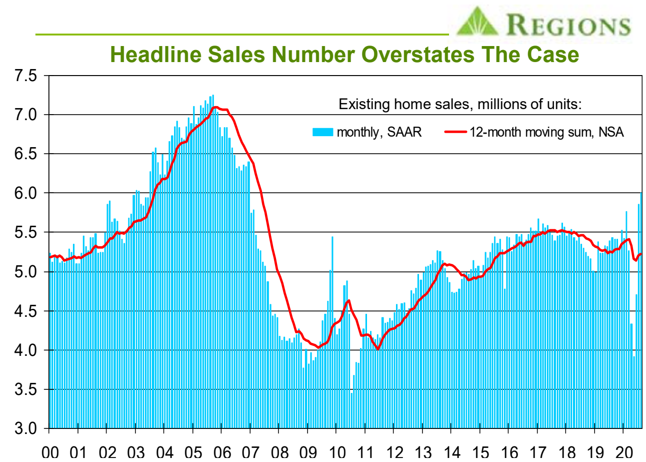
ECONOMIC UPDATE
REGIONS
September 22, 2020

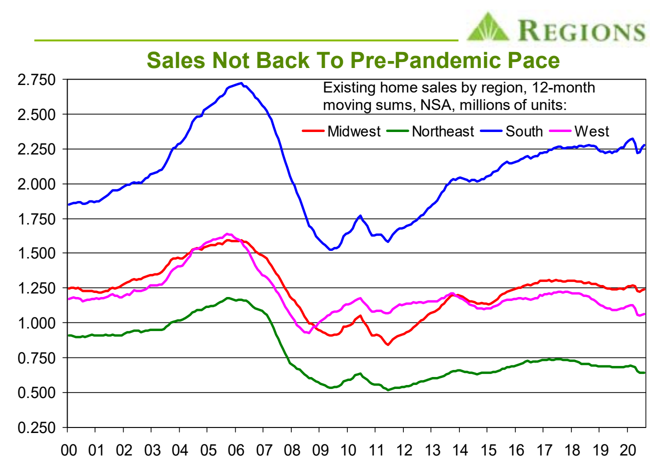
August Existing Home Sales: Not Buying The Headline Hype

- Existing home sales rose to an annualized rate of 6.000 million units in August from July's sales rate of 5.860 million units
- Months supply of inventory stands at 3.0 months; the median existing home sale price rose by 11.4 percent on a year-over-year basis

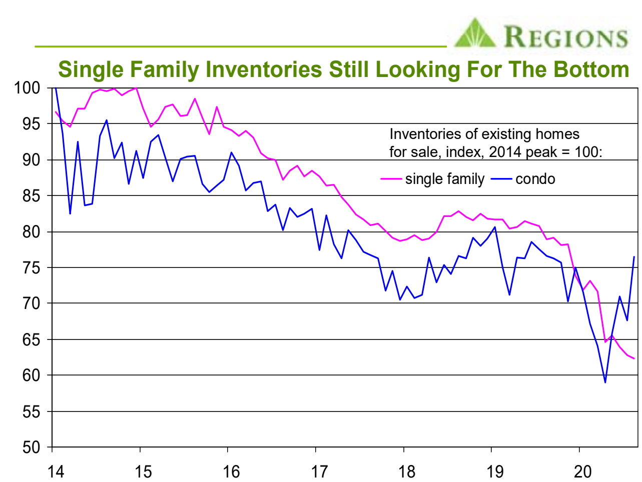
Total existing home sales rose to an annualized rate of 6.000 million units in August, shy of the consensus forecast of 6.060 million units but topping our forecast 5.910 million units. On a not seasonally adjusted basis, however, existing home sales slipped to 561,000 units in August, falling short of our forecast of 579,000 units; unadjusted sales fell 6.0 percent from July, a larger decline than our forecast anticipated. That unadjusted sales fell short of our forecast while the headline sales number topped our forecast simply means the seasonal adjustment factor applied by NAR was more generous than what we incorporated into our forecast of the headline sales number, which in the grand scheme of things means nothing at all. Okay, we take that back, what it does mean is that we'll see, and indeed are already seeing, a rash of headlines touting August's "sizzling" sales pace and welcoming the fastest monthly sales pace since December 2006, so there's that. Here's one indication of the extent to which seasonal adjustment boosted the headline sales number – on a year-on-year basis, not seasonally adjusted sales were up 5.45 percent, while the seasonally adjusted annualized sales rate was up 10.50 percent. Though the seasonally adjusted annualized sales rate is the number that gets reported and the number upon which each month's new housing market narrative is spun around, our focus remains squarely on the patterns in the not seasonally adjusted data. If you're wondering why it matters, ask yourself how the "fastest sales rate since December 2006" squares with inventories bumping around an all-time low. The short answer is that it doesn't, which can be seen more clearly in the unadjusted data.



As we noted in our weekly *Economic Preview*, pending home sales, a gauge of signed sales contracts that typically lead closings by 30-45 days, were down 6.0 percent in July on a not seasonally adjusted basis. This helped shape our forecast of a decline in unadjusted sales in August – recall existing home sales are booked at closing. This stood out to us, as unadjusted sales typically increase in the month of August. So, while the year-on-year gain from last August does show some strength in sales, particularly given that this August had one less sales day than last August, there is just no way around what for some time has been a barrier to stronger growth in existing home sales, no matter how you spin it. A chronic undersupply remains a strong drag on existing home sales. Overall listings of existing homes for sale fell by 0.7 percent in August, contrary to the modest gain in listings typically seen in the month of August, and this left listings down 18.6 percent year-on-year. This was actually a bit better than our forecast, which would have left listings down 21 percent year-on-year, the difference being an increase in condo listings. Single family listings, however, fell to the lowest level in the life of the NAR data in August which, as our bottom chart shows, leaves them almost 40 percent below the prior cyclical peak seen back in 2014.



There are tell-tale signs of extraordinarily lean inventories throughout the August report on existing home sales. For instance, the median number of days on market before a listing went under contract was just 22 days. Additionally, the median existing home sales price hit an all-time high $310,600 (not seasonally adjusted) in August, reflecting a year-on-year increase of 11.41 percent. We've often been dismissive of using changes in the median sales price as a gauge of price trends, as the median price will be impacted by the mix of sales across price points. This is why we tend to favor repeat sales price indexes, such as the CoreLogic HPI, as better indicators. But, what we are seeing from a number of different data sources is that price appreciation is picking up across all price points, which helps account for the faster year-on-year growth in the median sales price. This also suggests that the repeat sales price indexes will show a faster pace of price appreciation in coming months.



This gets us back to what is becoming our primary concern for both new and existing home sales, which is that the boost to affordability provided by low mortgage interest rates is rapidly being negated by such robust house price appreciation. This is what strong demand coupled with lean inventories buys you. So, even if you take the August headline existing home sales number at face value, which we do not, the inventory data should tell you that August's "sizzling" sales pace cannot be sustained, low mortgage interest rates or not.

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