

Snap | 24 May 2022

UNITED STATES

US growth worries mount as housing transactions collapse

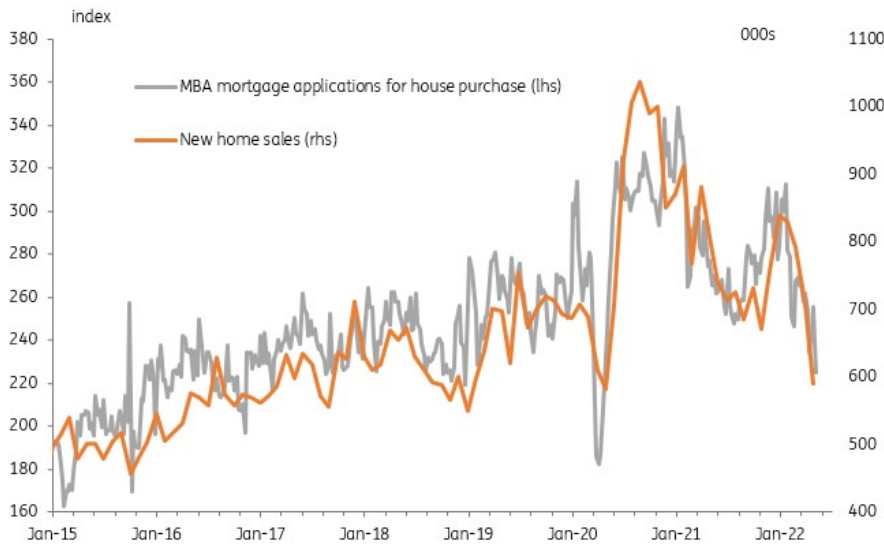
Rising mortgage rates and a general lack of affordability are resulting in a steep drop off in demand for housing. Inventory for sale is rising rapidly, which suggests we are moving from an environment of excess demand, seen since the start of the pandemic, to one of excess supply. This is bad news for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

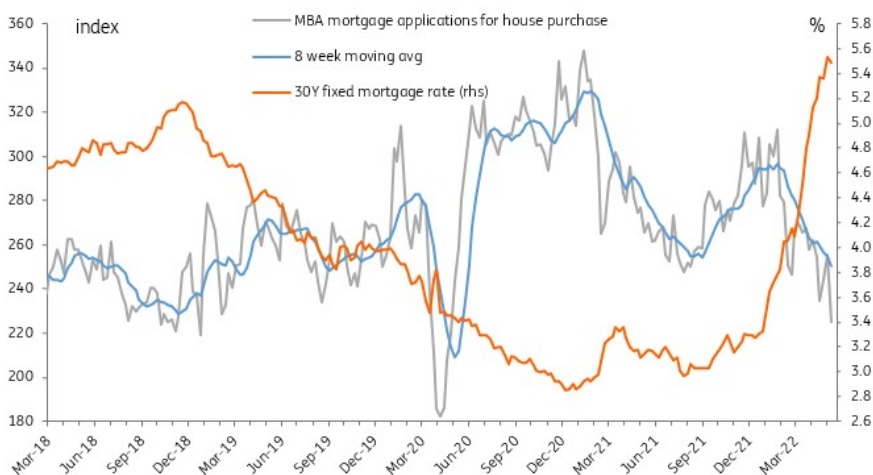


Source: Macrobond, ING

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

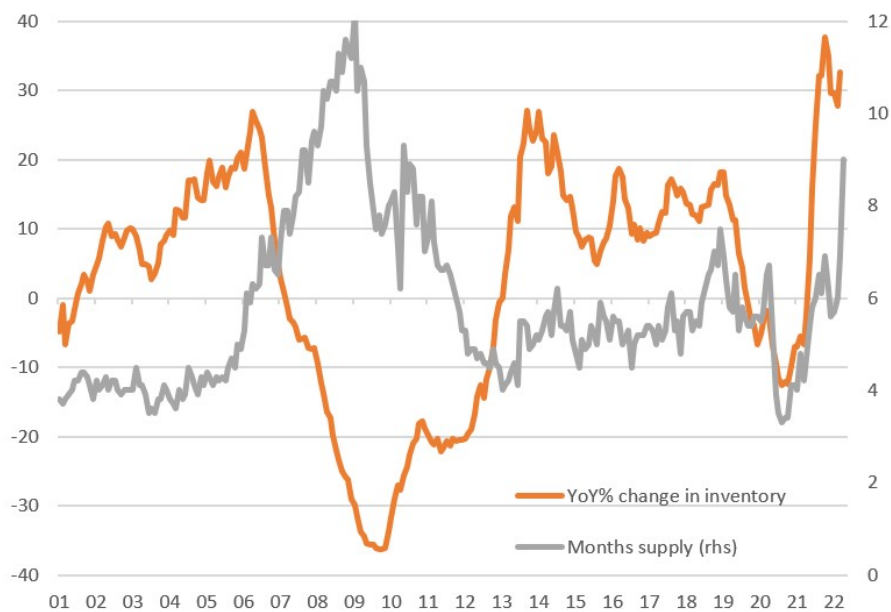


Source: Macrobond, ING

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.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.