ECONOMIC UPDATE

REGIONS

December 19, 2019

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November Existing Home Sales: You Can't Buy What's Not For Sale . . .

- Existing home sales fell to an annualized rate of 5.350 million units in November from October's (revised) sales rate of 5.440 million units
- Months supply of inventory stands at 3.7 months; the median existing home sale price rose by 5.4 percent on a year-over-year basis

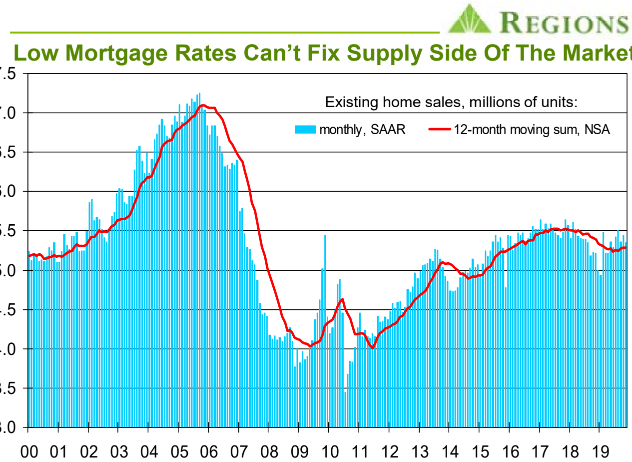
Existing home sales fell to an annualized rate of 5.350 million units in November, below the 5.440 million unit pace we and the consensus expected, while the initial estimate of October sales was revised modestly lower. As has been the case for some time now, the real story of the monthly report on existing home sales is inventory, or, the lack thereof. Listings of existing homes for sale tumbled to 1.640 million units, far below our forecast of 1.670 million units, pushing the months supply metric down to 3.7 months. To put this in perspective, a months supply of around 6.0 months is seen as reflecting balanced market conditions. Persistently lean inventories have fueled steady increases in the median existing home sales price, which as of November is up 5.4 percent year-on-year. While low mortgage interest rates are mitigating the impact of higher prices on affordability, the reality remains that you can't buy what's not for sale. 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.

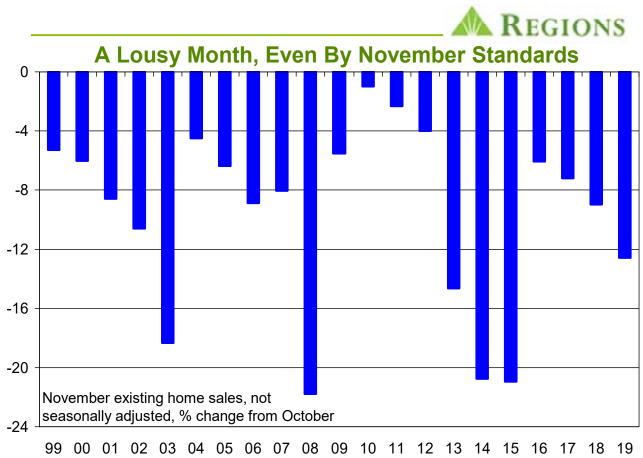
On a not seasonally adjusted basis, there were 404,000 existing home sales in November, well short of our forecast of 424,000 sales. As we show in our middle chart, November is never a good month for existing home sales, but the 12.6 percent decline in sales between October and November is larger than the average November decline of 9.5 percent. It is, however, worth noting that not seasonally adjusted sales in October were stronger this year than is typical for the month of October, making the November comparison even more challenging than is typically the case. Additionally, even with the larger than normal decline on a month-to-month basis, sales were down by just 0.46 percent on an over-the-year basis despite there being one fewer sales day this November compared to last November – on a comparable sales day basis, sales were stronger this November than last November. This points to still-solid underlying demand which continues to be blunted by inventory constraints that are becoming an increasing drag on sales.

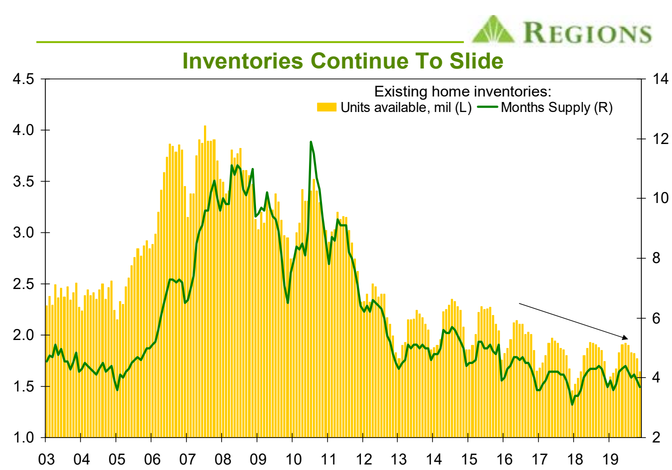
Listings of existing homes available for sale fell to 1.640 million units in November, leaving listings down 7.3 percent from October – a much larger decline than is typical for the month of November – and down 5.8 percent year-on-year. Between mid-2015 and mid-2018, listings fell on an over-the-year basis in 37 consecutive months. When that streak ended, we took it as a hopeful sign that existing home sales would begin to strengthen, but that hope was snubbed out in relatively short order. Not only have listings now fallen on an over-the-year basis in six straight months, but the over-the-year declines are accelerating, which we take as a rather dismal sign for existing home sales over coming months. 2019 will go down as the fifth consecutive year in which the seasonal top in inventories (the NAR's inventory data are not seasonally adjusted) was lower than that of the prior year.

Lean inventories are sustaining house price appreciation. After having moderated in 2018, over-the-year growth in the median existing home sales prices has picked up pace in 2019, with the median sales price up 5.4 percent as of November. The over-the-year increases in the Midwest and West regions have topped the national average, with the Northeast and South regions lagging. True, the median sales price is not the ideal measure of house price appreciation, and repeat sales measures show a more moderate pace of house price appreciation. But, if we are correct that inventory constraints will become more binding over coming months, this will only serve to sustain price appreciation, leaving the demand side of the market increasingly vulnerable to even modestly higher mortgage interest rates.

This is not to say that we expect an affordability shock anywhere near as severe as that seen in late-2018 – we do not. But, when the supply side of the market is as thin as is the case in the market for existing homes, it wouldn't take much of a hit on the demand side to send sales tumbling. While we remain constructive on new home sales, the inventory picture doesn't leave us with much hope for existing home sales.







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