ECONOMIC UPDATE
REGIONS
November 21, 2019

October Existing Home Sales: Solid Month For Sales, But Inventories Steal The Thunder

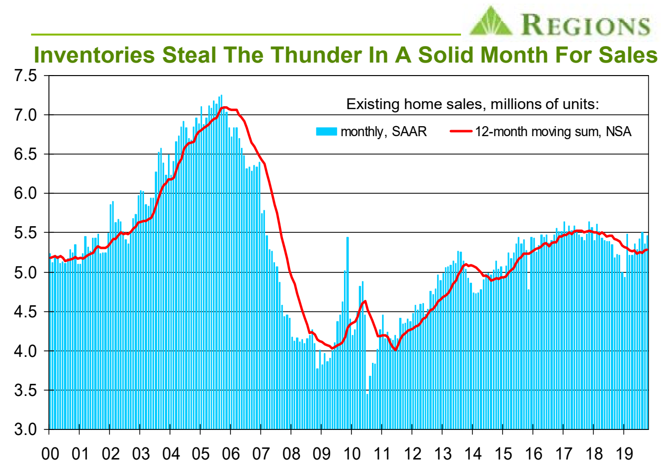
- Existing home sales rose to an annualized rate of 5.460 million units in October from September's (revised) sales rate of 5.360 million units
- Months supply of inventory stands at 3.9 months; the median existing home sale price rose by 6.2 percent on a year-over-year basis

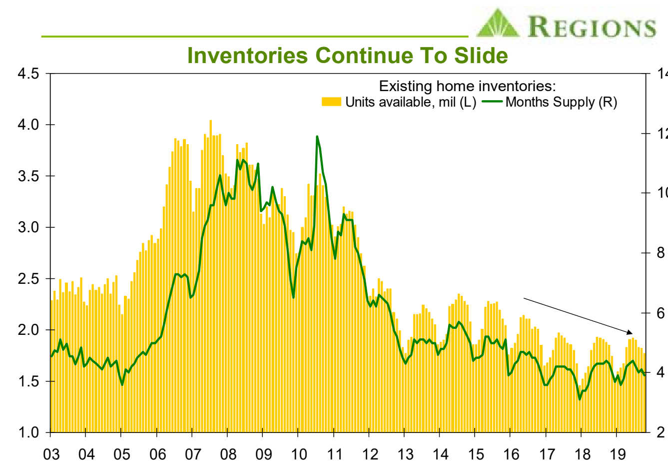
Existing home sales rose to an annualized rate of 5.460 million units in October, below our above-consensus forecast of 5.580 million units, from a revised sales rate of 5.360 million units in September (originally reported as 5.380 million units). On a not seasonally adjusted basis, there were 463,000 existing homes sold in October, a bit shy of our forecast of 472,000 units. Still, unadjusted sales were up by 2.9 percent from September which, given that historically unadjusted sales tend to fall in the month of October, shows October was a solid month for existing home sales, even if slightly less so than we anticipated would be the case. The big story, however, remains inventories, or, the lack thereof. There were 1.770 million existing homes available for sale in October, falling short of our forecast of 1.790 million units, leaving listings down 4.3 percent year-on-year. Indeed, the pace of over-the-year declines in listings is accelerating and, given normal seasonal patterns, the over-the-year declines will be even larger in the November and December data. The months supply metric fell to 3.9 months in October, well below the roughly 6.0 months that would be consistent with a balanced market, and lean inventories continue to support price appreciation. The median existing home sales price was up 6.2 percent year-on-year in October, the largest such increase since June 2017. As we have been noting over recent months, extraordinarily lean inventories of existing homes for sale mean that the housing market is getting less mileage from low mortgage interest rates than would otherwise be the case, and this does not figure to change any time soon.

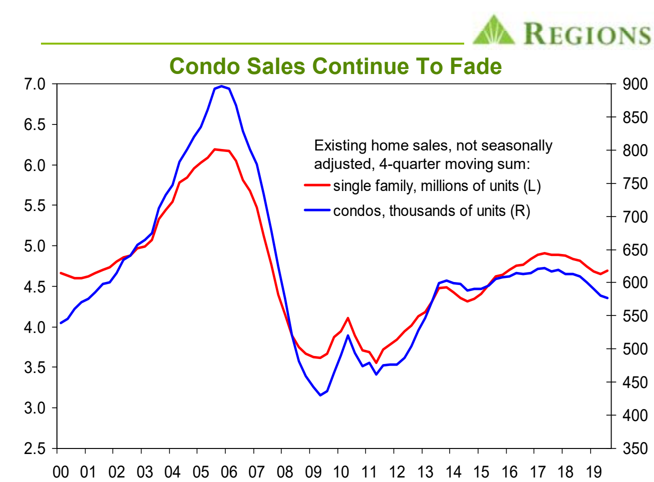
The 463,000 not seasonally adjusted sales yield a 3.8 percent year-on-year increase, and leave the running 12-month total of unadjusted sales, which we see as the best gauge of the underlying sales rate, at 5.290 million units. The trending data continue to be weighed down by the affordability shock of late-2018, when a multi-year high in mortgage interest rates teamed up with a prolonged period of robust price appreciation to do a number on affordability, sending home sales reeling. The timing was a bit delayed for existing home sales, which are booked at closing, meaning the worst of the decline was seen in the December 2018 and January 2019 data. As such, the trending data won't be free of these effects for a few more months. Even so, that inventories remain so lean caps any upside room for existing home sales, despite what remain solid demand-side conditions. On a year-to-date basis, total existing home sales are down 1.2 percent, with sales down 3.7 percent in the inventory-starved West region, down 2.2 percent in the Midwest, down 1.2 percent in the Northeast, and up 0.7 percent in the South.

The decline in sales of condo and co-op units has been more pronounced than the decline in single family units, and the share of total sales accounted for by condo and co-op units continues to sink further from the long-term average. At the same time, the data on construction and sales of new residential units show no meaningful pick-up in condo sales, and no meaningful shift in construction even in the months since mortgage rates tumbled from their late-2018 highs. We had anticipated seeing at least a modest increase in condo activity, particularly given that higher densities could seemingly help offset what in many markets are constraints on buildable single family lots.

Either way, lean inventories will continue to undermine existing home sales over coming months. We are in the time of the year in which inventories (not seasonally adjusted) tend to decline, and over the past few years even the seasonal bounce associated with the Spring sales season has not been as strong as historically had been the case. Obviously a lot can change between now and then, but at present there seems little reason to expect the 2020 Spring sales season to break out of this pattern. It is worth noting that for existing home sales, the direct impact on GDP comes via sales commissions paid to brokers, whereas the direct impact of new home sales is much larger. Still, the indirect effects from existing home sales, such as consumer spending on furnishings, appliances, and home services, are being diminished as lean inventories hold down sales. These inventory constraints will not fade quickly, meaning housing's overall contribution to GDP will remain fairly modest.







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