

HOUSE BUYING BUMP LIFTS MARKET POTENTIAL



First American's Potential Home Sales Model for August showed potential existing-home sales increased to a 6.40 million seasonally adjusted annualized rate (SAAR), a 0.05 percent month-over-month increase. The market potential for existing-home sales increased 9.9 percent compared with a year ago, a gain of 575,700 (SAAR) sales.

"This past year has shown us that the economy follows the path of COVID-19, and that was evident in August's labor market data," First American Financial Chief Economist Mark Fleming said in a release. "The labor market recovery stalled, as the resurgent pandemic discouraged workers from re-entering the labor force. Additionally, consumer confidence fell to a six-month low as worries about rising COVID-19 infection rates weighed on consumers' outlook for the economy. But is increased economic uncertainty bad news for housing market potential? Not necessarily."

Fleming said the lower-than-anticipated labor force participation, along with an increased demand for labor, increased the pace of wage growth.

"The month-over-month jump in household income contributed to a \$2,800 increase in house-buying power. Additionally, the decline in mortgage rates contributed to a \$1,700 increase in house-buying power in August," he said. "The total \$4,500 increase in house-buying power boosted market potential by approximately 19,000 potential home sales."

Some factors reduced potential home sales, Fleming said, like tightened credit considering the economic uncertainty.

"When lending standards are tighter, fewer people can qualify for a mortgage, dampening first-time homebuyer demand and increasing the likelihood that some homeowners stay in their current homes because they are ineligible for a new mortgage," he said. "In August, while credit conditions remained looser than average, they did tighten relative to July. Tighter credit conditions reduced potential home sales by approximately 54,000 compared with one month ago."

The continued housing inventory crunch also negatively affected potential sales.

"The average length of time someone lives in their home increased in August relative to July, trimming housing market potential by over 7,000 potential home sales," Fleming said. "While low mortgage rates can spur homebuying demand by reducing the monthly cost of a mortgage and increasing housebuying power, many existing owners who have refinanced into even lower mortgages are less incentivized to move. Approximately two-thirds of all homebuyers are existing homeowners, so fewer homeowners listing their homes reduces housing supply."

All those factors paint a complicated picture of the housing market, he said.

"While heightened economic uncertainty dims consumer confidence and may result in tighter credit, it also puts downward pressure on mortgage rates," Fleming said. "The shortage of labor supply relative to the growing demand for labor has fueled household income growth. While the economy may be taking a 'Delta dip,' the unexpected burst of increased house-buying power has boosted housing market potential."