



Contact:
 Thomas D. Higgins, PhD
 Chief Economist
 ph: 213 830-4302
 email: thiggins@payden-rygel.com

Housing Risks

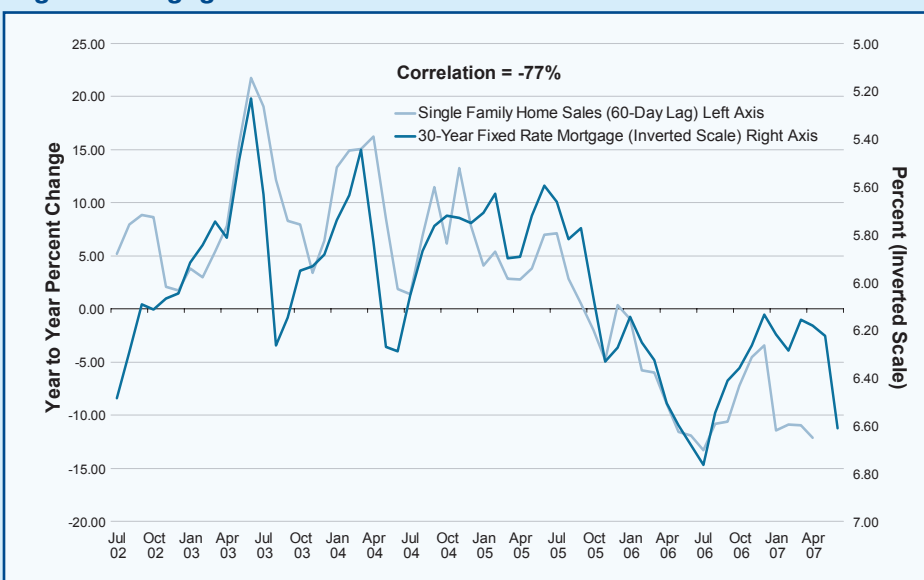
- Sales of single family homes fell to their lowest level in nearly five years in June.
- High inventories are likely to keep downward pressure on home prices.
- Existing home sales could see another down leg in July and August.

Existing Home Sales Tumble

Today, the National Association of Realtors announced that existing home sales took another tumble in June. Sales of single family homes fell 3.8% during the month to an annualized rate of 5.75 million units –their lowest level in nearly five years. Sales are currently down more than 12% from year ago levels and the inventory data suggest the market has not bottomed.

The month's supply of homes remains at a 15-year high of 8.8 months despite the fact that nearly 200,000 would-be sellers took down their For Sale signs in the month of June. The reason why the month's supply figure has remained sticky in the past few months is that the pace of sales has fallen even faster than sellers can remove their homes from the market. High inventories are likely to keep downward pressure on home prices in the coming months.

Higher Mortgage Rate Will Hurt Home Sales in the Next Two Months



Sources: National Association of Realtors and Freddie Mac

Although many analysts attributed the decline in existing home sales to the recent spike in interest rates, this seems unlikely since the mortgages on these homes were probably taken out at least a month ahead of the rise in mortgage rates. Existing home sales are counted at closing rather than at the time of purchase. Since it typically takes a month to close on a property, it seems likely that many of the people who purchased a home in June locked in their mortgage rate in May.

Between May 11 and July 13, the rate on a 30-year fixed rate mortgage surged from 6.15% to 6.75%. As the chart above shows, a rise in mortgage rates tends to impact existing home sales with a two month lag. In fact, the correlation mortgage rates and lagged sales is 77%! Therefore, existing home sales could see another down leg in July and August.