ECONOMIC UPDATE

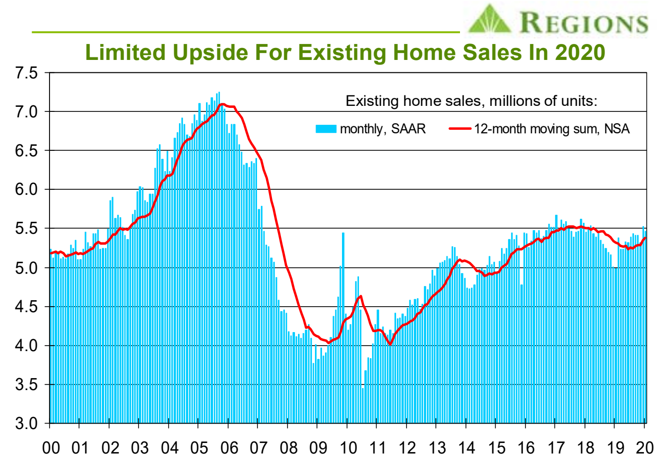
REGIONS

February 21, 2020

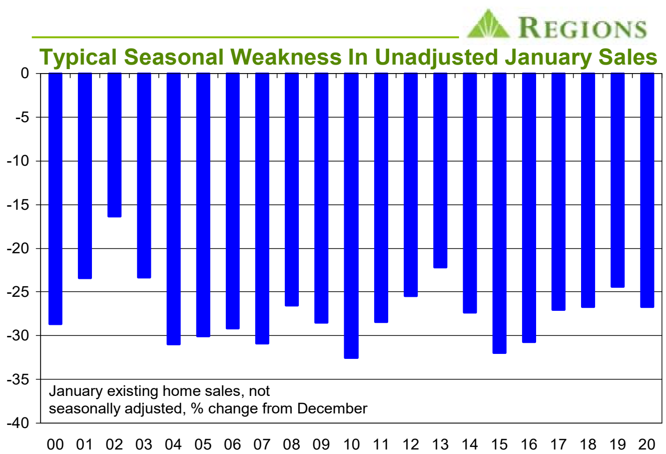
January Existing Home Sales: Limited Upside For Existing Home Sales In 2020

- Existing home sales rose to an annualized rate of 5.460 million units in January from December's (revised) sales rate of 5.530 million units
- Months supply of inventory stands at 3.1 months; the median existing home sale price rose by 6.8 percent on a year-over-year basis

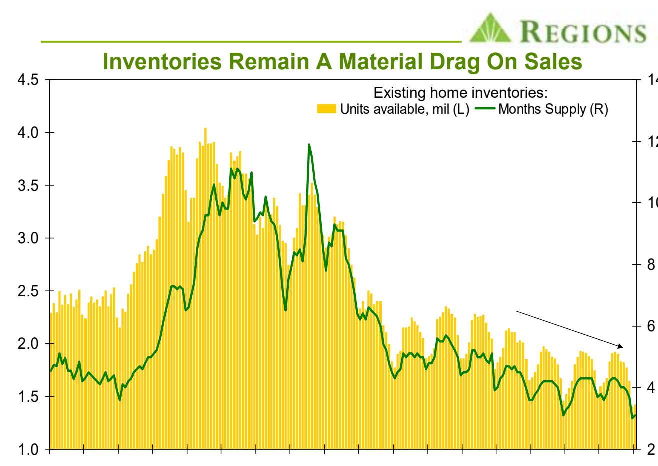
"Robust," "solid," "strong" – these are some of the ways we've seen January existing home sales described in the time that has elapsed since the NAR released the data. In each case, our reply has been "yeah, not so much." Sure, if you go by the headline sales number – seasonally adjusted and annualized sales of 5.460 million units – you might think any of the above terms applies, if not all of them. If instead you go by the not seasonally adjusted data, which is the only thing we pay attention to, you might be inclined to dismiss the above terms as overstating the case. We don't see anything particularly noteworthy, either good or bad, in the unadjusted January sales data. The same clearly cannot be said for the January inventory data. After listings of existing homes for sale slipped to an all-time low of 1.390 million units in December, listings rose to 1.420 million units in January, matching our forecast but nonetheless leaving listings down 10.7 percent year-on-year. This is the eighth straight year-on-year decline in listings, with the declines getting larger as the streak has endured. As if on cue, the latest headline to cross our screen proclaims "existing homes remain solid amid scarce inventory," but, really, it can't be both. It just can't. In any event, however one wants to characterize January sales, our view has not changed – in the absence of a meaningful and sustained increase in inventory, we see little upside for existing home sales in 2020.



On a not seasonally adjusted basis, there were 318,000 existing home sales in January, a bit better than our forecast of 308,000 sales. As our middle chart illustrates, January is typically a weak month for existing home sales – keep in mind that existing home sales are booked at closing, meaning January sales mostly capture sales contracts signed over the final four-to-six weeks of the prior year. This pretty much covers the holiday season, during which home sales, new and existing, tend to drop off sharply. So, the 26.73 percent decline in unadjusted sales from December's level is pretty much in line with the average January decline of 27.24 percent. As such, in any given year, January's headline sales number is dressed up with a very generous seasonal adjustment factor, and that is the case this year. Sure, we get seasonal adjustment, why it is done and how it is done, and the point here isn't the validity of seasonal adjustment, but rather that simply looking at a seasonally adjusted and annualized headline number isn't exactly the best way to make a meaningful inference about the state of existing home sales, or any other metric for that matter. What we find far more meaningful in this case is the running 12-month total of not seasonally adjusted sales. As of January, that total stands at 5.377 million units, little changed from 5.344 million units as of December.



We have argued that, given a healthy labor market and elevated consumer confidence, existing home sales are getting less mileage from low mortgage interest rates than would otherwise be the case were inventories not so lean. As of January, the months supply metric stands at 3.1 months, or, roughly half of the level seen as consistent with the market being in balance. One implication of persistently lean inventories is a faster pace of price appreciation. While this is evident in the NAR's series on the median existing home sales price, up 6.8 percent year-on-year in January, it is also apparent in the faster pace of price appreciation being captured in the repeat sales price data, a much better measure of changes in house prices than is the median sales price metric. This means that, even if mortgage rates don't move appreciably higher, affordability can still become an issue thanks to faster price appreciation. We've identified some of what we think have been key drags on existing home sales inventories, including demographics – in over 55 percent of the owner occupied housing stock, the primary householder is 55 years old or older, and this cohort is not moving in any great numbers. Also, the rise of single family REITs in the wake of the foreclosure epidemic means a greater number of single family homes are in the rental segment of the market than has historically been the case. Neither of these factors will change quickly or soon, which accounts for why we don't hold out much hope for the supply side of the market. As such, while we see the demand side of the market remaining healthy, supply side constraints will continue to weigh on sales through 2020.



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