ECONOMIC UPDATE

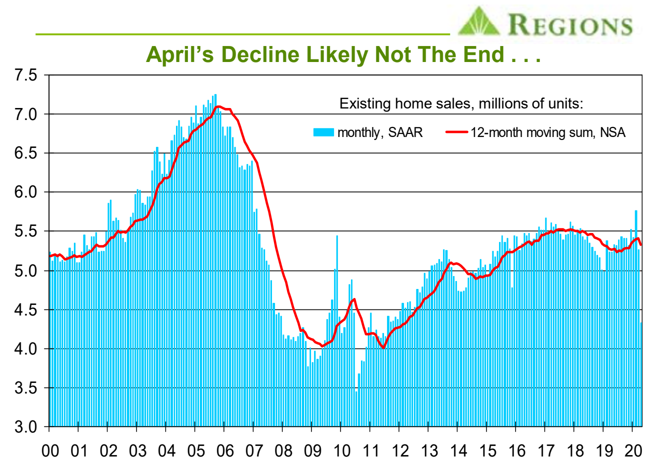
REGIONS

May 21, 2020

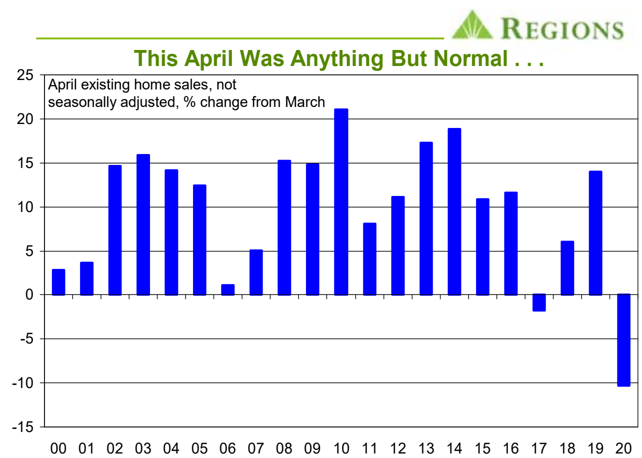
April Existing Home Sales: April's Decline Likely Not The End

- Existing home sales fell to an annualized rate of 4.330 million units in April from March's sales rate of 5.270 million units
- Months supply of inventory stands at 4.1 months; the median existing home sale price rose by 7.4 percent on a year-over-year basis

Existing home sales fell to an annualized rate of 4.330 million units in April, the lowest monthly sales rate since September 2011 and marking the largest monthly decline since July 2010. While April's headline sales rate was well below our forecast of 4.510 million units, the not seasonally adjusted data show sales of 373,000 units, which is pretty much in line with our forecast for unadjusted sales of 377,000 units. Inventories of existing homes for sale fell in April, in stark contrast to typical seasonal patterns, but, given that the decline in the sales rate was of a greater magnitude than the decline in listings, the months supply metric rose to 4.1 months but is still consistent with a materially undersupplied market. To that point, the median existing home sales price rose by 7.4 percent year-on-year basis.

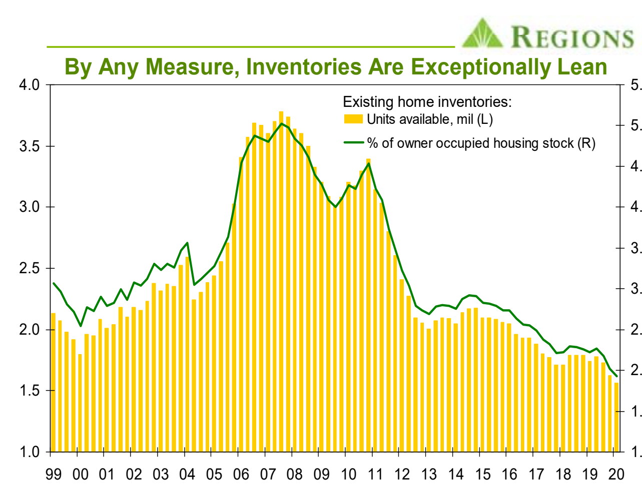


As noted above, on a not seasonally adjusted basis, there were 373,000 existing home sales in April, a 10.3 percent decline from March and an over-the-year decline of 18.2 percent. As seen in our middle chart, it is unusual to see existing home sales decline in the month of April, but, as has been made painfully clear, there was nothing normal about this April. It helps to remember that existing home sales are booked at closing, in contrast to new home sales, which are booked at the signing of the sales contract. That pending home sales were quite weak in March set up the weak print on April existing home sales, but pending home sales were likely also weak in April, when economic activity was greatly restricted over the entire month. As such, it could be that we see a further decline in existing home sales in May, which would be when most closings on contracts signed in April would occur.



In a typical year, April is the month in which we see the largest increase in listings of existing homes for sale as the Spring sales season kicks into high gear (the NAR inventory data are not seasonally adjusted). While our forecast anticipated an increase in listings in April, it would have been considerably smaller than the typical increase for the month of April. Even that, however, proved too ambitious, as listings declined by 1.3 percent, the first April decline since 2004. Moreover, this leaves inventories of existing homes for sale down 19.7 percent year-on-year, the 11th consecutive month in which listings were down year-on-year. While the demand side of the market has clearly taken a hit from the damage done to the labor market, impaired income flows, and battered consumer confidence, the robust growth in applications for purchase mortgage loans suggests those still confident in their job and income prospects are taking advantage of still-favorable mortgage interest rates. So, while the overall level of home sales may be lower, it is still the case that extraordinarily lean inventories are acting as a drag on sales.

We illustrate our point in our bottom chart, scaling inventories of existing homes for sale to the size of the owner occupied housing stock. The falling turnover rate was an established trend well before the COVID-19 virus, but the virus and its after-effects may well reinforce this trend, meaning that the market is likely to remain undersupplied for some time to come. To our point about demand, however, it is worth noting that in April, the median days on market for existing homes for sale fell to 27 days from 29 days for March sales. One implication is that the pace of house price appreciation has picked up. While this is apparent in the data on median existing home sales prices, the various repeat sales price indexes are a better measure and show a pick-up in the pace of price appreciation. It is important to note that the drop-off in transactions activity does not mean we are seeing panicked selling at fire sale prices, it just means fewer houses are trading.



As noted above, the robust rebound in applications for purchase mortgage loans suggests that as economic activity opens back up, home sales should begin to increase, even if not to pre-virus levels. We'll see that sooner in new home sales, which we expect will increase in May, than we will see it in existing home sales, meaning the May data on pending home sales will take on added significance. This, however, is simply a matter of timing, and the reality is that lean inventories will remain a material drag on existing home sales even after the effects of the COVID-19 virus fade from the economic data.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com