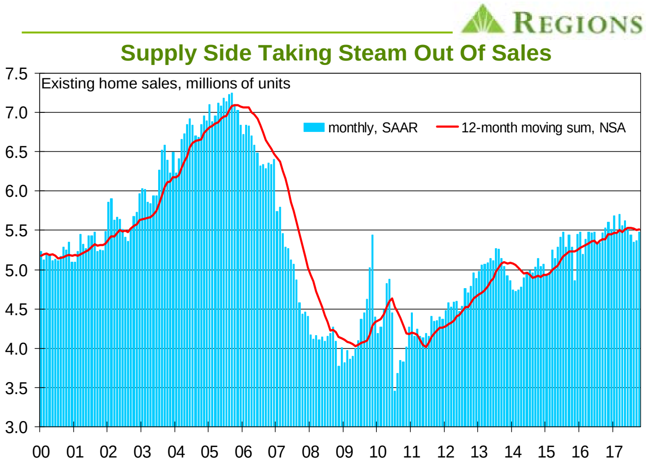
ECONOMIC UPDATE
REGIONS
November 21, 2017

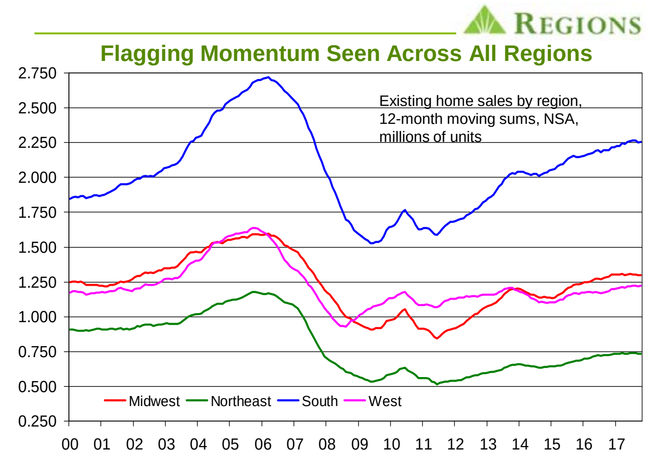
October Existing Home Sales: Supply Side Taking Steam Out Of Sales

- Existing home sales rose to an annualized rate of 5.480 million units in October from September's revised sales rate of 5.370 million units.
- Months supply of inventory stands at 3.9 months; the median existing home sale price rose by 5.5 percent on a year-over-year basis.

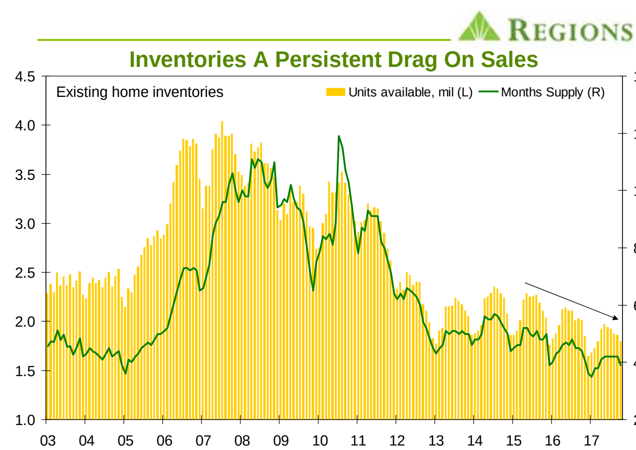
Existing sales rose to an annualized rate of 5.480 million units in October, just shy of our forecast of 5.490 million units but ahead of the consensus forecast of 5.410 million units. Still, despite the faster sales rate, the details of the October report make it hard to feel all that good about home sales. Not because of anything even remotely resembling a lack of demand, but instead because of an ongoing supply squeeze that we do not see loosening any time soon. A further decline in listings of existing homes for sale in October leaves the months supply metric at 3.9 months, far below what would be consistent with a balanced market, and persistently lean inventories continue to support robust price appreciation. Healthy job and income growth coupled with still favorable mortgage interest rates are supporting demand for home purchases, but without meaningful growth in inventories sales will be more or less range bound over coming quarters.

On a not seasonally adjusted basis, there were 458,000 existing home sales in October, pretty much in line with our forecast of 459,000 sales. Our forecast assumed sales in the South region would be fairly strong, as closings put off in August and September due to the hurricanes were made up for in October – existing home sales are booked at closing rather than the signing of the sales contract. This was the case, though there is likely more catching up to do in Florida which should provide modest support for November sales. As our regular readers know, we view the running 12-month sum of not seasonally adjusted sales as the most meaningful gauge of underlying trends in residential construction and home sales. As of October, the 12-month sum of unadjusted sales stood at 5.514 million units, down from 5.529 million units seen in both June and July of this year. The question now is whether the June/July total will mark a cyclical peak. As seen in our middle chart, the running 12-month sum of sales has turned downward, even if only slightly so, in the Midwest, Northeast, and South regions and has flattened out in the West. To be sure, with sales in the South still, at least to some extent, impacted by the hurricanes, it is far too soon to concede we've passed a cyclical peak – the South after all typically accounts for over 40 percent of all existing home sales. That said, even as sales in the South region normalize, it is hard to see sales doing anything but slowly grinding higher over coming months.





We've said for some time now the overriding storyline in the housing market is the relative lack of supply, and our bottom chart makes our point abundantly clear. As our forecast anticipated, listings fell in October to 1.800 million units, the lowest ever for the month of October and leaving listings down 10.5 percent year-on-year – the 29th consecutive month in which listings were down year-on-year. This year is the third straight year in which the seasonal top in listings (the NAR inventory data are not seasonally adjusted) has been lower than the prior year's, and contrary to the expectations of many analysts that the year-on-year declines would get progressively smaller as this year wore on, the opposite is turning out to be the case. Another sign of the dearth of listings is that the median time on market for homes sold in October was 34 days, down from 41 days last October.



One implication of persistently lean inventories is faster price appreciation than would otherwise be the case. The median sales price was up 5.5 percent year-on-year, making October the 68th consecutive month of year-on-year increases. While the median sales price in any given month is sensitive to the mix of sales, the details of the data show sales being increasingly concentrated in the higher price ranges, and the various repeat sales price indexes, such as CoreLogic, that we see as a better reflection of price trends, continue to show robust price appreciation. As this continues to be the case, the danger is that more and more prospective buyers, particularly first-time buyers, get priced out of the market, and a meaningful increase in mortgage rates would heighten this downside risk to sales.

We continue to see the demand side of the market as healthy and, concerns over pricing notwithstanding, expect this to remain the case. At the same time, we expect the bigger story to be persistently lean inventories continuing to act as a material drag on sales.

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