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August Existing Home Sales: Lack Of Inventory, Fading Affordability Biting Into Sales

- Existing home sales fell to an annualized rate of 5.350 million units in August from July's sales rate of 5.440 million units.
- Months supply of inventory stands at 4.2 months; the median existing home sale price rose by 5.6 percent on a year-over-year basis.

Sales of existing homes fell to an annualized rate of 5.350 million units in August, shy of our below-consensus forecast of 5.390 million units. Notably lean inventories continue to be the main story in the market for existing homes; in addition to acting as a drag on sales depressed inventories are supporting robust house price appreciation which, despite still-low mortgage interest rates, is taking a toll on affordability. There is little to suggest, however, that the inventory picture will change to any meaningful degree any time soon.

Though we cannot quantify the extent to which this is the case in the NAR data, Hurricane Harvey clearly held down sales in the South region (sales were down 5.7 percent on a seasonally adjusted annualized basis in the South, but not seasonally adjusted sales were up 1.4 percent). Keep in mind existing home sales are booked at closing, and Harvey took at least a week of potential closings off line in a very large market – it is not uncommon for closings to be pushed to the last week of any given month. Local realtor data show August sales in the Houston metro area were off by about 25 percent relative to August 2016. While it would seem logical to think closings delayed by Harvey will ultimately occur in subsequent months, the unknown here is the extent to which homes set for closing were damaged/destroyed by Harvey and the extent to which closings will be simply delayed or canceled. In any event, the September data will show a much larger impact, accounting for not only Hurricane Harvey in Texas but also Hurricane Irma in Florida.

On a not seasonally adjusted basis, there were 535,000 existing home sales in August, a bit ahead of our forecast of 528,000 sales. As with much of the other economic data, it is somewhat difficult to properly seasonally adjust the existing home sales data for the month of August. As seen in our middle chart, unlike most months, there is no clear pattern in not seasonally adjusted sales in August. This makes it a bit tricky to interpret the headline sales number, but from the not seasonally adjusted data we know sales were down 0.7 percent year-on-year, and that the running 12-month total of not seasonally adjusted sales stands at 5.525 million units, slightly below the totals for the past two months. Even accounting for the impact of Hurricane Harvey, the trend rate of sales has been flattening out over the past several months, and more than anything this is a reflection of persistently lean inventories.

Listings of existing homes for sale fell to 1.880 million units in August, down 2.1 percent from July and down 6.5 percent year-on-year – August marks the 27th consecutive month in which listings were down year-on-year. That we are now in the part of the year when listings tend to drift lower (the NAR inventory data are not seasonally adjusted) tells us there will be little, if any, relief on the inventory front over the remainder of 2017. And, as we have discussed before, we don't look for much relief over the longer-term given the degree to which single family REITs diverted millions of single family homes to the rental market, the extent to which distress inventories have been significantly pared down (distress sales accounted for 4.0 percent of total sales in August), and what we expect will be rising numbers of current homeowners "locked in" to favorable mortgage rates as mortgage interest rates move higher over coming months.

The effects of these lean inventories show up in a number of ways. The median number of days on market before an existing home was sold stood at 30 days in August, meaning that at least 50 percent of all sales were on the market less than a month. The robust price appreciation fueled by healthy demand and lean inventories is reflected in the continued low share of sales accounted for by first-time buyers, which fell to 31 percent in August.

We believe demand remains healthy but worry that rapid price appreciation is taking a toll, which will worsen if mortgage rates move up appreciably. For now, though, it is lean inventories that make us question how much upside there is for existing home sales. Due to the impact of the hurricanes, the data over the next several months will do little to help answer that question.

