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April Existing Home Sales: Spring Selling Season Starts With A Whimper

- Existing home sales fell to an annualized rate of 5.570 million units in April from March's (revised) sales rate of 5.700 million units.
- Months supply of inventory stands at 4.2 months; the median existing home sale price rose by 6.0 percent on a year-over-year basis.

Sales of existing homes fell to an annual rate of 5.570 million units in April, a bit below our forecast of 5.590 million units and even further below the consensus forecast of 5.640 million units. We'll say the same thing now we said in our discussion of the heady March sales number – the demand side of the housing market is just fine, but the supply side is where the issues are. While listings of existing home sales rose in April, the increase was much smaller than is typical for the month and, at 4.2 months, the months supply metric remains well below the 6.0 months consistent with a balanced market. As was the case with new home sales, lofty March existing home sales numbers gave way to soft April sales numbers, but neither did anything to change our view of the housing market.

As we routinely note, the not seasonally adjusted data tell the true story behind the housing market data. On a not seasonally adjusted basis, there were 449,000 existing home sales in April, well below our forecast of 471,000 units. That our call was much closer on the headline, i.e., seasonally adjusted and annualized, sales number reflects the fact that the seasonal adjustment factor was much more generous than our forecast. We noted in our weekly *Economic Preview* that this year's late Easter injected added uncertainty on this front. That, however, is just noise, and the real story is that raw sales fell between March and April. As seen in our middle chart, this has never happened in the life of the data which, in their current incarnation, go back to 1999. April's decline, however, must be put in the context of the 44.4 percent increase, month-to-month, seen in March, the largest March increase on record. This, at least as we see it, is where much of the confusion lies when it comes to interpreting the housing market. There were many analysts who took the March sales number as evidence that home sales, new and existing, had kicked into a higher gear. To take that position, however, one had to be completely oblivious to the supply constraints that have for some time been acting as a drag on sales, and also ignore the extent to which housing market activity was pulled forward into Q1 this year due to what was an atypically mild winter. But, sure enough, one discussion following the release of today's report revolved around the question of whether the housing market has turned. The housing market did not "turn" in April any more than it had turned in March, which is to say not at all, which is, or at least should be, obvious in the inventory data.

As noted above, listings of existing homes for sale rose in April, but it is normal for listings to rise in the month of April. This year's 7.2 percent in listings, however, is much smaller than is typical for an April, and it still leaves inventories down 9.0 percent year-on-year, the 23rd consecutive month in which listings have been down year-on-year. The seasonal patterns inherent in the inventory data can be seen in our bottom chart, but the seasonal top in inventories will be lower this year than last, which in turn was lower than the seasonal top in 2015. Months supply is significantly lower than the 6.0 months we would see in a balanced market, and these short supplies manifest themselves in the speed with which homes are selling once they are listed. The median days on market for homes sold in April was just 29 days, down from 34 days in March and 52 days in December 2016. Another manifestation of lean inventories is the rate of price appreciation. The median existing home sales price was up 6.0 percent, year-on-year, in April but the repeat sales indices, such as the CoreLogic HPI that we follow, are a better gauge of price appreciation than the median sales price, and the various indices all indicate faster price appreciation over the past several months. While robust price appreciation would figure to draw more inventory on to the market, between a far greater share of single family homes on the rental market, fewer distress properties coming back to the market, and many current owners "locked in" by favorable mortgage interest rates, we do not see much relief on the supply side of the market over coming months.

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.

