■ Bill Adams ■ Waran Bhahirethan

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Existing Home Sales Dipped In April As Price Gains Slowed; Firming Economic Outlook and Fiscal Deficit To Keep Mortgage Rates High And Restrain Housing

- **Existing home sales edged down in April and were lower than a year earlier, weaker than expected.**
- **Price increases slowed and lagged wage growth. Price gains in the Midwest and Northeast offset modest declines in the South and West.**
- **Listings are still below pre-pandemic levels, but as a multiple of sales are the highest for April since 2016.**
- **Shaky consumer sentiment in the first few months of 2025 likely weighed on April's sales.**
- **Sentiment toward the economy is improving after the partial rollback of tariffs. The first PMI surveys collected in May (after the China tariffs were reduced) were stronger than expected.**
- **The economic growth outlook is firmer than a few weeks ago. On top of tariff de-escalation, the 2026 fiscal bill will boost economic activity through deficit-financed tax cuts.**
- **But for the Fed, a steadier growth outlook and expansionary fiscal policy are reasons to forgo rate cuts. As a result, high mortgage rates are forecast to weigh on housing again this year.**

Existing homes sales were weaker than expected in April, edging down 0.5% to a 4.0 million seasonally-adjusted annual rate and undershooting the consensus forecast for 4.1 million. Sales were down 2.0% from a year earlier. The median sale price rose a modest 1.8% from a year earlier to $414,000, slower than March's 2.6% increase and marking the slowest gain since July 2023. Existing home prices rose slower than the 3.8% year-over-year increase of private average hourly earnings in April. By region, house prices rose 6.3% from a year earlier in the Northeast and 3.6% in the Midwest, but edged down 0.1% in the South and 0.2% in the West.

Listings of existing homes rose to 1.45 million from 1.33 million in March and were equivalent to 4.4 months' supply at the current sales pace, up from 4.0 months in March. This was the highest months' supply for the existing market since the fall of 2020. But since the housing market is highly seasonal, a better comparison for April 2025 is against April in prior years. On that basis, months' supply of listings is the highest since 2016. Both the number of sales and of listings are still below pre-pandemic levels.

Shaky consumer sentiment this spring likely contributed to soft house sales in April, but that headwind seems to be abating. S&P Global reports that their Manufacturing Purchasing Managers Index (PMI) for the United States rose to 52.3 in the May preliminary release from 50.2 in April, and their Services PMI rose to 52.3 from 50.8. Both PMI releases were stronger than expected by economic forecasters. Data for the surveys were collected between

May 12 and May 21, so almost entirely cover the period after the government cut the tariff rate applied to most goods purchased from China to 30% from 145% on May 12. The surveys' improvements came despite an acceleration of inflationary pressures—purchasing managers reported that manufacturers' selling prices rose the fastest since September 2022 in May, and service-providing businesses' selling prices rose the fastest since April 2023. Consumer sentiment likely will echo these PMIs and improve in upcoming releases.

A couple recent developments have contributed to a firmer economic outlook. The partial rollback of tariffs has eased jitters about a potential recession. And the budget reconciliation bill looks set to provide the economy with a new burst of deficit-financed stimulus from tax cuts in 2026. The estimates of nonpartisan fiscal policy experts suggest the tax bill will increase the fiscal deficit from about 6.5% of GDP in 2025 to 7.0% of GDP in 2026 and 2027. Increased borrowing by Uncle Sam will be mirrored by more after-tax money in Americans' pockets. From the Fed's perspective, more expansionary fiscal policy reduces pressure for precautionary rate cuts. And surveys that point too higher inflation ahead raise the bar for the Fed to consider cutting.

Financial markets are forward-looking. Since markets anticipate less likelihood of short-term rate cuts in the second half of the year than they did a few weeks ago, longer-term interest rates are up. The 10-year Treasury yield is hovering around 4.6% in late May and has reversed its pull-back between January and March, when a combination of DOGE's cuts to federal outlays and tariff jitters caused financial markets to anticipate the Fed substantially reducing its policy rate this year. Bond yields now price in expectations for the Fed probably holding interest rates unchanged through the Fed's July decision. That's a big change from the first week of April, when markets were pricing in the Fed cutting their policy rate half a percent or more by July.

Other long-term interest rates like mortgage rates tend to follow the 10-year Treasury yield. Bankrate's daily index of the national average 30-year fixed mortgage rate rose back above 6.9% in late May to near the highest since early March. Persistently elevated mortgage rates will likely weigh on home construction, sales, and price increases in the rest of 2025. Comerica's May forecast sees home construction starts growing a relatively subdued 2% in 2025, with existing home sales up 1%, new home sales up 1.5%, and house prices up 3.8% (Measured by the FHFA Purchase-Only price index).

Homebuying affordability is gradually improving as prices rise slower than incomes. But factoring in mortgage rates, prices, and incomes, homes are still expensive compared with the pre-pandemic period. Strained affordability will keep more younger households in rentals for longer. As a result, multifamily new construction will grow faster than single-family, since multifamily units mostly become rentals, while single-family units are mostly sold to homeowners.