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January Existing Home Sales: Stop Us If You've Heard This One Before

- Existing home sales rose to an annualized rate of 6.500 million units in January from December's (revised) sales rate of 6.090 million units
- Months supply of inventory stands at 1.6 months; the median existing home sale price rose by 15.4 percent on a year-over-year basis

Total existing home sales rose to an annualized rate of 6.500 million units in January, ahead of our forecast of 6.210 million units and the consensus forecast of 6.100 million units. As with much of the economic data for the month of January, however, there is less to the lofty headline existing home sales number than meets the eye. On a not seasonally adjusted basis, existing home sales fell to 352,000 units in January, slightly below our forecast of 354,000 units and down 31.4 percent from December. That unadjusted sales came in slightly below our forecast while headline (i.e., seasonally adjusted and annualized) sales came in so far above our forecast is yet another testament to the power of seasonal adjustment, which in this case reflects an even more generous seasonal factor than typically applied to the January data. As such, even with the not seasonally adjusted data showing a larger decline than is typical for the month of January, the headline sales number jumped to the highest in any month since last January. We've heard some attribute January's "surge" in existing home sales to rising mortgage interest rates causing fence sitters to rush into the market and buy before mortgage rates rise further. The only problem with this story, however, is that existing home sales are booked at closing, so January closings mostly reflect sales contracts signed from mid-November through December, or, before mortgage rates began to sprint higher.

In any event, as our regular readers know, when it comes to the data on residential construction and sales, we pay virtually no attention to the seasonally adjusted data and focus squarely on the not seasonally adjusted data. So, rather than trying to rationalize a headline sales number that makes no sense, we'll instead note that the running 12-month total of not seasonally adjusted sales, which we see as the best gauge of the underlying sales trend, fell to 6.106 million units in January, the lowest since May. To us, the clear culprit behind the sagging sales trend is the lack of inventory. Listings of existing homes for sale fell to 860 units in January, yet another record low, leaving them down 16.5 percent year-on-year. At January's sales rate, listings are sufficient to cover only 1.6 months of sales, itself a new record low. The NAR's inventory data are not seasonally adjusted, and January typically sees a slight increase prior to listings really ramping up for the spring sales season, so that listings fell by 2.3 percent in January does not bode well for this year's sales season.

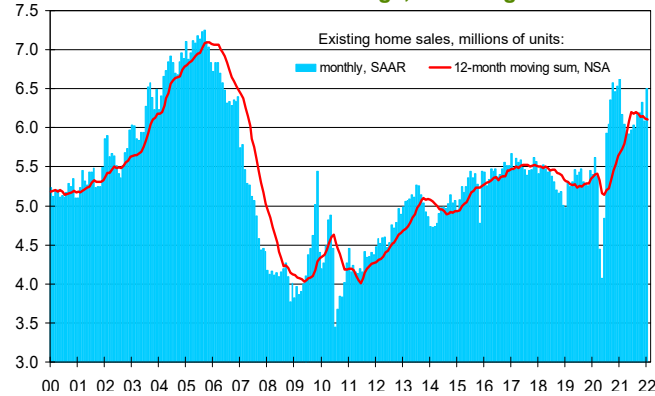
Homes continue to go rapidly once they do hit the market; the median days on market was 19 days for homes closed on in January, and NAR reports 79 percent of homes closed on in January were on the market less than a month before going under contract. Another result of lean inventories coupled with still-strong demand is robust price appreciation. The median existing home sales price climbed to \$369,109 in January, yet another new high and up 15.4 percent year-on-year. It should be noted that the median sales price is sensitive to the mix of homes sold, and the dearth of homes for sale at the lower price points is biasing the median sales price higher. Sales of homes in the \$100,000-\$250,000 price range were down 22.8 percent year-on-year in January, while sales of homes priced at or above \$750,000 percent were up by better than 30 percent year-on-year.

As we've noted, first-time buyers are the ones being hit the hardest by these market dynamics. Rising sales prices require larger down payments and could also make mortgage approvals tougher for this group. Indeed, in January, first-time buyers accounted for only 27 percent of all existing home sales, far below the normal share and even below the lower share seen in 2021. At the same time, all-cash transactions accounted for 27 percent of all sales in January, the highest share since February 2017, and it is reasonable to think that a good share of these all-cash transactions reflect investor purchases, which accounted for 22 percent of all sales in January, the highest share over the past several years.

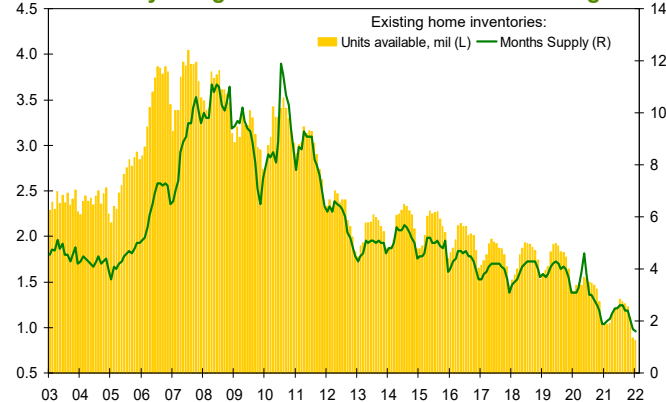
Those crafting narratives around the lofty January headline sales number are missing the point. Lean inventories remain a material drag on sales, and that prices have pushed as high as they are means that affordability will be more sensitive to a given change in mortgage interest rates than has been the case in the past. Even if higher mortgage rates do curb growth in demand, the market will remain undersupplied for some time to come.



Headline Sales Number A Mirage, Declining Trend Isn't




January Brings Another All-Time Low For Listings




Median Sales Price Marches Higher

