

## Weak US home sales raise concerns about construction and confidence

Housing transactions are very weak given a general lack of affordability, but with supply now on the rise, there is concern about what the implications will be for home prices and household wealth in coming quarters. Residential construction may also become more of a headwind for broader economic growth



A sold home in Georgia

### Home sales remain weak thanks to affordability issues

New home sales were annualised at 627,000 in June, well short of the 650,000 figure expected. Coming after yesterday's disappointing existing home sales figure, which dropped to 3.93 million from 4.04 million in May, it heightens concerns about the property market, and by extension, housing construction.

The weakness has come as a bit of a surprise given the recent uptick in mortgage applications for home purchase (see chart below), but set against weakening demand fundamentals, it certainly isn't a shock. Affordability is stretched with a 50% increase in prices, meaning the typical mortgage taken out for a home purchase has jumped from \$325,000 to \$450,000 since 2020. Combined with a more than doubling in mortgage rates, this means the typical monthly payment for a new purchase on a 30Y fixed rate mortgage is now just shy of \$3000 per month, up from

\$1500 five years ago.

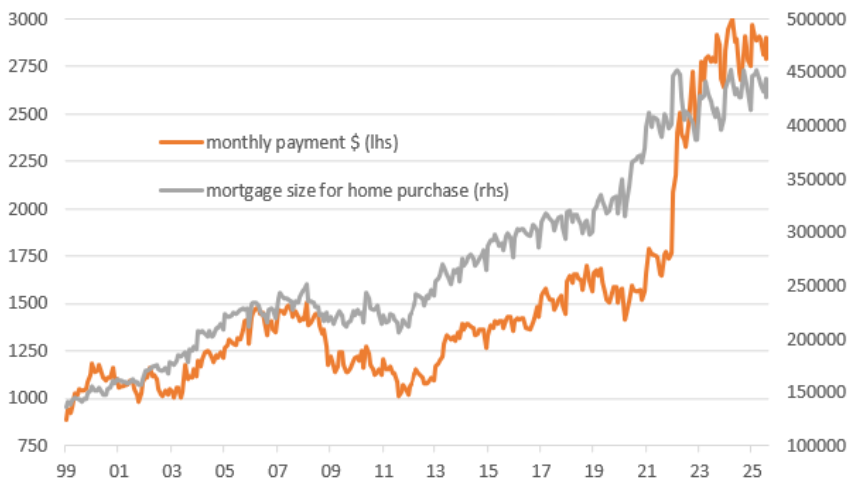
## Mortgage applications & home sales (mn)



Source: Macrobond

The MBA's index of mortgage applications is on a par with the post-bubble situation in 2008-10, but perhaps more surprisingly, it is matching the lows seen in the mid-1990s when the US population was 70 million fewer people than it is today.

## Mortgage metrics for a typical new home purchase using a 30Y fixed rate mortgage



Source: Macrobond, ING

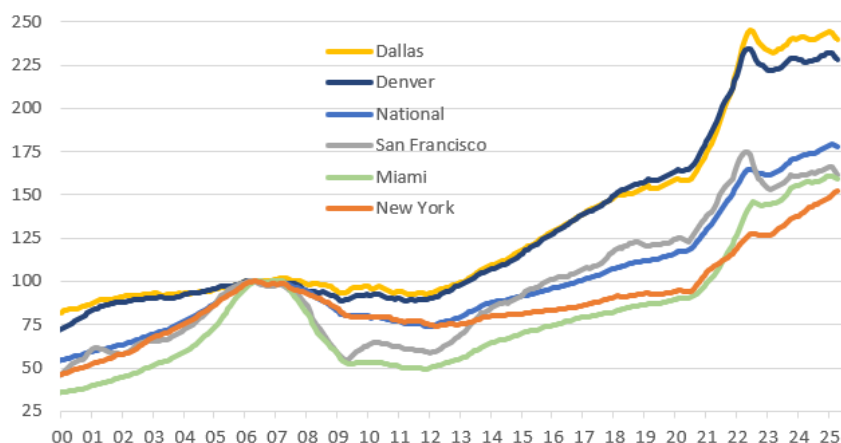
## Home prices and construction are vulnerable

So far, prices have been supported by the lack of supply of homes for sale. Homeowners locked in at ultra-low mortgage rates taken out over the past decade are reluctant to give them up. Those who need more space are finding that doing renovations is often more cost-effective. But an increasing number are now finding they do need to move, and supply is starting to push higher.

The inventory of existing homes for sale has grown 40% since 2022, while the stock of new homes

for sale is up 16% over the same period. This means that it will take 4.7 months at current rates of demand to clear the stock of existing homes for sale, the highest for a decade, while for new homes it is 10 months, the highest since 2009. Unsurprisingly, the National Association of Home Builders reports that sentiment amongst residential construction firms has collapsed. Not only are they being squeezed by weak demand, but immigration controls are impacting labour supply and pushing up wages, while many building materials are now subject to President Trump's tariffs, the latest of which is copper. Profitability is under pressure, and construction activity looks set to slow, which will be another headwind for GDP growth

## S&P Case Shiller house price indices 2006 = 100



Source: Macrobond

## Rate cuts may not provide relief

Rising home supply in the face of weak demand is starting to impact prices. Two consecutive monthly falls in the S&P Case Shiller price index may only be the start, given the weak demand and rising supply story.

This could have worrying implications for already weak consumer confidence, given that the home is the biggest store of wealth for most families. It also means Fed Chair Powell will remain under intense pressure from President Trump to cut interest rates in order to potentially push borrowing costs lower to reignite demand. But with mortgage rates driven by the long end of the curve, uncertainty over inflation and concerns about fiscal sustainability mean that short-end rate cuts may have very limited impact on homebuyer borrowing costs.

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