ECONOMIC UPDATE

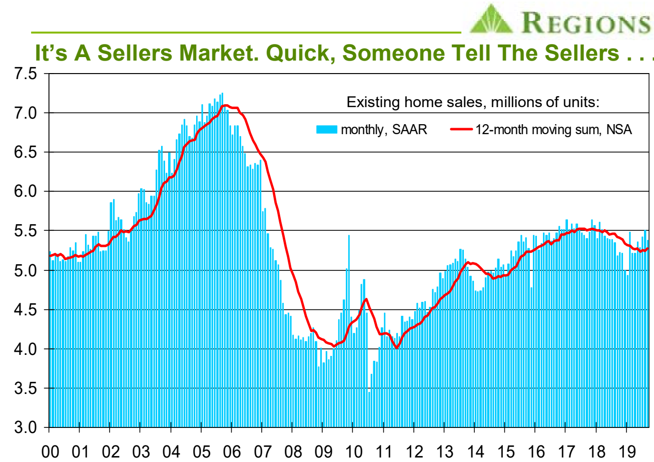
REGIONS

October 22, 2019

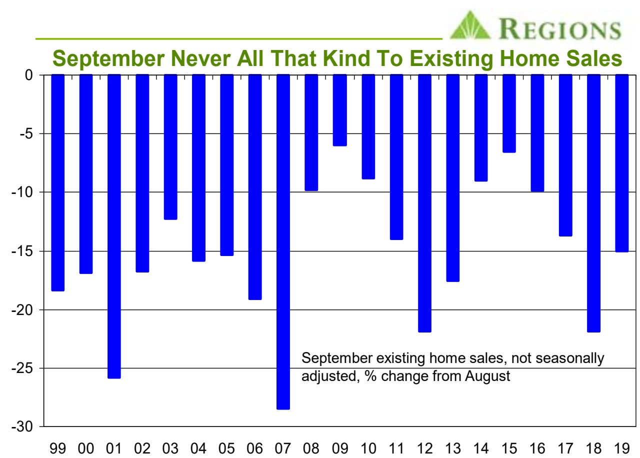
September Existing Home Sales: It's A Sellers' Market. Quick, Someone Tell The Sellers . . .

- Existing home sales fell to an annualized rate of 5.380 million units in September from August's (revised) sales rate of 5.500 million units
- Months supply of inventory stands at 4.1 months; the median existing home sale price rose by 5.9 percent on a year-over-year basis

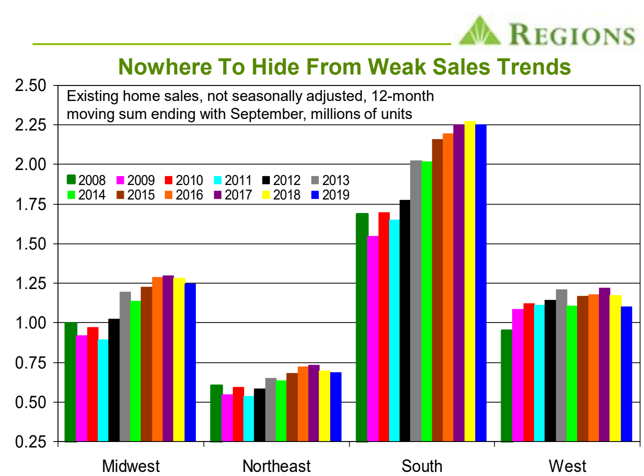
If it's a sellers' market but the sellers don't seem to know that it's a sellers' market, then is it really a sellers' market? That's a question for bigger and better minds than ours, but it does seem worth pondering in light of the NAR's report on September existing home sales. Total existing home sales slipped to a seasonally adjusted annualized rate of 5.380 million units in September, just above our forecast of 5.360 million units but well short of the 5.450 million unit sales rate the consensus expected. August sales were revised slightly higher, with an annual sales rate of 5.500 million units, the highest monthly sales rate since March 2018. The report on September existing home sales is being widely panned as a disappointment, with the drop-off in sales attributed to rising prices by more than one analyst we've heard weigh in. Sure, the median existing sales price rose by 5.9 percent year-on-year, the largest such increase since January 2018, which follows a 5.0 percent increase in August. Aside from the fact that changes in the median sales price are not the best gauge of price trends, attributing a weak September headline sales number to higher prices misses the relevant point, which is that to the extent there is upward pressure on prices, that stems from what remain notably low inventories, which we've for some time now have argued have been a punishing weight on sales amidst the backdrop of healthy demand-side fundamentals and, more recently, low mortgage interest rates. We've argued that in the absence of a meaningful increase in inventories, there would be far less mileage to be had from lower mortgage rates than many anticipated would be the case.



The last two reports on existing home sales perfectly illustrate a point we make repeatedly, which is that the headline sales number in any given month is relatively meaningless to anyone other than the headline writers. Rather, if you want to understand what's going on in the housing market, it is the trends in the not seasonally adjusted data that tell the story. On a not seasonally adjusted basis, there were 452,000 existing homes sold in September, in line with our forecast of 448,000 sales. One factor behind our low-end forecast of headline sales was our counting on not seasonally adjusted sales conforming to normal seasonal patterns, as was the case. As seen in our middle chart, not seasonally adjusted sales have never risen between August and September in the life of the current data series, and the 15.04 percent decline this September is right in line with the average decline of 15.38 over the 1999-2018 period. Moreover, if typical seasonal patterns continue to hold, not seasonally adjusted sales will decline further in October and November. We have no reason to expect anything different, low mortgage rates notwithstanding, and the path of unadjusted sales will be far more meaningful than whatever the headline sales number turns out to be via the magic of seasonal adjustment. As of September, the running 12-month total of unadjusted sales stands at 5.275 million units, compared to the total of 5.424 million units as of September 2018. As seen in our bottom chart, the running 12-month total, which we see as the most reliable gauge of underlying sales trends, is lower as of September 2019 than was the case as of September 2018 in each of the four broad regions, with the shortfall the most pronounced in the inventory-starved West region.



There were 1.830 million existing homes available for sale in September, a touch higher than our forecast of 1.820 million units but nonetheless down 2.7 percent year-on-year. This makes September the fourth straight month in which listings were down year-on-year, erasing whatever momentum had built up over the prior ten months in which listings were higher on an over-the-year basis. Don't look for any relief in the near term, at least if typical seasonal patterns hold. The period from September through December is one in which listings typically decline on a month-to-month basis as sales activity winds down. That listings fell in both July and August, i.e., ahead of the typical seasonal decline, is a somewhat discouraging sign of how chronically undersupplied the market remains.



However low they may go or however long they may stay there, lower mortgage interest rates can't right the supply side of the market. Even as the demand side of the market remains healthy, persistently lean inventories cap any upside for existing home sales.

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