ECONOMIC UPDATE

REGIONS

August 23, 2021

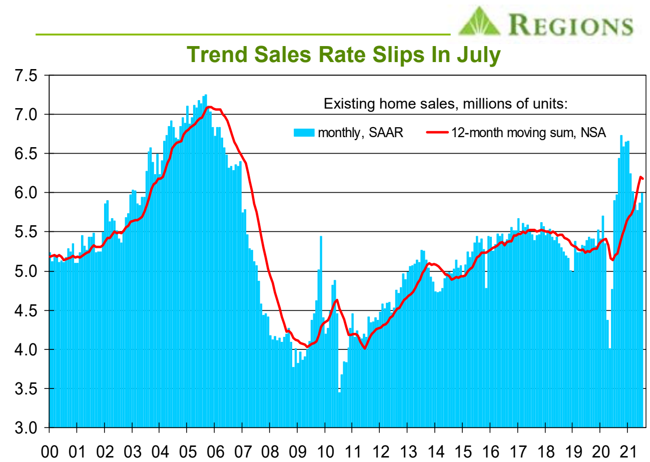
July Existing Home Sales: Inventory Improves In July, But Still A Long Way Back To Normal

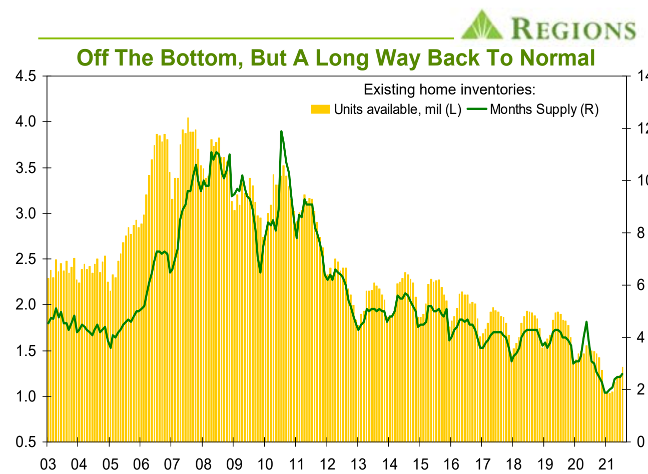
- Existing home sales rose to an annualized rate of 5.990 million units in July from June's revised sales rate of 5.870 million units
- Months supply of inventory stands at 2.6 months; the median existing home sale price rose by 17.8 percent on a year-over-year basis

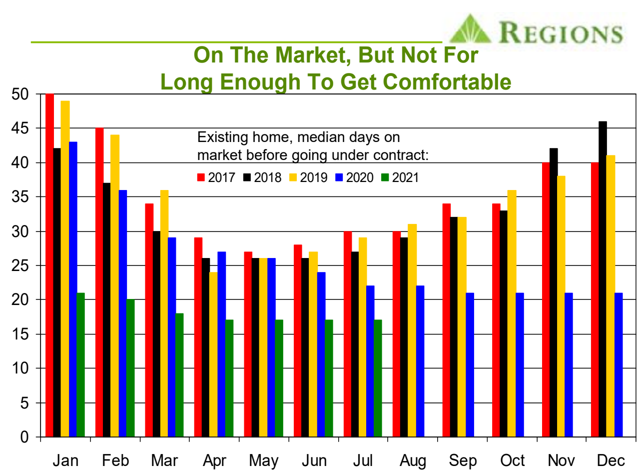
Total existing home sales rose to an annualized rate of 5.990 million units in July, topping our above consensus forecast of 5.870 million units, while the initial estimate of June sales was revised modestly higher. On a not seasonally adjusted basis, there were 584,000 existing homes sold in July, a touch higher than our forecast of 582,000 units. Listings of existing homes for sale rose to 1.320 million units, just shy of our forecast of 1.330 million units, with a much larger increase than is typical for the month of July (the NAR inventory data are not seasonally adjusted). With both listings and sales rising, listings are equivalent to 2.6 months of sales, up from 2.5 months in June. As we expected, there was some, for lack of a better term, moderation in median sales price appreciation; after better than 20 percent year-on-year increases in May and June, the median sales price was up "just" 17.8 percent year-on-year in July. This has less to do with there being more units available for sale than it does with the over-the-year comparisons getting more challenging; it was in July 2020 that the pace of house price appreciation kicked into a higher gear, so look for further moderation in the over-the-year increases in the months ahead. The beneath the headlines metrics we track continue to point to robust demand. While we look for further improvement on the inventory front in the months ahead, it will be some time yet before the market for existing homes will be considered balanced, which will act as a brake on the pace at which price appreciation moderates, with prospective first-time buyers the group most impacted.

As noted above, on a not seasonally adjusted basis, there were 584,000 existing homes sold in July, down 5.0 percent from June down 2.2 percent from July 2020. Sales were up 5.7 percent year-on-year in the Northeast region, down 4.8 percent in the Midwest, down 2.7 percent in the South, and down 2.5 percent in the West. As of July, the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales rate, slipped to 6.183 million units, down from 6.196 million units as of June. Recall that it was July 2020 that sales rocketed higher, in part reflecting further clearing of the backlog of closings that had build up while the economy was largely shut down, and in part reflecting stepped-up demand prompted by factors such as falling mortgage interest rates, changing work arrangements, and a flight way from core urban areas. As is the case with growth in the median sales price, the over-the-year comparisons for sales will likely be tougher in the months ahead, meaning that the running 12-month total of unadjusted sales is likely to slip further.

The one thing that could arrest a downward drift in the trend rate of sales would be further increases in inventories. Listings were up 7.3 percent in July, easily ahead of the typical July increase of 0.3 percent over the 2000-2020 period. We are in 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 – so in that sense July's outsized increase is encouraging. While listings are down 12.0 percent year-on-year, this is significantly smaller than the better than 20 percent over-the-year declines seen in each of the previous eight months. That said, the months supply metric remains far short of the 6.0 months consistent with the market being balanced. To that point, 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 July was 17 days, matching the prior three months as the lowest on record, and NAR reports that 89 percent of homes that closed in July 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 July and have also accounted for 23 percent of sales on a year-to-date basis, 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. Even without higher mortgage interest rates, affordability – including raising down payments – will be challenging, particularly for first-time buyers. This won't change without meaningful improvement on the supply side of the market.







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