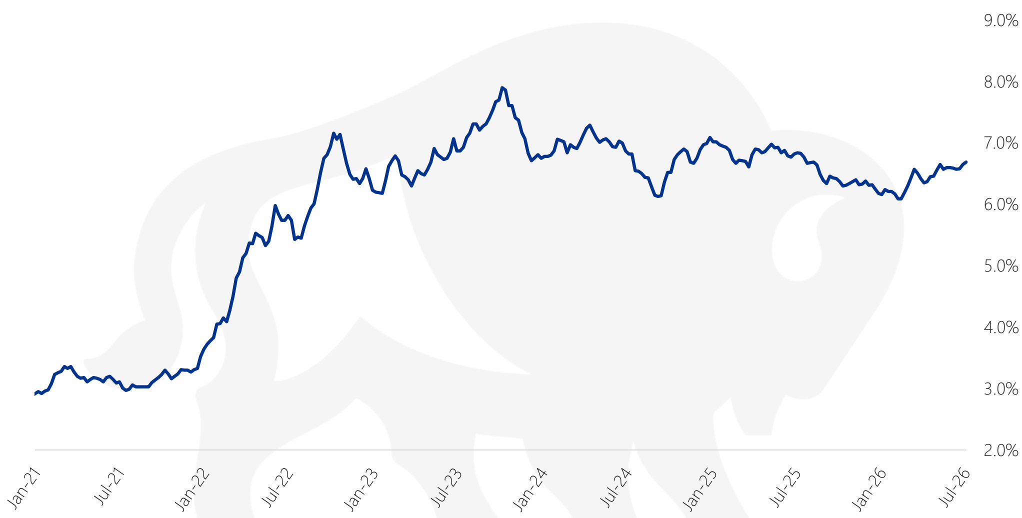
Builders maintain an important advantage over existing homeowners because they can offer incentives that individual sellers cannot easily match. Mortgage rate buydowns,

### US Fixed-Year Mortgage 30-Yr Contract Rate



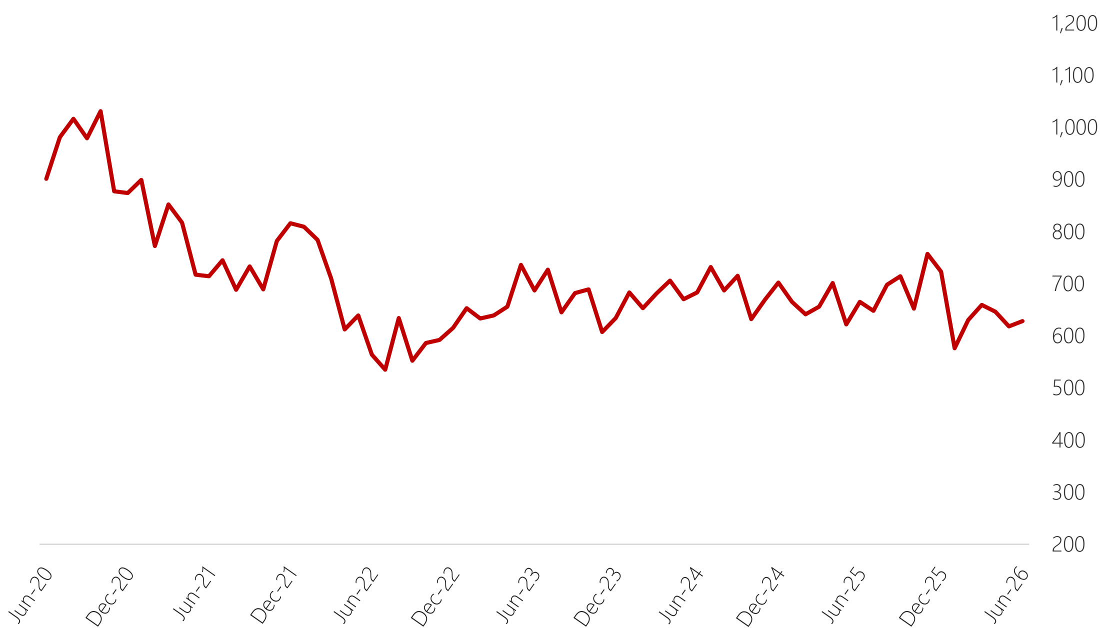

Source: Mortgage Bankers Association

closing-cost assistance, and other purchase incentives help offset the impact of higher borrowing costs and make new homes more attractive to buyers.

*High construction costs, labor shortages, land development challenges, and financing constraints continue to limit future building activity.*

Looking at supply, the inventory of new homes remains elevated at 496k units, more than 10 months of supply. That means builders have homes available but are also proceeding with caution. High construction costs, labor shortages, land development challenges, and financing constraints continue to limit future building activity. While new home sales have stabilized, construction levels remain below what is needed to fully address the nation's long-term housing shortage.

### U.S. New Home Sales (Seasonally adjusted annual rate, thousands)




Source: US Census Bureau

*While inventory levels have improved modestly from last year, they remain tight enough to prevent a correction in home prices.*

## Existing Home Sales Remain Low

Earlier in the month, existing home sales declined 2.4% in June to a seasonally adjusted annual rate of 4.09 million units, although sales remained 2.8% higher than a year ago. Existing sales are still running roughly 25% below pre-pandemic norms as affordability pressures and the mortgage lock-in effect suppress activity.

Inventory remains limited. Total existing home inventory stood at 1.56 million homes in June, representing almost 5-month supply. While inventory levels have improved modestly from last year, they remain tight enough to prevent a correction in home prices.

## Home Prices Grind Higher

Despite weak overall activity, home values continue to push higher. The median existing home price reached a record $441k in June, up 1.8% from a year earlier and marking the 36th consecutive month of annual price gains. However, broader measures show the pace of appreciation is slowing. Home price growth has slowed significantly from the double-digit increases seen during the pandemic housing boom. Affordability remains stretched by historical standards, with home prices still significantly outpacing income growth over the past several decades.

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## Washington Attempts to Address Supply

Economists and policymakers increasingly view housing affordability as a supply issue in addition to a demand issue, with growing consensus that increasing inventory is essential to improving affordability over the long term. This month, Congress passed the 21st Century ROAD to Housing Act, which represents one of the most significant bipartisan housing efforts in decades. The legislation aims to increase housing supply by reducing regulatory barriers, streamlining permitting processes, and encouraging construction of more affordable housing types. While the bill is unlikely to provide immediate relief, it reflects a growing consensus that increasing housing inventory is the most sustainable path toward improving affordability.

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## Next Week's Fed Meeting

The Federal Open Market Committee meets Tuesday and Wednesday, and while markets are pricing only about a 33% chance of a rate hike next week, expectations for a move later this year remain elevated. This will be Kevin Warsh's second meeting as Fed Chair, and investors look for clues on how his evolving policy framework may influence future decisions. Warsh's first meeting introduced new task forces, shortened official statements, and signaled a preference for less forward guidance, suggesting a Fed that may be more willing to let incoming data drive policy. Recent increases in Treasury yields and renewed strength in energy prices tied to Middle East tensions have only reinforced the market's focus on inflation risks and the possibility of a September rate hike.

Also next week, we'll see the June PCE inflation report, the Fed's preferred inflation measure and the advance estimate of 2nd quarter GDP which is expected to show the economy grew at a 2.3% annualized pace.

## Market Indications as of 10:00 A.M. Central Time

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|---|---|
| DOW | Up 150 to 51,861 (HIGH: 53,056) |
| NASDAQ | Down -72 to 25,066 (HIGH: 27,094) |
| S&P 500 | Down -7 to 7,402 (HIGH: 7,610) |
| 1-Yr T-bill | current yield 4.11%; opening yield 4.11% |
| 2-Yr T-note | current yield 4.33%; opening yield 4.35% |
| 3-Yr T-note | current yield 4.37%; opening yield 4.39% |
| 5-Yr T-note | current yield 4.43%; opening yield 4.46% |
| 10-Yr T-note | current yield 4.67%; opening yield 4.70% |
| 30-Yr T-bond | current yield 5.15%; opening yield 5.17% |