

ECONOMIC UPDATE



REGIONS

February 21, 2018

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January Existing Home Sales: New Year, Same Old Story

- Existing home sales fell to an annualized rate of 5.380 million units in January from December's revised sales rate of 5.560 million units.
- Months supply of inventory stands at 3.4 months; the median existing home sale price rose by 5.8 percent on a year-over-year basis.

While the rest of us may have turned the page on 2017 and moved on to 2018, the housing market is stubbornly clinging to last year's story line. Sales of existing homes fell to an annualized rate of 5.380 million units in January, well below our forecast of 5.520 million units (more on that below) and even further below the consensus forecast of 5.620 million units. Inventories, or lack thereof, remain the main story, however, with the months supply metric at 3.4 months in January and – stop us if you've heard this one before – listings down year-on-year for a 32nd consecutive month. Lean inventories continue to support robust price appreciation, with the median sales price up 5.8 percent year-on-year. This of course is the grand irony in the housing market story – it clearly is a sellers' market, but the problem is sellers are getting harder and harder to find. While we've for some time been on record with our view that there will be little relief on the supply side of the market in 2018, rising mortgage rates are becoming increasingly concerning, and while sales will almost surely bounce off the weak January number, there is little reason to expect that to be a very enthusiastic bounce.

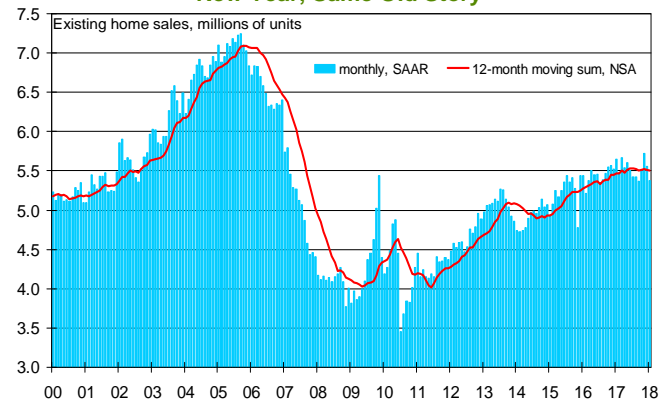
As to our "miss" on our forecast of the headline sales number, our forecast was based on not seasonally adjusted sales of 316,000 units, with an overly generous seasonal adjustment factor, as has been the case with the month of January, turning that into a respectable headline (i.e., seasonally adjusted and annualized) sales number. As it turns out, not seasonally adjusted sales came in at 313,000 units in January, right in line with our forecast, but the seasonal adjustment factor was less magnanimous than expected, hence the notably soft headline number. As our regular readers know, however, we pay little attention to the headline sales number and instead focus on the running 12-month total of unadjusted sales as the more reliable gauge of underlying sales trends. As of January, that 12-month total stands at 5.505 million units but, as seen in our top chart (the red line), the trend rate of sales has slipped over the past several months. As a side note, today's release incorporates revisions to the seasonal adjustment factors used by NAR to derive the headline sales number, dating back to 2015, which is meaningless, at least to us, given the series on not seasonally adjusted sales has not been revised.

As seen in our middle chart, sales have either flattened out or turned down in each of the four broad regions. In light of extraordinarily lean inventories and rising mortgage rates, it is reasonable to ask if we've passed the cyclical peak for existing home sales. We think not, but increases in the trend rate of sales from here will come at a slow and uneven pace. As our forecast anticipated, listings did rise off what in December was the lowest level in the life of the NAR data that go back to 1999, but it is not uncommon for listings to rise in the month of January as sellers begin to prep for the spring sales season. It is well worth noting here that the NAR's inventory data are not seasonally adjusted, and the 4.11 percent increase in listings in January is the largest increase for the month of January since 2003. This of course is no guarantee that we'll see a much more adequately supplied market during the upcoming spring selling season. After all, as noted above, even with January's increase listings were still down year-on-year for a 32nd consecutive month. As such, it won't be a surprise if 2018 marks the fourth consecutive year in which the seasonal peak in listings is lower than that in the prior year, as we illustrate in our bottom chart.

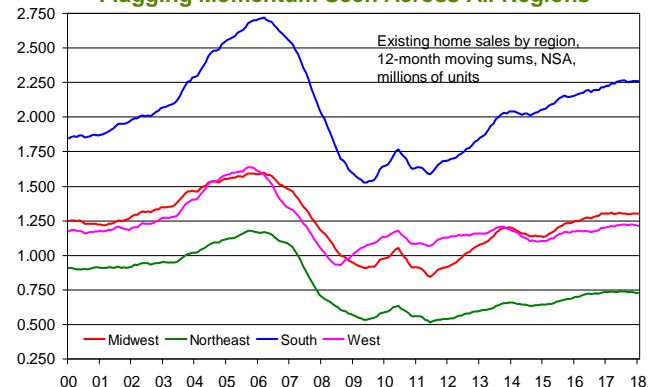
We've frequently offered our thoughts, most recently in our February *Monthly Economic Outlook*, on the factors behind persistently lean inventories of existing homes for sale. At the same time, though, we've remained firm in our belief that the demand side of the market was quite healthy. Our conviction wavers a bit more each time we see mortgage interest rates tick higher. Moreover, since existing home sales are booked at closing, the soft January sales number has very little, if anything, to do with higher mortgage rates, the effects of which will become more apparent in the data over coming months, particularly when added on to rapidly rising prices. If you start with a supply constrained market then add in diminished affordability, it's clear the existing home sales story won't end well.



New Year, Same Old Story



Flagging Momentum Seen Across All Regions



Inventory Shortfall Getting Steadily More Severe

