

## Existing Home Sales Rose Marginally in May; Inflationary Risks Tilted to the Upside and Could Limit Rate Cuts

- Existing home sales moved up marginally in May, against expectations for a drop.
- Single-family home sales were up on the month and over the year, while condo/co-op sales were down over both time periods.
- Existing home sales fell in the West in May and increased in the other three regions. Sales in the South and the West are down from a year ago.
- Housing inventory rose for a fifth consecutive month in May.
- High mortgage rates are a drag on the housing market. Price growth is slowing due to low affordability.

Total existing home sales increased 0.8% to 4.03 million units at a seasonally-adjusted annualized rate in May, from 4.0 million units in April, according to the National Association of Realtors (NAR). Sales came in stronger than the consensus expectation for a decline. While homebuilding remains weak and was near a five-year low in May, existing home sales increased on the month after falling in April and March. Existing home sales have hovered around 4 million over the past two years, and sales are considerably below the pre-pandemic level of around 5 million. Sales fell off a cliff in early 2022 after mortgage rates moved higher, remained below 4.5 million in 2023, and dipped to a 14-year low in September 2024. On a year-ago basis total existing home sales fell 0.7% in May.

Single-family home sales increased 1.1% on the month to 3.67 million units, while existing condo/co-op sales dropped 2.7% to 0.36 million units. Single-family home sales were up 0.3% from a year earlier, while multifamily homes were down 10%.

Monthly sales increased in the Northeast (up 4%), the Midwest (up 2%) and the South (up 1.7%), while they fell in the West (down over 5%). Tariffs and higher prices for building materials may support sales of existing homes in the near term, although both homebuilding and existing homes sales remained sluggish in the South and the West from a year ago. On a year-over-year basis existing home sales increased in the Northeast and the Midwest and dropped in the South and the West.

The inventory of total existing homes increased for a fifth consecutive month to 1.54 million units, jumping 6% in May and 20% from the same time last year. The supply of all existing homes for sale increased from 3.2 months at the current sales pace in December to 4.6 months in May, the highest over the past three years. The supply of condos and co-ops has increased to over 6.5 months.

The median seasonally-unadjusted sales price was \$422,800 in May, an increase of 1.3% year-over-year. This is down from close to 6% growth in December as inventories have climbed. With strong cumulative house price growth since the pandemic and the 30-year fixed mortgage rate close to 7%, housing affordability is near a record low. Rising inventories and very low affordability will continue to put downward pressure on price growth in the near term.

The average 30-year fixed mortgage rate edged lower in June to around 6.8%, but remained elevated from a few years ago when rates were around 3%. PNC expects one 25 basis point cut in the fed funds rate in 2025, at the FOMC's last meeting of the year, in December. Mortgage rates will remain elevated throughout 2025, further weighing on homebuilding and homebuying under a softening labor market. If inflation continues to surprise to the downside, the Fed may cut more than expected. Lumber tariffs remain a risk for higher building costs and inflation, and less monetary easing from the Federal Reserve than expected could keep mortgage rates high and further weigh on the housing market. Energy prices have moved higher with the crisis in the Middle East, which could also lead to higher inflation and less Fed easing than expected.

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