ECONOMIC UPDATE

REGIONS

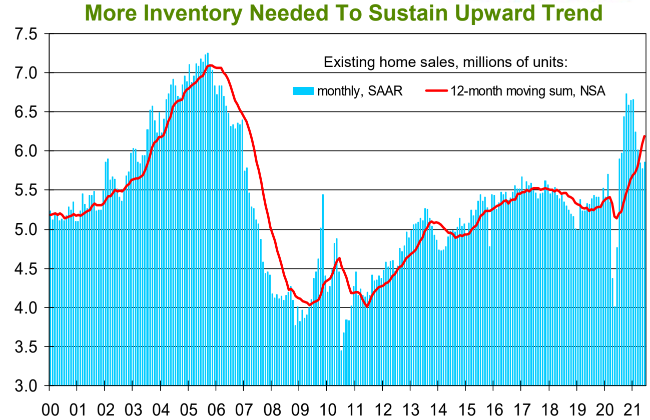
July 22, 2021

June Existing Home Sales: Supply, Affordability Remain Challenging

- Existing home sales rose to an annualized rate of 5.860 million units in June from May's revised sales rate of 5.780 million units
- Months supply of inventory stands at 2.6 months; the median existing home sale price rose by 23.4 percent on a year-over-year basis

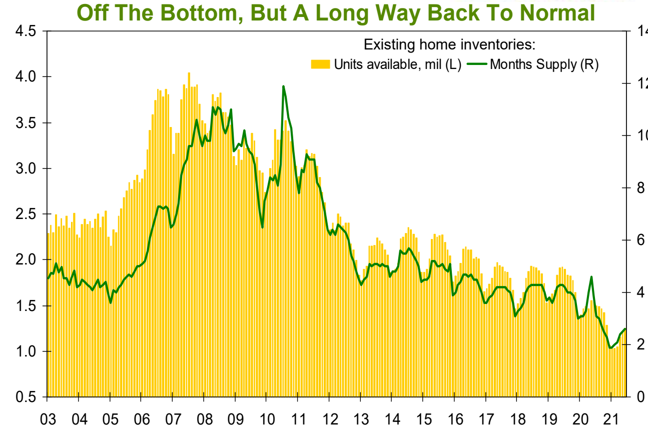
Total existing home sales rose to an annualized rate of 5.860 million units in June, topping our forecast of 5.720 million units but slightly below the consensus forecast of 5.900 million units. On a not seasonally adjusted basis, there were 614,000 existing homes sold in June, significantly better than our forecast of 573,000 units and, more significantly, the highest monthly sales total since August 2006, which we think is worth noting given how little attention many analysts pay to the unadjusted data. Listings of existing homes for sale rose in June, which contributed to the increase in sales, but the increase in listings was smaller than our forecast anticipated and leaves listings down 18.8 percent year-on-year. Still, listings have increased in each of the past four months and the over-the-year declines, while still substantial, are at least getting smaller. June also marks the fourth straight month in which the months supply metric edged higher but, at 2.6 months in June, months supply is still far short of the 6.0 percent mark consistent with a balanced market. The median existing home sales price was up 23.4 percent year-on-year in June, little changed from the 23.6 percent increase in May, though this is a bit overstated given the shift in the mix of sales over the past year. While sales surprised us to the upside in June, nothing is fundamentally different in the housing market – demand remains solid, supply remains too low, and prospective first-time buyers continue to face stiff challenges.

More Inventory Needed To Sustain Upward Trend



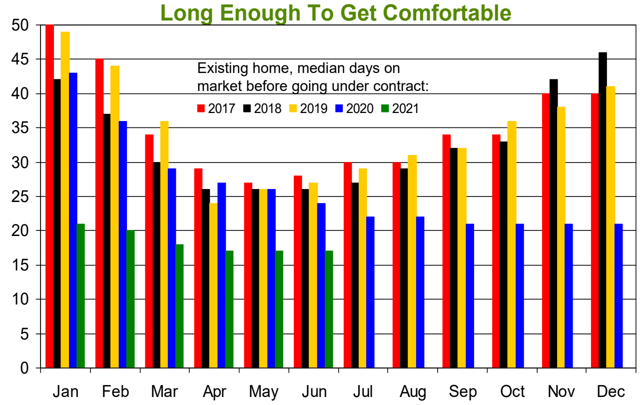
As noted above, on a not seasonally adjusted basis, there were 614,000 existing homes sold in June, up 16.3 percent from May, which is much larger than the increase typically seen in the month of June. As of June, the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales trend, stood at 6.195 million units, the highest such total since March 2007. The Midwest (21.5 percent) and Northeast (24.6 percent) regions posted the largest increases in sales in June. On a year-to-date basis through June, existing home sales are up 13.7 percent in the Midwest, up 29.7 percent in the Northeast, up 25.3 percent in the South, and up 28.7 percent in the West, which yields a 23.8 percent in total sales. We've noted that we think the trend sales rate (shown with the red line in our top chart) will flatten out once we get past the June data as the brief bout of weakness in the early phases of the pandemic washes out of the data.

Off The Bottom, But A Long Way Back To Normal



Sustaining the upward trend in sales, at least at anything close to the recent pace of ascent, will take more relief on the inventory front than we have seen to date. February almost surely saw the cyclical low for listings, but we are getting into the time of the year in which listings start to tail off – the NAR inventory data are not seasonally adjusted and there are clear seasonal patterns in the data. And, even with the increases in listings over the past four months, the details of the data continue to point to a market that remains badly out of balance. For instance, the median number of days on market for homes that closed in June was 17 days, matching April and May, and NAR reports that 89 percent of homes that closed in June were on the market for less than a month. As seen in our bottom chart, the typical seasonal patterns in the median days on market metric were broken in 2020 and thus far in 2021 there is nothing to suggest a reversion to those patterns any time soon. All-cash sales made up 23 percent of total existing home sales in June and have also accounted for 23 percent of sales on a year-to-date basis, which is meaningfully higher than has been the case over the past few years. In a market this competitive, all-cash offers can give buyers a significant advantage, particularly over prospective first-time buyers.

On The Market, But Not For Long Enough To Get Comfortable



As noted above, the increase in the median existing home sales price is being biased higher by the shifting mix of sales, with fewer and fewer homes available in the lower price ranges and upper-end home sales accounting for greater shares of sales. Still, the various repeat sales price indexes, which are free of the mix bias, put year-on-year price appreciation at around 15 percent. This goes to our point that, even without higher mortgage interest rates, affordability – including raising down payments – will be challenging, particularly for first-time buyers. While we continue to think that the pace of price appreciation will moderate later this year, that could still leave many prospective buyers priced out of the market.

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