

# US Macroeconomics

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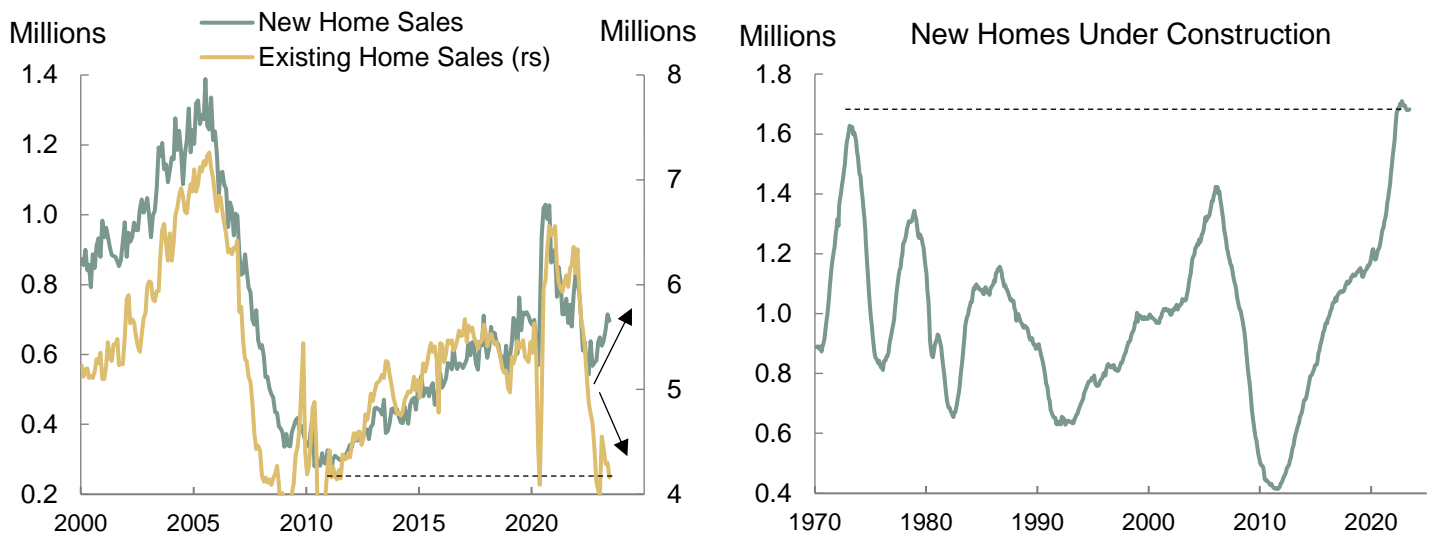
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## Why Home Prices Haven't Fallen

**The quick and sharp reversal in mortgage rates has led to a dearth of supply of homes for sale.** The logic is simple: few people are inclined to sell out of a home paying a 3% mortgage, just to buy a different home with a 7% mortgage. Taking advantage of the pandemic's low interest rates, 62% of homeowners [locked in](#) sub-4% mortgages, while 24% locked in sub-3% mortgages. The implication is that people are not selling but instead staying put and paying down their existing homes. **As a result, a perverse set of market conditions has materialized where the supply of housing units has fallen faster than demand, leading to higher prices. Demand has been redirected into new homes, which is historically a small portion of the market.**

The number of home transactions has dried up, as shown in the left chart below. The National Association of Realtors reported just 4.16M existing home sales in June, which is on par with GFC crisis lows! However, the lack of existing homes offered for sale means that left-over demand has been funneled toward new homes (left chart). Since reaching a July 2022 cyclical bottom (543k), new home sales have jumped 28% to 697k! What a gift for homebuilders! Even with high mortgage rates, there is always a base level of home purchases due to new family formation and all-cash buyers, which are comparatively less responsive to mortgage rates.

Homebuilders know it too. Since 2000, the US has averaged approximately six million home sales per year. Meanwhile, due to the aforementioned dynamics, we sit at just under five million purchases. Home purchases are now being increasingly directed toward *new* homes which on average account for just 11% of total sales historically. So, to meet demand and to capitalize on high housing costs, new home construction has boomed to record levels (right chart). Even with the record flood of new builds nearing completion, new home sales could be stronger than many are expecting, at least until unemployment breaks off a 60 year low. **Ultimately this means that the transmission of monetary policy into the broader economy, through softer residential construction and lower home prices specifically, is temporarily delayed.**



Sources: National Association of Home Builders, Census, Haver, SMBC Nikko

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