ECONOMIC UPDATE

REGIONS

August 21, 2019

July Existing Home Sales: Lean Inventories Limit Any Further Upside

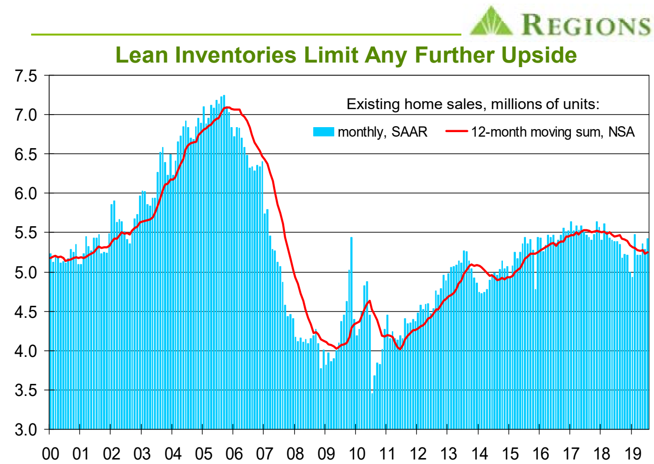
- Existing home sales rose to an annualized rate of 5.420 million units in July from June's (revised) sales rate of 5.290 million units
- Months supply of inventory stands at 4.2 months; the median existing home sale price rose by 4.3 percent on a year-over-year basis

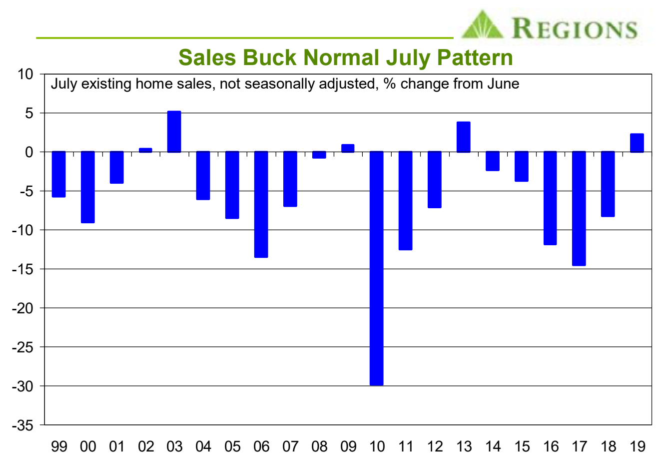
Total existing home sales rose to an annualized rate of 5.420 million units in July, slightly better than our above-consensus forecast of 5.410 million units, while the prior estimate of June sales was revised slightly higher. At the same time, however, listings of existing homes for sale fell in July which, along with the faster sales pace, pushed the months supply metric down to 4.2 months. The median existing home sales price is up 4.3 percent year-on-year. All in all, the report on July existing home sales affirms what has long been our take on the housing market – the demand side of the marker remains healthy, as would be expected given sharply lower mortgage interest rates on top of a solid labor market and elevated consumer confidence, but persistently low inventories limit any upside for sales regardless of how much further mortgage interest rates may fall. Moreover, with the inventory data having gone the wrong way over the past two months, there may be far less mileage to be had from lower mortgage rates than many anticipate will be the case.

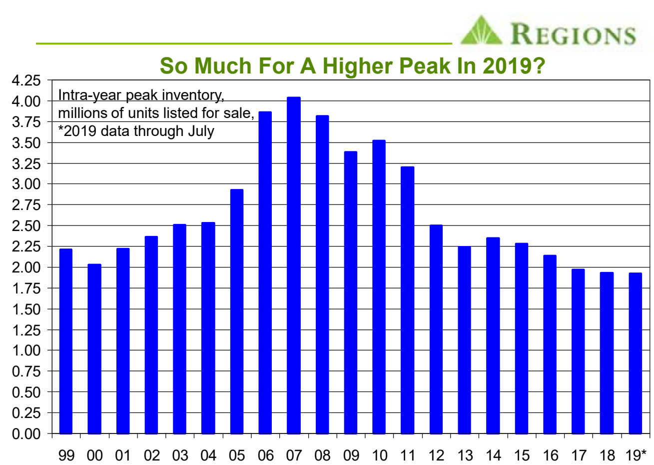
On a not seasonally adjusted basis, there were 540,000 existing homes sold on July, besting our forecast of 532,000, and leaving sales up 2.27 percent from June. As seen in our middle chart, the increase in sales in July is at odds with what we typically see, with this July marking only the fifth time in 21 years that sales have risen in the month of July. On a year-to-date basis through July, existing home sales are down 2.92 percent nationally, and are down in each of the four broad regions. Year-to-date sales are down 3.64 percent in the Midwest, down 1.81 percent in the Northeast, down 0.97 percent in the South, and down 6.51 percent in the West. The West is the region in which inventory constraints are the most binding and affordability issues the most pressing, the two obviously not unrelated. The 540,000 unadjusted sales in July leave the running 12-month total of not seasonally adjusted sales, which we often refer to as the most reliable gauge of underlying sales trends, 5.251 million units, up from 5.234 million units as of June. Still, though turning higher, the running 12-month total has yet to fully recover from the affordability shock of late-2018, which basically crushed both new and existing home sales.

In light of the inventory data for June and July, there is room to question how much further improvement there will be in the trend sales rate. Listings of existing homes for sale fell to 1.890 million units in July, well below what our forecast anticipated. This left the months supply metric at 4.2 months, well below the roughly 6.0 months that would be consistent with a balanced market. That the median days on market for existing homes sold in August was just 29 days, the fourth straight month of fewer than 30 days, is another sign of how tight supply conditions are. Inventories were down 1.56 percent year-on-year in July, a second straight year-on-year decline. This is significant because it follows a ten-month run in which listings were up year-on-year after a 37-month run of listings being down year-on-year. As we noted in our weekly *Economic Preview*, July and August tend to be transition months for existing home inventories – months in which listings tend to be more or less flat after having risen during the Spring sales season and before falling during the latter months of the year. The decline in listings in July is at odds with typical seasonal patterns, which is concerning, and if the we do get the typical late-year decline in listings this year, sales will end the year on a decidedly soft note – for an entirely different reason than they ended 2018 on such a soft note. Additionally, the decline in listings in July puts one of our housing market calls for 2019 in jeopardy. We expected 2019 to end a four-year run (2015 through 2018) in which the intra-year peak in inventories was lower than that of the prior year. Through July, however, the intra-year peak in listings in 2019 was 1.920 million units (in June), below 2018's intra-year peak of 1.930 million units.

Barring a late-year rebound that would defy typical seasonal patterns, inventories will fall short of our expectations in 2019. You can't buy what's not for sale, and however low they go, lower mortgage interest rates can't right the supply side of the market. While we didn't have high hopes, we did see further upside room for existing home sales over the remainder of 2019, but the recent inventory data lead us to question that call.







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