February Existing Home Sales: Lean Inventories Limit Upside Room For Sales

- Existing home sales fell to an annualized rate of 5.480 million units in February from January's sales rate of 5.690 million units.
- Months supply of inventory stands at 3.8 months; the median existing home sale price rose by 7.7 percent on a year-over-year basis.

There are no villas to rent in Tuscany and, apparently, there are no houses to buy in the U.S. Okay, that may be an exaggeration, at least the part about buying in the states (we won't question the Maestro's assessment of the market in Tuscany), but it's starting to seem like we're heading in that direction. Existing home sales slipped to an annualized rate of 5.480 million units in February, below the consensus forecast of 5.550 million units and just above our forecast of 5.470 million units, but the bigger story is that notably lean inventories continue to act as a drag on sales. Coupled with still sturdy demand, these lean inventories are fueling rapid price appreciation, with the median sales price up 7.7 percent year-on-year.

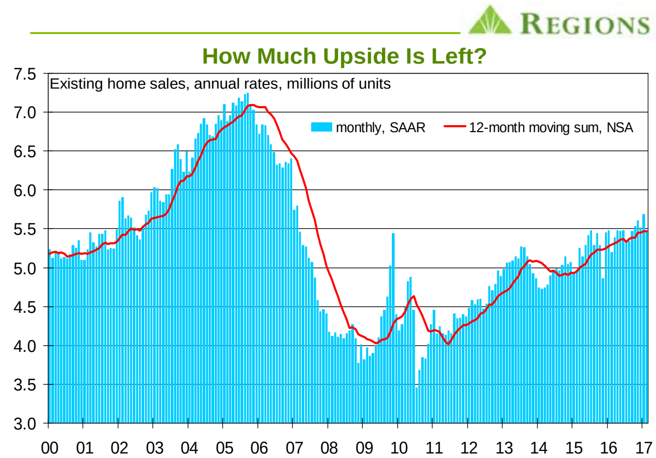
The drop off in sales between January and February is nowhere near as pronounced as implied by the headline sales numbers. On a not seasonally adjusted basis, existing home sales slipped from 319,000 in January to 315,000 in February – slightly below our forecast of 321,000 sales (the Northeast region entirely accounts for our miss here). This means over the past 12 months there have been 5.470 million sales, unchanged from January's running 12-month total. In a typical year, January is the weakest month for existing home sales and sales pick up modestly in February ahead of the spring selling season. This year marks the first time sales fell in February since 2003 – think about that for a moment, even in the worst of the post-recession housing market these seasonal patterns held, but not this year. Keeping in mind that existing home sales are booked at closing, not contract signing, one could make the argument that February sales reflect the post-election bump in mortgage interest rates.

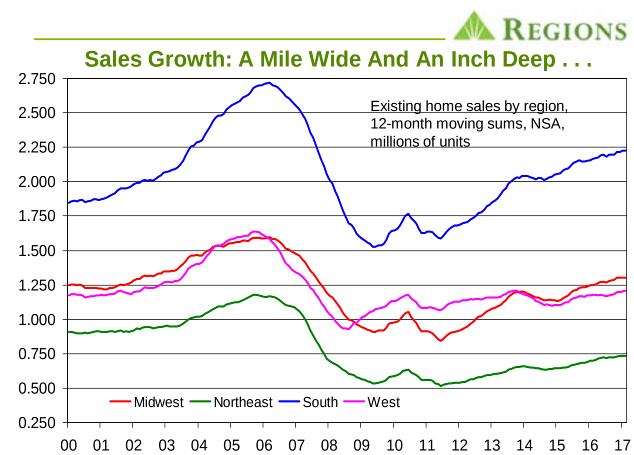
While we don't totally dismiss that possibility, we don't think it is the main culprit, particularly given post-election patterns in mortgage applications. Instead, we continue to point to lean inventories. At 3.8 months, the amount of inventory on the market is considerably below the 6.0 months that would be considered normal. As can be seen in our bottom chart, the last time the months supply metric was this low was at the height of the frenzied pre-recession market. And, while listings did rise between January and February, which is in keeping with typical seasonal patterns, listings are nonetheless down on a year-on-year basis for the 21st consecutive month. Indeed, the number of listings this February is the lowest of any February in the life of the NAR data.

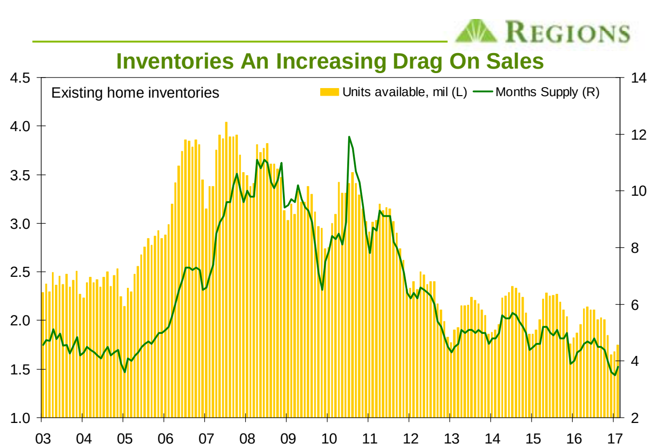
Other metrics illustrate tight market conditions. The median days on market for homes sold in January was 45 days, down from 59 days in January 2016, and 42 percent of the homes sold in February were on the market less than a month. That also harkens back to the height of the pre-recession market, though again the underlying drivers could not be more distinct, i.e., a credit-fueled buying frenzy versus what has become increasingly competitive bidding on limited supplies. This is reflected in the 7.7 percent year-on-year increase in the median existing home sales price. As we routinely note, repeat sales indices, such as the CoreLogic HPI that we follow, are a better gauge of price appreciation, and the various indices all indicate faster price appreciation over the past several months. This rapid price appreciation is acting as an impediment to first-time buyers, who accounted for 32 percent of all sales in February, well below the roughly 40 percent share we'd see in a more normal market.

It is also interesting to note that distress sales continue to account for an elevated share of all existing home sales – seven percent in each of the past three months. In a normal market that share would be closer to three percent, but even with this higher than normal flow of distress properties, overall inventories remain notably lean.

We believe demand remains healthy but worry that higher mortgage rates along with rapid price appreciation may take a toll. For now, though, it is lean inventories that make us question how much upside there is for existing home sales in 2017.







Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com