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### October Existing Home Sales: Making A Mad Dash At History?

- Existing home sales rose to an annualized rate of 6.850 million units in October from September's (revised) sales rate of 6.570 million units
- Months supply of inventory stands at 2.5 months; the median existing home sale price rose by 15.5 percent on a year-over-year basis

Total existing home sales rose to an annualized rate of 6.850 million units in October, blowing by our forecast of 6.620 million units (the consensus forecast had sales declining to a rate of 6.470 million units). October marks the highest monthly sales rate for existing homes since November 2005, a comparison which, based on our top chart, might easily make one nervous about the state of the housing market. Now is not then, however, and anyone who needs some convincing need only glance at our bottom chart, which shows a critical distinction. Whereas in 2005 inventories of existing homes for sale were climbing to an all-time high, in 2020 inventories are at all-time lows, with a new low each month of late. Inventories of existing homes for sale fell further in October, pushing the months supply metric down to 2.5 months, also an all-time low. Combined with robust demand, including amongst investors, lean inventories are fueling accelerating price appreciation, with the median existing home sales price up 15.5 percent year-on-year. This is something that does make us a bit nervous, in that even without mortgage interest rates moving higher, continued rapid price appreciation will at some point impair affordability. As we've noted, barring a downturn in the broader economy, it is diminishing affordability that we see as the biggest threat to the for-sale segment of the housing market. With meaningful supply constraints in both the new home and existing home segments of the market, we think it is unwise to brush concerns about affordability aside, as we see some doing.

On a not seasonally adjusted basis, there were 573,000 existing homes sold in October, beating our forecast of 552,000 sales, with sales in each of the four broad regions topping our forecast. On a year-on-year basis, unadjusted sales were up were up 24.0 percent in October, which is even more noteworthy given that there was one sales day this October than last – adjusting for the number of sales days, the year-on-year increase is 29.9 percent. As there are no clear seasonal patterns in the historical data for the month of October, the October seasonal adjustment factor is more or less neutral, meaning there is no up or down bias in the headline (seasonally adjusted and annualized) sales number which, as our regular readers know, is not always the case. As we routinely note, we avoid the issue of seasonal adjustment noise by focusing on the running 12-month total of not seasonally adjusted sales as the most meaningful gauge of underlying sales trends, and as of October that total stands at 5.451 million units. To our earlier point about comparisons with history, while October's monthly sales rate is the highest since late-2005, the running 12-month total of unadjusted sales is nowhere near where it was back then, and is indeed still below the post-2007-09 recession high of 5.529 million units seen in July 2017. At the time, we called that as the cyclical top, citing inventory constraints. Little did we know back then that more than three years later, we'd still be citing inventory constraints.

Listings of existing homes for sale fell by 2.7 percent in October, a larger than normal decline for the month of October, which leaves them down 19.8 percent year-on-year (our forecast had listings down 18.6 percent year-on-year). Keep in mind that we are in a seasonally weak time of the year for listings, which means further declines are likely in November and December. It also helps, when trying to square a blistering sales rate with further declines in inventories, that the NAR inventory data are not seasonally adjusted, so the proper sales-to-listings comparison uses not seasonally adjusted sales. Either way, inventories are turning at an exceptionally rapid rate, with the median number of days on market before a sales contract was struck holding at 21 days in October, matching September as the lowest on record. Another sign of a frenzied sales pace is that cash sales accounted for 19 percent of all sales in October. While this may seem at odds with mortgage interest rates being where they are, not having to rely on securing financing makes a buyer much more attractive to many sellers.

As we've noted for some time, we remain constructive on the demand side of the market but do worry that affordability constraints may begin to eat away at demand. We do not believe that we are that point right now, but we may not be far from it.

