The “Great Reshuffle” Could Be Nearly Over

Dr. Jeffrey Roach | Chief Economist
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Key Points

- The U.S. Postal Service saw a downshift in change-of-address requests as labor markets shift and households are less likely to move and that’s impacting residential real estate.
- June existing home sales fell to 3.89 million. To put that in context, the pace of sales in 2019 was well above 5 million.
- The decline was driven by a slowdown in the Midwest and South as the number of potential homebuyers dried up last month. So, perhaps the “Great Reshuffle” is over.
- Housing affordability is hovering around the lowest since the Great Financial Crisis as the market is in short supply of homes.
- All cash deals were 28% of sales and days on the market dipped to 22 from 24 the previous month.
- Median prices continue to rise, adding acute pressure on potential home buyers.

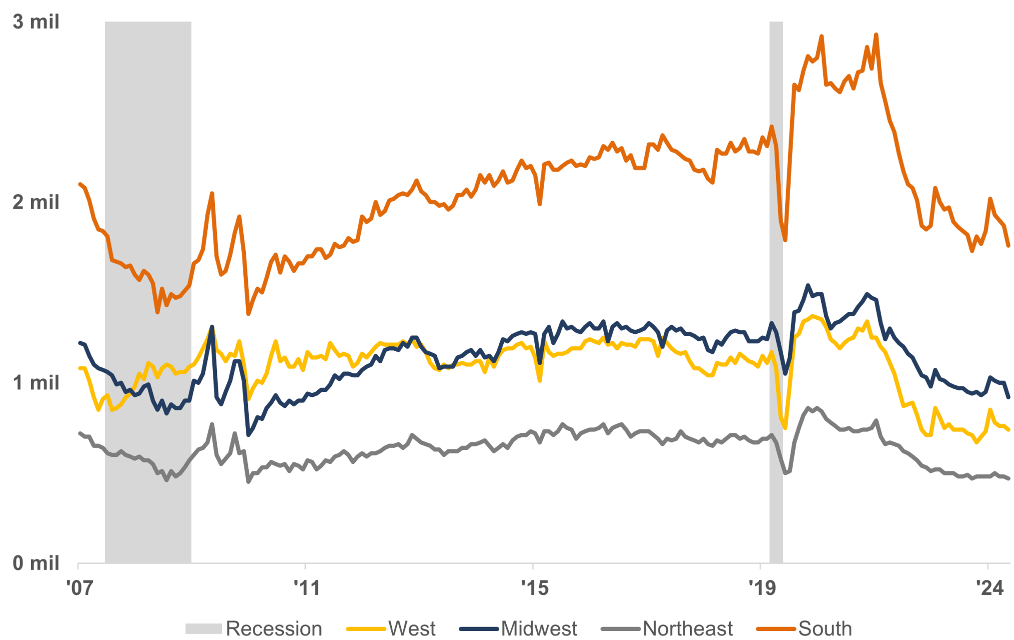
Is the Reshuffling Now Over?

During the years immediately following the depths of the pandemic, when mortgage rates were unnaturally low, millions of households were moving out of high cost of living areas and relocating to lower cost of living areas. We call that the "Great Reshuffle." The U.S. Postal Service processed roughly 36 million address changes in 2021, according to their website[1]. But in 2023, the postal service processed only about 28 million.

The geographic reshuffling may be over in earnest as opportunities for remote work are likely shrinking in response to an overall cooling of the labor market and as corporate policies are getting less flexible on work arrangements.

The Great Reshuffling Could Be Over

Homes Sales in Lower Cost of Living Areas Plummeted



Source: LPL Research, National Association of Realtors 07/24/2024

Soon after the pandemic, home sales rebounded across the country, but the southern region experienced the largest spike in activity as households relocated, but sales even here trended lower in recent months.

Home Sales Shrank in June

Home sales fell over 5% from the previous month as activity slowed across all regions. Existing home sales were 3.89 million units annualized. The decline is greater compared to a year ago, or pre-pandemic. In 2019, the pace of existing home sales hovered above 5 million.

The housing market had a temporary boost in activity in May, but seasonal tailwinds were not sustained as activity fell to near-term lows. The traditional factors were high mortgage rates and high prices, but more non-consensus explanations should also incorporate the interesting data from the U.S. Postal Service and what it could suggest for housing demand.

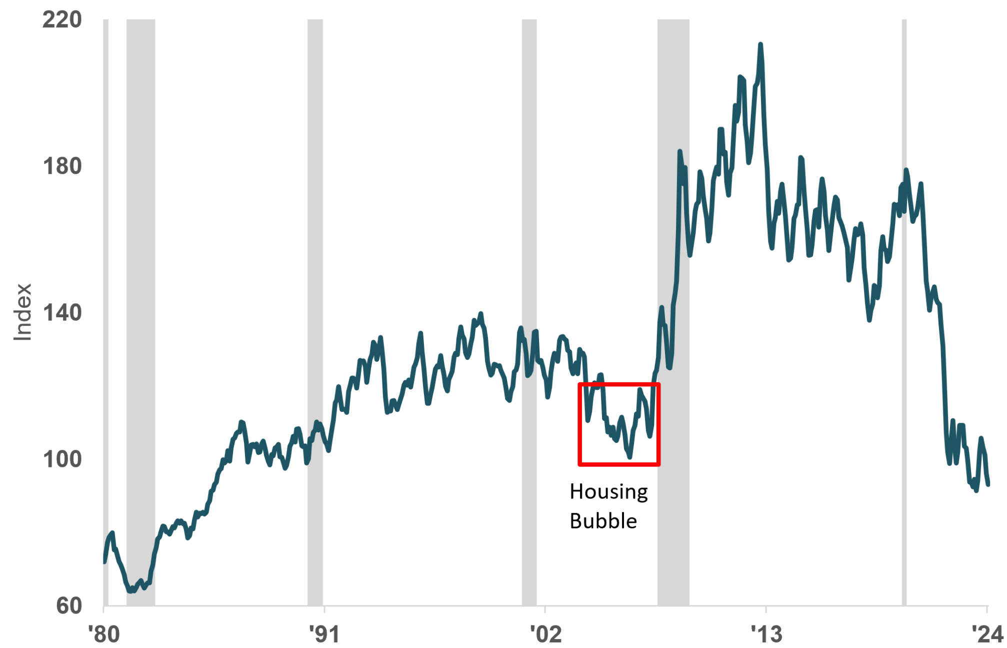
Why Elevated Home Prices if the Economy is Slowing?

The economy is showing early signs of slowing, but a more discerning consumer has not yet impacted housing prices. We would expect median prices to fall if demand slows, but that hasn't happened. The reason median prices have trudged higher is the market is suffering from a low supply of homes available for sale.

Affordability suffers under the low inventory of homes for sale. The National Association of Realtors (NAR) calculated their Affordability Index based on household income, interest rates, and median home prices. As highlighted in the chart, affordability is the lowest since the mid-1980s, when mortgage rates were double digits. Median prices rose 4.1% from a year ago to $426,900, hitting a new record high. Despite the high prices, homes were on the market for 22 days on average, a bit longer than last year at this time but still historically short.

Housing Affordability Lowest In Over a Generation

Affordability Index — Worst Since 1985, When Mortgage Rates Were Double Digits



Source: LPL Research, National Association of Realtors 07/24/24
Disclosures: All indexes are unmanaged and can't be invested in directly. Past performance is no guarantee of future results.

So, What Does This Mean?

A strong housing market often has ripple effects. With a high pace of sales, real estate commissions are high, home-related purchases are up, and specialty construction jobs are plentiful. This time is different with high home prices in a late-cycle macro environment. The low supply of homes and high interest rates depressed affordability to near-term lows. Because of the tight supply of homes available for sale, median prices continue to trudge higher. We should not expect that dynamic to improve until mortgage rates drop and supply increases. As the broader inflation landscape improves, we expect the Federal Reserve to cut rates a few times this year, creating downward pressure on mortgage rates in the months ahead. However, it may take longer for housing supply to increase since the economy has had a shortage of homes for decades.

[1] https://www.uspsoig.gov/reports/audit-reports/review-national-change-address-and-moversguide-applications-report

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Dr. Jeffrey Roach

Jeffrey Roach guides the overall view of the economy for LPL Financial Research and has over 20 years of experience in investing and economics.