

US growth worries mount as housing transactions collapse

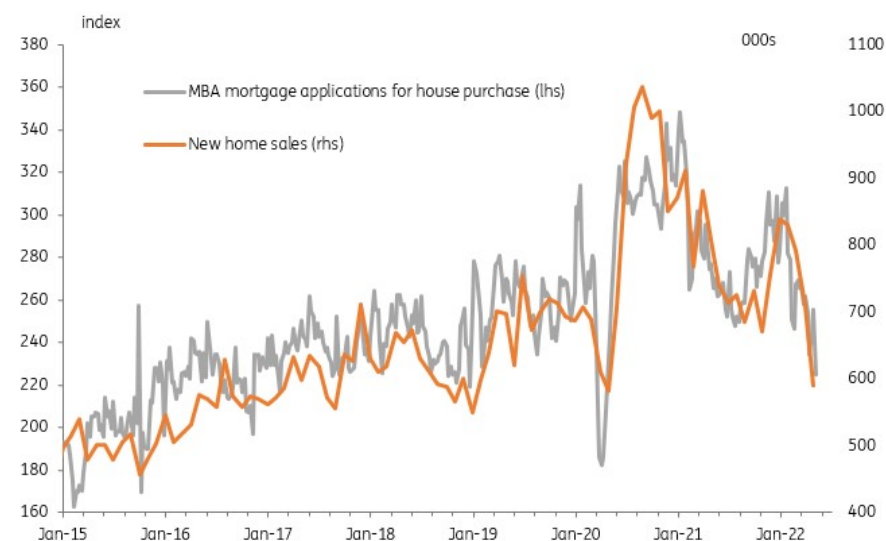
Rising mortgage rates and a general lack of affordability are resulting in a steep drop off in demand for housing. Inventory for sale is rising rapidly, which suggests we are moving from an environment of excess demand, seen since the start of the pandemic, to one of excess supply. This is bad news for home prices and economic activity



The housing market outlook was already darkening

We wrote about our concerns for the US housing market [last week](#), citing the surge in mortgage rates and the challenge of saving for a deposit in an environment where prices have risen 35% nationally over the past two years. We increasingly sense that we are moving from a situation of massive excess demand post pandemic to one where we could be soon experiencing excess supply. This led us to warn of the prospect of a transaction slowdown and potential price correction in coming quarters. Today's US new home sales numbers only make us more nervous.

New home sales plummet

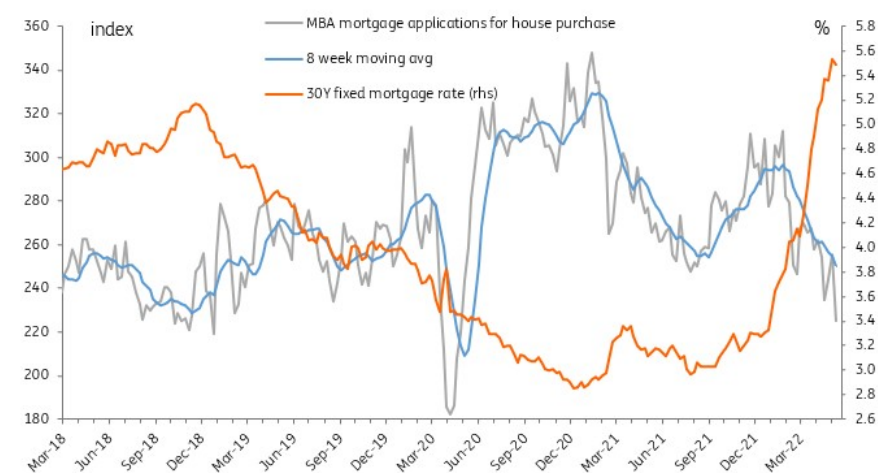


Source: Macrobond, ING

Now sales are plunging

They recorded a huge drop from March's 709k (originally reported as 763k) down to 591k in April, more than 150k below the consensus 749k. This forecast looked grossly optimistic to us since, as the chart above shows, when compared against mortgage applications numbers for home purchases the risks were always going to be skewed to a big downward surprise. In fact, today's outcome is exactly in line with what the relationship suggested.

Rising mortgage rates have hit demand hard



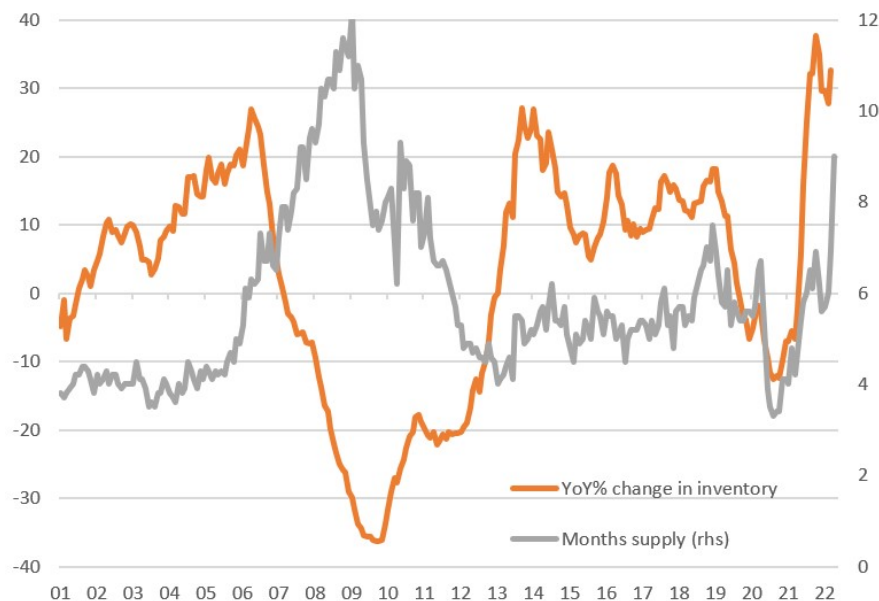
Source: Macrobond, ING

Weaker transactions mean weaker activity more broadly

Consequently, tomorrow's mortgage application data takes on even more significance. Another big drop, which is possible given the surge in mortgage rates, will heighten fears about the economic implications. After all, home builders were already reporting a drop in new buyer

enquiries and amid labour shortages and rising costs, this will act as a disincentive to start new building. Construction is 4% of the economy and key retail sales components (furnishings, furniture, building materials etc) all correlate with housing activity.

Home inventory for sale is rising rapidly



Source: Macrobond, ING

Recession risks are rising

Furthermore, the inventory of homes for sale continues rising with nine months-worth of sales now sitting on the market – the largest proportion since 2010. Weakening demand and rising supply imply the possibility that house prices will soon top out and start to fall. Rising interest rates in an environment of falling home prices are never a good combination for consumer sentiment and will add to the chances of a retrenchment and potential recession down the line.

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