ECONOMIC UPDATE

REGIONS

October 22, 2020

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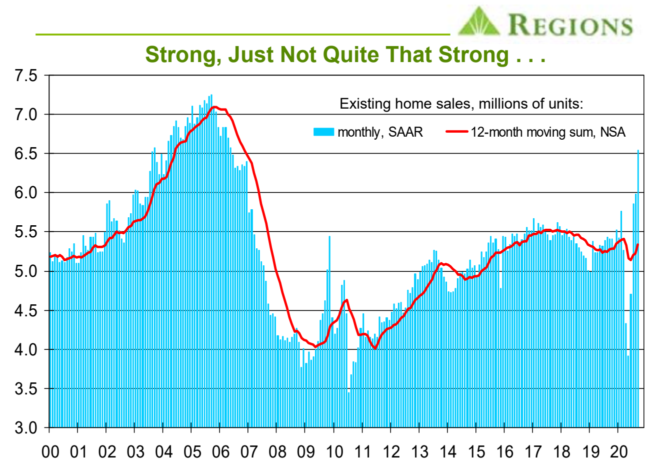
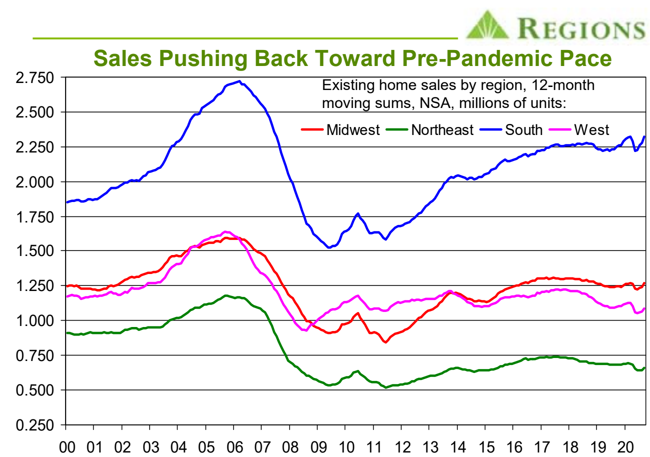
September Existing Home Sales: Strong, Just Not Quite That Strong

- Existing home sales <u>rose</u> to an annualized rate of 6.540 million units in September from August's (revised) sales rate of 5.980 million units
- Months supply of inventory stands at 2.7 months; the median existing home sale price <u>rose</u> by 14.8 percent on a year-over-year basis

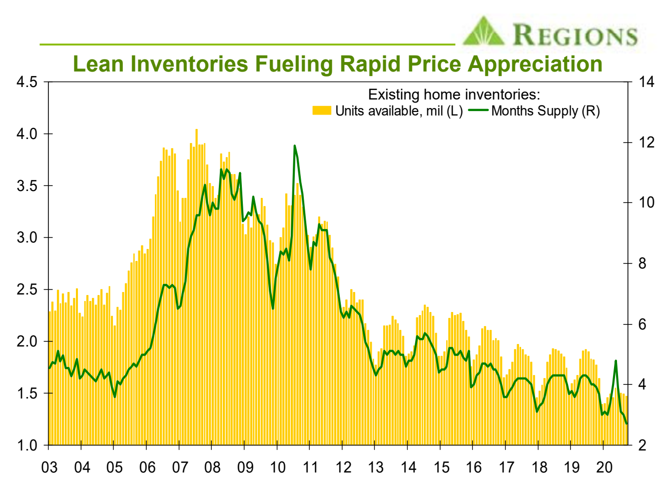
Total existing home sales rose to an annualized rate of 6.540 million units in September, easily besting our above-consensus forecast of 6.360 million units and marking the fastest monthly sales rate since May 2006. It takes nothing from what was a strong month for sales to note that the "headline" sales rate to some degree overstates the case. As always, we're much more interested in the unadjusted data, and on a not seasonally adjusted basis, there were 560,000 existing home sales in September, unchanged from August. If "unchanged from August" doesn't strike you as being particularly strong, keep in mind that September has historically been a seasonally weak month, and unadjusted sales typically decline between August and September. That sales were unchanged from August makes this a stronger than typical September, which is reflected in the "headline," i.e., seasonally adjusted and annualized sales number. We can't think of a more apt way to illustrate that point than by noting that unadjusted sales were 560,000 units in both August and September, but that same base yields seasonally adjusted annualized sales rates of 5.980 million units for August and 6.540 million units for September. Make of that what you will, but this is another illustration of why our focus is always squarely on the trends not seasonally adjusted data and what we think to be the most meaningful gauge of underlying sales trends, i.e., the running 12-month total of not seasonally adjusted sales. As of September, that total stands at 5.337 million units, still well below the recent peak of 5.416 million units in March.



No matter which measure of sales you want to go with, however, the relevant question is the same –in the absence of a meaningful increase in inventories, how much more upward room can there be for existing home sales. Listings of existing homes for sale fell by 1.3 percent in September. A decline in listings in September is in keeping with normal seasonal patterns, but what makes this year's decline stand out is that it comes off of what was already an extraordinarily low base, as exhibited in our bottom chart. At 2.7 months in September, the months supply metric fell to the lowest on record in data going back to 1982. We have been asked more than a few times over the past few months how sales can be so strong if inventories are really this low. It helps to recall that the NAR inventory data are not seasonally adjusted, so the proper comparison is not between the unadjusted inventory number and the seasonally adjusted annualized sales rate, it is between the unadjusted figures for both listings and sales. September's decline was a bit smaller than our forecast anticipated, and leaves listings down 19.2 percent year-on-year.



Lean inventories are acting as a drag on sales and as an accelerant for price appreciation. The median existing home sales price was up 14.8 percent year-on-year in September, the largest such increase since October 2005. We often downplay the significance of changes in the median sales price, as it is sensitive to changes in the mix of sales across price ranges. Over recent months, however, changes in the median sales price have become a more fitting gauge of price pressures, as lean inventories across have boosted prices across all price points. This is quite different than a change in the median sales price caused by sales of in the highest price ranges accounting for a larger share of overall sales in a given month. The faster pace of price appreciation can also be seen in the various repeat sales price indexes, which show price appreciation has accelerated sharply across a wide swath of markets, including many not typically prone to bouts of rapid price appreciation. Another indication of just how lean inventories are is that the median number of days on market before a sales contract was stuck fell to 21 days in September, which is the lowest in the life of the NAR data. While homebuilders are benefitting from the paucity of existing homes for sale, they are facing their own constraints on production, which in turn is fueling price pressures on new homes.



The tendency seems to be for people to assume low mortgage rates render home sales impervious to price appreciation, which is of course not the case. While low mortgage rates do provide a buffer that helps preserve affordability, the reality is that price appreciation can, if sustained, quickly whittle that buffer down to the point that affordability constraints begin to eat away at demand. We may not be at that point right now, but we may not be far from it.

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