ANNUAL PACE IN HOME PRICES FALL AGAIN IN AUGUST; MOST SINCE 2009

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(25Oct2022) … The US housing market took another hit in August as average prices fell 1.3% on a month-over-month basis, the most since March 2009 and the second-straight month of declines. While prices are still up year-over-year, they're slowing at a record pace. The S&P Case-Shiller National Price Index increased 13% in August from a year earlier, down from a 15.6% gain in July and 18.3% in June, the biggest deceleration in the history of the index.

The housing market has been weakening as the Federal Reserve tackles a 40-year higher in inflation by hiking their benchmark interest rate. But even with the market turn, prices still remain relatively high in many cities compared to last year. With mortgage rates edging closer to 7%, it appears that sellers are starting to retreat and first-time home buyers are practically shut out of the market.

Cities on the West Coast have been among those hit the hardest by the real estate cooldown, in part because of the affordability issues that have ratcheted up in recent months with higher rates. On a month-over-month basis, cities on the West Coast including San Francisco, Seattle and San Diego fell the most.

Year-over-year, Miami (28.6%), Tampa (28.0%), Charlotte (21.3%) and Dallas (20.2%) reported the highest national increases. But all cities in their 20-city index reported lower price increases in the year ending August 2022 versus the year ending July 2022.

Sales of existing homes fell for an eighth straight month in September, according to National Association of Realtors data, while new home construction also dropped in September. We expect home sales will continue to to decline as well as further drop in average home prices.

As we first noted a year ago, the projected downward trend impact lenders in a couple of ways. First, it effects its borrowers' primary household investment and, if become volatile, could alter their future spending behavior. Secondly, it impacts lenders' collateral value and potentially impact their future credit mitigation and risk exposure. Lastly, since lenders have basically been extending credit at relatively low rates on elevated market values (given home prices have been increasing at double-digit pace for at least 3 years - far outpacing the rate of inflation), further downward shifts in market value could significant effect lenders' relative loan-to-value metrics.

If the economy experience a even deeper recessionary pressure, this could lead to rising default, foreclosures and write-offs. In our Q3-22 report, mortgage foreclosure starts are already up 3% from the previous quarter and 104% than one year ago. States that posted the greatest number of foreclosure starts in Q3 2022, included California (7,368 foreclosure starts); Florida (6,671 foreclosure starts); Texas (6,217 foreclosure starts); Illinois (4,702 foreclosure starts); and New York (3,997 foreclosure starts).

Home Prices: Attached is a copy our report on Home Prices.