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December Existing Home Sales: Sales Beat To The Upside, Listings Miss To The Downside

- Existing home sales rose to an annualized rate of 5.540 million units in December from November's sales rate of 5.350 million units
- Months supply of inventory stands at 3.0 months; the median existing home sale price rose by 7.8 percent on a year-over-year basis

Existing home sales jumped to an annualized rate of 5.540 million units in December, thumping our forecast of 5.390 million units. Unlike some instances in which the headline, i.e., seasonally adjusted and annualized, sales number is far out of line with expectations, the beat on December existing home sales is genuine as opposed to being the product of seasonal adjustment hijinks. On a not seasonally adjusted basis, there were 434,000 existing home sales in December, well ahead of our forecast of 419,000 sales. Still, while sales beat to the upside, perhaps the bigger story is that inventories missed to the downside. There were 1.400 million existing homes listed for sale in December, leaving supply equivalent to only three months of sales, or, half of what is generally seen as being consistent with a balanced market. This is even lower than our forecast of an inventory of 1.420 million units in December which, as we noted in our *Economic Preview*, would have been an all-time low. Put healthy demand side conditions together with record-low inventories, and the result is increased upward pressure on prices – the median existing home sales price was up 7.8 percent year-on-year in December. Even with still-favorable mortgage interest rates, with lean inventories driving faster price appreciation, affordability constraints at some point come back into play, which is why it seems unlikely that the strong pace of sales seen in December is sustainable.

On a not seasonally adjusted basis, there were a total of 5.344 million existing homes sold in 2019, virtually unchanged from the 5.343 million sales in 2018. Without relief on the supply side of the market, it's hard to see much upside potential for existing home sales in 2020. Our middle chart shows unadjusted existing home sales, with the blue line reflecting average monthly sales in each year. As we routinely note, we pay almost exclusive attention to the not seasonally adjusted data on residential construction and sales, and think it important to understand the normal seasonal patterns in the data when interpreting the seasonally adjusted annualized data that is the basis for reporting on and most discussion of the data. What makes 2019 interesting is that the year got off to such a weak start, which reflects the "affordability shock" of late-2018 that carried into early-2019, and this is clear in the data on single family construction and new home sales as well as in the data on existing home sales. January 2019 was the weakest January for existing home sales since 2015, and the seasonal top in sales in 2019 was the lowest in any year since 2014. As an offset, sales were seasonally stronger than normal over the latter months of 2019, thanks mainly to low mortgage interest rates, and the net result was that full-year 2019 sales were little changed from 2018 sales. For 2019 as a whole, the South was the only region to post an increase in existing home sales, with 2.286 million existing homes sold, up from 2.245 million in 2018. Sales in the Midwest region fell to 1.255 million units in 2019 from 1.269 million units in 2018, sales in the Northeast region fell to 687,000 units from 691,000 in 2018, and sales in the West region fell to 1.116 million units from 1.138 million in 2018.

This gets us back to the point made above, which is that it is hard to see meaningful upside room for existing home sales in 2020 without some relief on the supply side. Though the median sales price is not the best measure of house price appreciation, that December saw the largest year-on-year increase in the median sales price in almost four years is telling, as is the fact that as 2018 came to a close the year-on-year increases in the median sales price were coming in at below 4.0 percent. Though the new homes market can provide some relief from the supply constraints in the market for existing homes, there is clearly a limit as to how much relief given that the new homes market faces its own supply side constraints. It is prospective first-time buyers who are most impacted by these supply side constraints, and this can be seen in the NAR data showing first-time buyers continue to account for a much smaller share of existing home sales than has historically been the case. We have for quite some time been consistent in our view of the housing market, which is that the demand side of the market remains quite healthy but supply side constraints will weigh on sales. As such, home sales are getting less mileage from low mortgage interest rates than would otherwise be the case. This is not likely to change much in 2020.

