



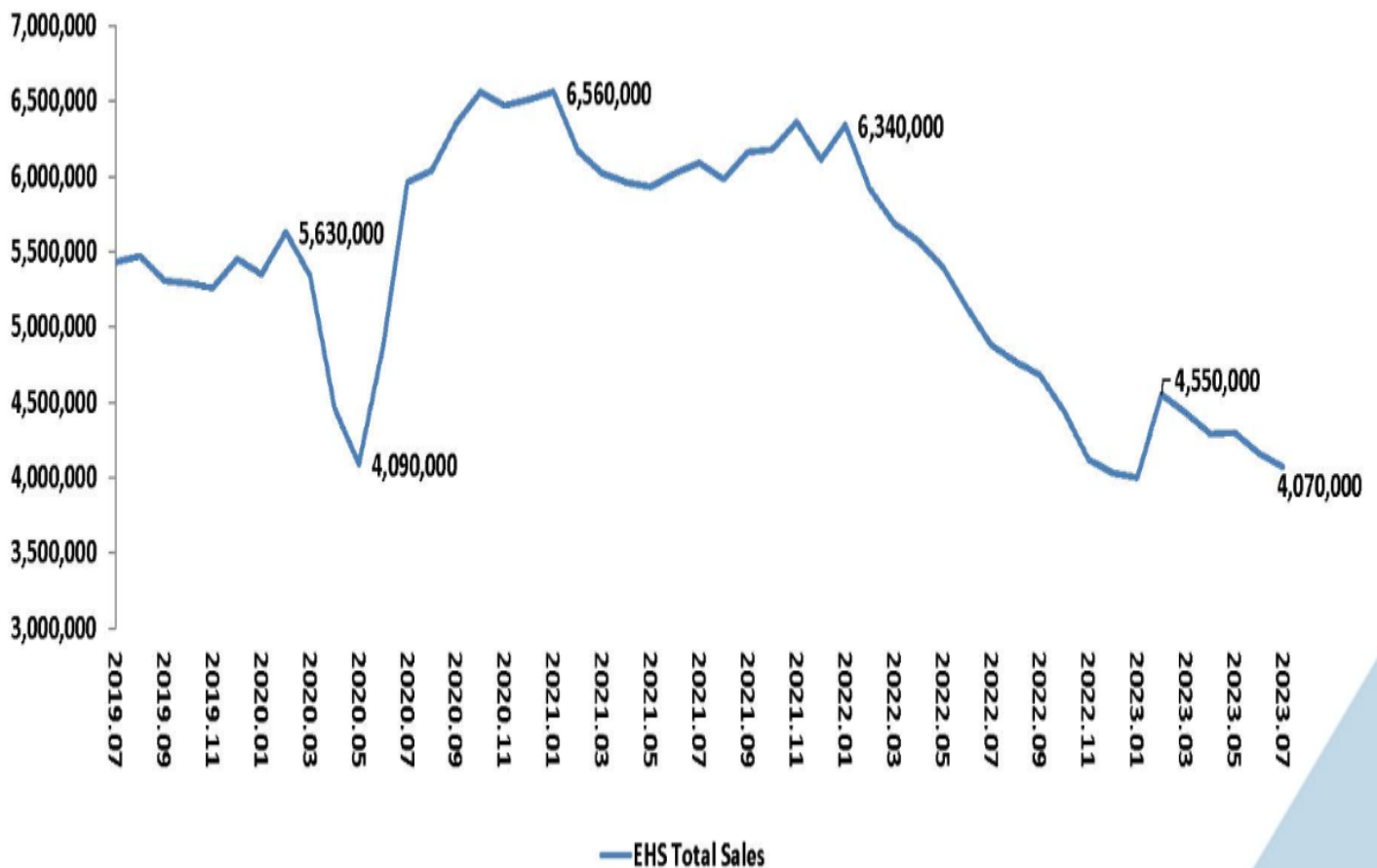
The Daily Dish

The Real Estate Slump Continues

DOUGLAS HOLTZ-EAKIN | AUGUST 23, 2023

Yesterday the National Association of Realtors [released](#) the July data for existing homes sales, which fell 2.2 percent to an annual rate of 4.07 million homes. The chart accompanying the press release is reproduced below.

Total Existing Home Sales, SA Annual Rate



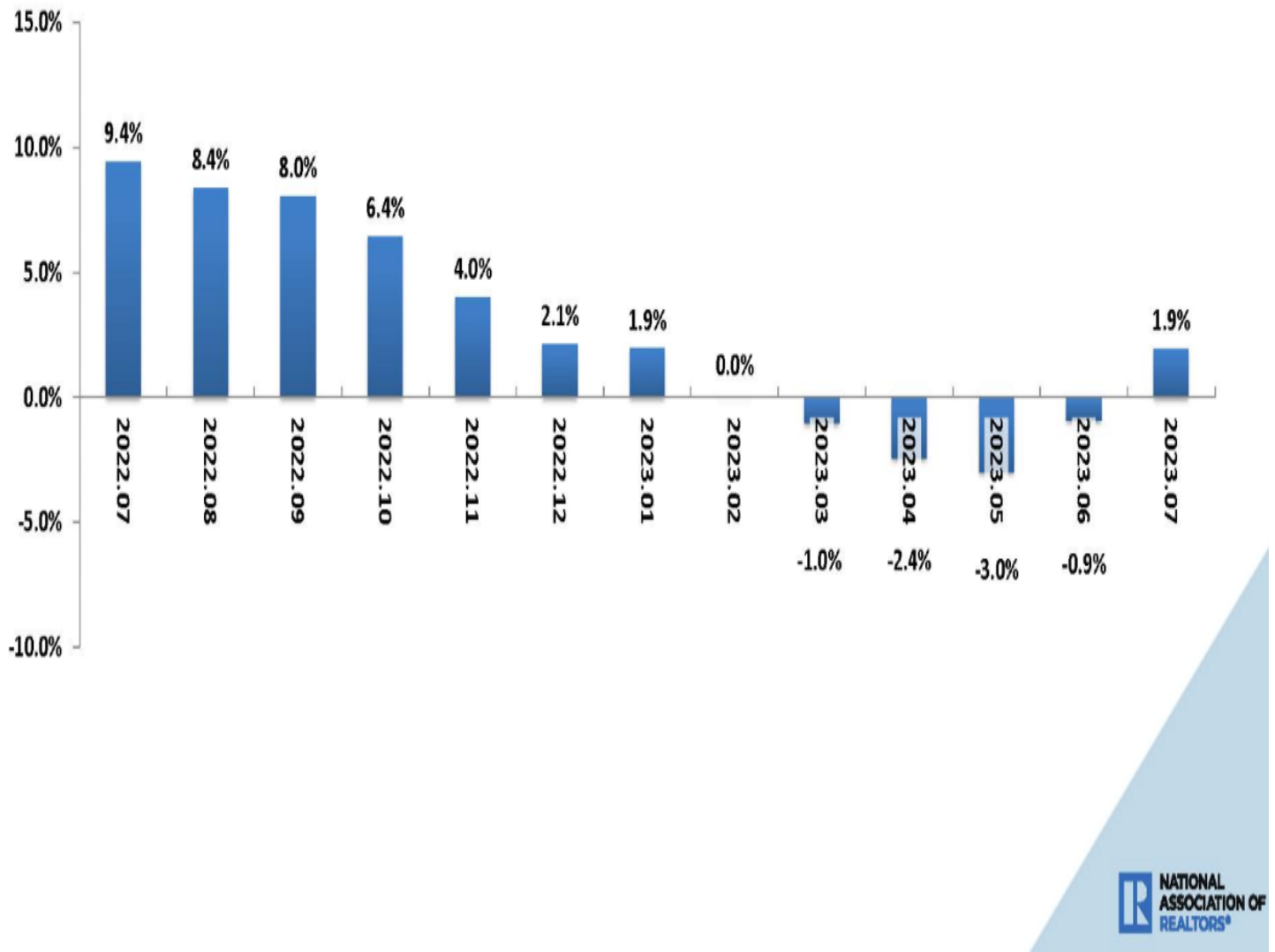
There are a couple of lessons from the chart. First, it is a good idea occasionally to look at the actual levels of the data and not simply focus on the month-to-month change. Clearly, residential sales are in a deep slump, with the July data rivaling the depths of the falloff after the arrival of the coronavirus in early 2020.

Second, existing home sales are the bulk of home sales. So, if existing sales are in slump, the residential housing market is as well.

Third, it is a reminder that the Federal Reserve's inflation-fighting tactics were destined to have a disproportionate impact on the housing market. Increasing interest rates feeds directly into mortgage interest rates, and homeowners are historically quite interest-sensitive. In addition, shrinking the size of the Fed's portfolio restricts the capital available for mortgage finance. The housing market was doomed to struggle.

One might expect that would show up strictly as a reduction in the demand for homes. If so, one would expect that there would be downward pressure on prices. The second chart, below, shows the median sales price.

Existing Home Sales Median Price, Percent Change Year-Over-Year



Clearly, there has been downward pressure on prices over the past year. Yet interestingly enough the most recent data show a year-over-year rise in the median sales price. Owners with a mortgage originated before rates rose to the 7 percent range are loath to put their homes on the market and face the cost of financing a home purchase. The result is a combination of high mortgage rates and low inventory – both of which are bad news for buyers and sales are accordingly limited.

Perhaps the housing market will soon find a bottom and recover. But it has not yet.