ECONOMIC UPDATE

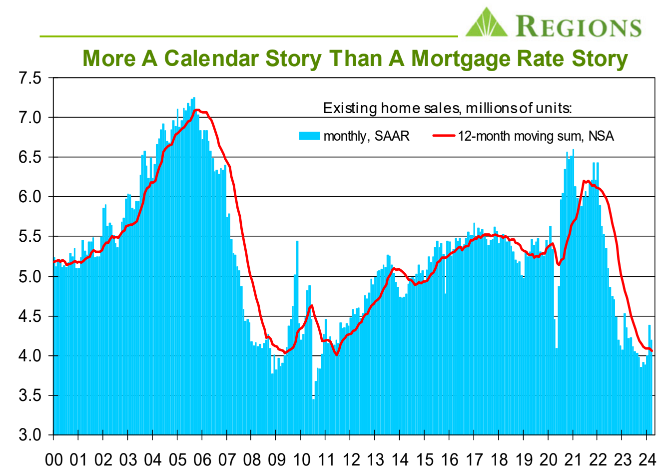
REGIONS

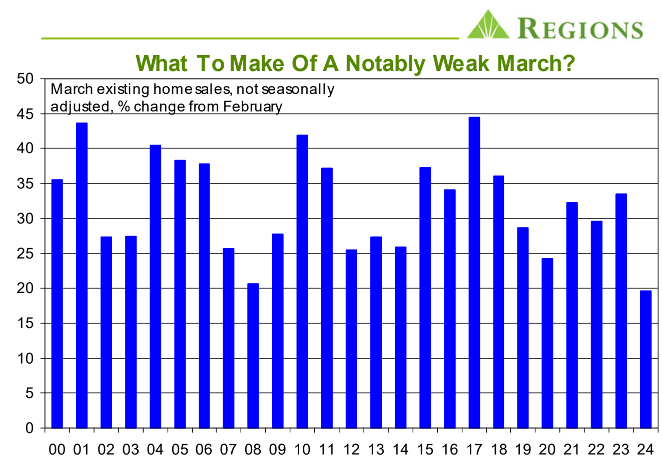
April 18, 2024

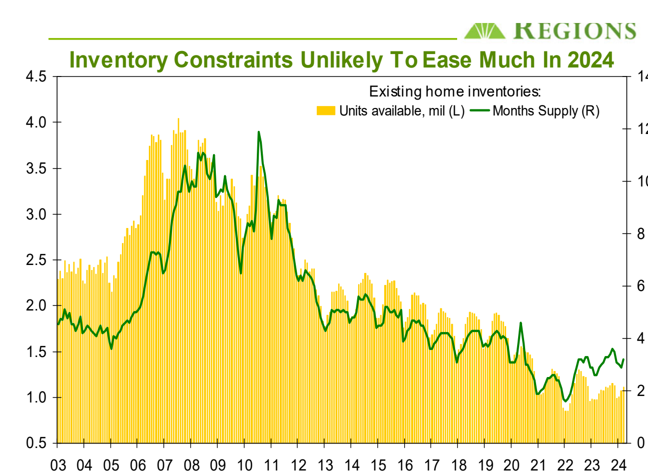
March Existing Home Sales: More A Calendar Story Than A Mortgage Rate Story

- Existing home sales fell to an annualized rate of 4.19 million units in March from February's sales rate of 4.38 million units
- Months supply of inventory stands at 3.2 months; the median existing home sale price rose by 4.9 percent year-on-year

Total existing home sales fell to an annual rate of 4.19 million units in March, not too distant from either the consensus forecast (4.20 million) or our forecast (4.23 million). Either way, the headline sales number masks what was a truly weak March, with the not seasonally adjusted data showing the smallest March increase on record in the life of the current series. Sure, one has to actually go into the details of the data to see this, which means it will go mostly unseen, and it's also the case that sufficiently generous seasonal adjustment can mask the most unsightly of details. For us, though, the real question is what to make of a notably weak March for existing home sales. While elevated mortgage rates are the popular explanation for any weakness, real or otherwise, in any housing market data these days, we think it really comes down to the calendar, with fewer business days this March than last. One reason we raise this point is that the weak unadjusted sales number for March, which fell far short of our forecast, calls into question our premise that a bottom was forming in existing home sales. We're not ready to abandon that call just yet, particularly as inventories of existing homes for sale continued to move higher in March, rising to 1.11 million units, which matches our forecast. Between the drop in sales and the increase in inventories, the months supply metric rose to 3.2 months in March, and while that may overstate the case, inventories are at least trending in the right direction. We say "at least" because that still leaves the market far, far away from any semblance of being balanced, particularly as there remains a still-significant degree of pent-up demand for home purchases. Moreover, if we are correct in anticipating only grudging progress on the inventory front in the market for existing homes, builders will be the main beneficiaries of that pent-up demand, as more of the demand for home purchases will be funneled to the market for new homes.







In any given year, March is the month in which we see the biggest (percentage) increase in not seasonally adjusted sales, and that has been the case in the post-pandemic years during which seasonal patterns in the economic data have tended to be badly distorted. That makes this year's March data all the more noteworthy. The not seasonally adjusted data show sales of 324,000 units in March, falling well short of our forecast and yielding an increase of "just" 19.6 percent from February. As seen in our middle chart, this is the smallest March increase in unadjusted sales in the life of the current data series. Moreover, sales were down 9.8 percent year-on-year after the prior two months had seen year-on-year increases in sales, however modest. As noted above, however, we think this is more a calendar story than anything else. By the count of the calendar, there were two fewer business days this March than last, and if we adjust for that disparity sales were down just 1.2 percent year-on-year. While officially counting as a business day, Good Friday falling into March this year also likely weighed on sales (recall existing home sales are booked at closing), and if we take this out of the count of business days, sales were actually up 3.8 percent year-on-year. Either way, that there were fewer sales days this year than last was clearly accounted for in the seasonal factor used by NAR to arrive at the headline sales figure. We did not put enough emphasis on the business day count when producing our forecast of unadjusted sales, which in turn translated into our miss on the headline sales number. We will, however, note that pending home sales, a gauge of signed sales contracts, were stronger than typical in February on a not seasonally adjusted basis. So, if we're correct in attributing March's notably weak unadjusted sales to calendar effects, that ground will be made up for in April closings.

We think the inventory data also support our contention. Inventories were up 4.7 percent in March, larger than the typical March increase (the NAR inventory data are not seasonally adjusted) and leaving inventories up 14.4 percent year-on-year. Our bottom chart illustrates our point that inventories are at least trending in the right direction. As our long-time readers know, we used this chart for years – literally – to illustrate the downward drift in inventories, which we argued was acting as a drag on existing home sales. Sorting through the clear seasonal patterns, inventories are at least rising, however, grudgingly. We expect both to remain the case – further increases in inventories, but at a painfully slow pace – which will, as more buyers come to terms with mortgage rates, continue to favor new home sales.

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