

# ECONOMIC UPDATE

 REGIONS

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## February Existing Home Sales: Will Listings Spring Back To Save The Spring Sales Season?

- › Existing home sales fell to an annualized rate of 6.220 million units in February from January's (revised) sales rate of 6.660 million units
- › Months supply of inventory stands at 2.0 months; the median existing home sale price rose by 15.8 percent on a year-over-year basis

Total existing home sales fell to an annualized rate of 6.220 million units in February, below our well below-consensus forecast of 6.270 million units, while the initial estimate of sales in January was revised slightly lower. On a not seasonally adjusted basis, there were 364,000 existing home sales in February, short of the 371,000 sales our forecast anticipated. Listings of existing homes for sale stubbornly refused to budge in February, marking a rather inauspicious start to the spring sales season as in any given year February is the month in which listings begin to ramp up. While unchanged from January, listings are down 29.5 percent year-on-year; our forecast anticipated a modest increase in February that would have left listings down 26.7 percent year-on-year. In another sign of how tight the market is, the median days on market before coming under contract fell to an all-time low of 20 days. The median existing home sales price was up 15.8 percent year-on-year, which in part reflects the mix of homes sold but which also reflects the combination of lean inventories and intense competition amongst prospective buyers. Keep in mind that existing home sales are booked at closing, so most February closings would reflect sales contracts signed from around mid-December through January, or, before mortgage rates had risen meaningfully. Whether, or to what extent, higher mortgage rates take the steam out of demand will bear watching in the months ahead, as we do not look for material relief on the supply side of the market until the latter part of this year.

As noted above, on a not seasonally adjusted basis, there were 364,000 existing homes sold in February, a 0.6 percent decline from January. Not only is this weak for the month of February, but it is also only the third time in the life of the current series in which unadjusted sales have fallen in the month of February. Between 2000 and 2020, the average February increase in unadjusted sales was 5.3 percent. While notably lean inventories no doubt are the primary culprit, we think that the unusually harsh winter weather that battered much of the nation in February also played a role, particularly in the South region. Keep in mind that the South region includes Texas, and accounts for over 43 percent of all existing home sales. The South is the only region in which February closings underperformed January pending home sales – a gauge of signed sales contracts which tend to lead closings by 30-45 days. It could be that the severity of the weather and associated utilities outages created a backlog of closings that resulted in some being pushed back into March. The Midwest and Northeast regions may have been similarly impacted, but not to near the same extent as the South region. NAR made no mention of any such effects, but we suspect they played a hand in an atypically weak February.

We'll know soon enough, as if we are correct on this point there will be payback in March closings in the South region. That, however, would merely be a matter of timing. Of much more significance is the lack of inventory. Listings were unchanged in February, in contrast to the average February increase of 4.9 percent over the 2000-2020 period. Again, February is the month in which inventories typically begin to rise ahead of the spring sales season, and that listings did not budge this February does not bode well for this year's sales season. While the median days on market fell to 20 days this February, compared to 36 days for sales that closed in February 2020, 74 percent of the homes closed on in February were on the month for less than a month. In a market this competitive, cash offers enable prospective buyers to stand out to sellers, and all-cash transactions accounted for 22 percent of all sales closed in February, up from 19 percent in January and 20 percent in February 2020. Clearly most prospective buyers do not have the means for all-cash transactions, instead pushing up prices on offers, and while there are no firm statistics on above-asking price offers, anecdotal reports suggest they are increasingly becoming the rule rather than the exception.

Between higher mortgage interest rates, higher home prices, and higher down payment requirements, affordability is coming under greater pressure, particularly for first-time buyers. Without relief on the supply side, which we do not expect until the second half of 2021, it will be a much more challenging market in the months ahead.

