

# ECONOMIC UPDATE

 REGIONS

August 21, 2020

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## July Existing Home Sales: Lots Of Records, Little In The Way Of Actual News

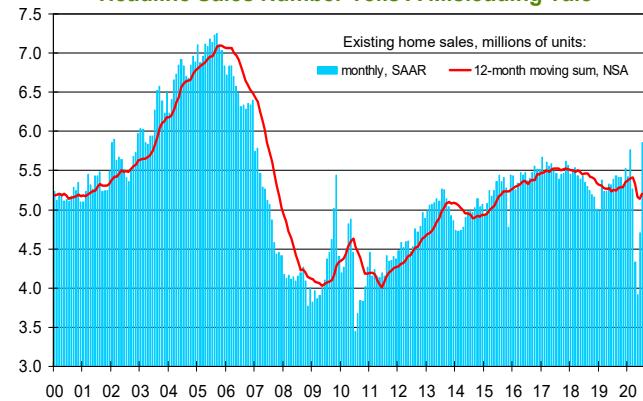
- › Existing home sales rose to an annualized rate of 5.860 million units in July from June's (revised) sales rate of 4.700 million units
- › Months supply of inventory stands at 3.1 months; the median existing home sale price rose by 8.5 percent on a year-over-year basis

July existing home sales fell short of our forecast, July existing home sales topped our forecast. Oh come on, if it can be the best of times and the worst of times at the same time, then existing home sales can fall short of and top our forecast at the same time. Or something like that. In any event, the seasonally adjusted and annualized data show existing home sales of 5.860 million units in July, falling just short of our forecast of 5.910 million units but easily outpacing the consensus forecast of 5.410 million units. This is the highest monthly sales rate since December 2006, though we all know how that story turned out. As for the not seasonally adjusted data, i.e., the data that really matter, there were 597,000 existing home sales in July, better than our forecast of 589,000 units. June's sales rate was revised down slightly, from 4.720 million units to 4.700 million units, and at July's sales rate of 5.860 million units that translates into a 24.7 percent month-to-month increase. This is the largest such increase on record, which to us is totally irrelevant but to many others seems to be a big deal based on the number of headlines we've already seen making that point. If you go beneath the headline sales number, there are actually a lot of "records" in the July data – highest median existing home sales price on record, largest year-on-year percentage increase in the median sales price on record, record-low inventories for the month of July, record-low median days on market. While these may all be records, none of them are actually news, at least to anyone who has been following the data, and they're all kind of related. So, our advice would be to ignore what will surely be countless stories of how record-low mortgage interest rates are fueling a housing market boom and instead listen to what the inventory data are saying, which is that July's sales pace cannot be sustained.

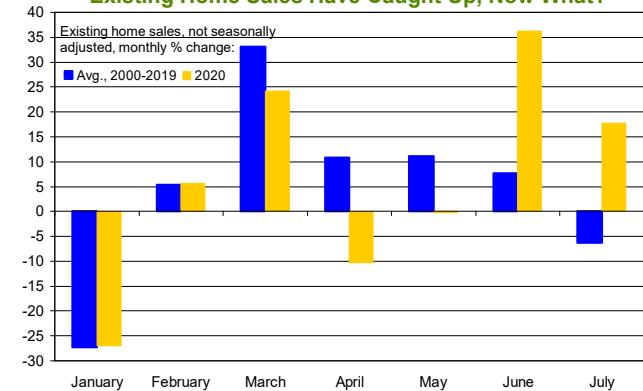
As noted above, on a not seasonally adjusted basis, there were 597,000 existing home sales in July, a 17.8 percent increase from June. We'll make the same point here we made last month – the large monthly increases in sales in June and July must be put in proper context. As seen in our middle chart, while 2020 started out normally enough, at least in the market for existing homes, unadjusted sales in March, April, and May were much weaker than is normal for those months. The shortfall in March in part reflected a worsening inventory situation, but also reflected some closings having been cancelled as the effects of the pandemic began to work their way through the economy. Those effects were much more visible in the April and May data – not seasonally adjusted sales fell in both of those months, contrary to normal historical patterns. As economic activity began to come back online in May, there was a dramatic increase in signed sales contracts, and another large increase in June. These translated into the spikes in June and July closings (existing home sales are booked at closing). With that payback now in the books, gains in existing home sales will be harder to come by going forward, particularly if there is no improvement on the inventory front. To that point, listings of existing homes for sale fell by 2.6 percent in July, leaving them down 21.1 percent year-on-year, the 14<sup>th</sup> consecutive month in which listings were down year-on-year. It is worth noting that some homes sell before the listings go live, or before the NAR picks them up, but that does not change what see as the broader point.

Our premise that the spikes in sales in June and July mainly reflect payback for activity put on hold in prior months will soon be put to the test. On August 27, NAR will release the data on July pending home sales, which will be a key indicator of August existing home sales. While many are expecting a healthy increase in pending home sales in July, we're not so sure. And, we'll caution that July is typically a seasonally slow month for pending home sales, raising the possibility that the seasonally adjusted data could look far stronger than is actually the case. This means that, as always, the unadjusted July data will tell the true story. Our point isn't that the only direction for existing home sales to go from here is down, but simply that the June and July sales data reflect considerable payback, and unless and until there is meaningful improvement on the inventory front, there is limited upside for existing home sales in the months ahead. Sure, it's easier, and perhaps more satisfying, to accept the "low mortgage rates fueling a housing boom" story at face value, but we see that story as being more fiction than fact at this point.

### Headline Sales Number Tells A Misleading Tale



### Existing Home Sales Have Caught Up, Now What?



### Single Family Inventories Still Looking For The Bottom

