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January Existing Home Sales: Sales Trudge Higher As Inventories Remain A Drag

- Existing home sales rose to an annualized rate of 5.470 million units in January from December's revised sales rate of 5.450 million units.
- Months supply of inventory stands at 4.0 months; the median existing home sale price rose by 8.2 percent on a year-over-year basis.

Existing home sales edged up to an annual rate of 5.470 million units in January, coming in ahead of expectations for a modest decline. The big story, however, remains inventories, or lack thereof, as listings of existing homes for sale remain low and continue to weigh on sales. Inventories rose modestly in January, which is not out of line with normal seasonal patterns (the NAR inventory data are not seasonally adjusted) but fell on a year-over-year basis for an eighth consecutive month. Combined with the slight advance in sales, this left the months supply metric at 4.0 months, which is indicative of a significantly undersupplied market. One implication of this undersupply is strong house price appreciation, and the median existing home sales price rose 8.2 percent, year-on-year, in January.

Recall that in November existing home sales fell sharply, mainly due to the new TRID rules on mortgage disclosures and the snap back in December was seen as payback. As such, expectations – ours included – were for sales to settle back into the underlying trend in January. This did or didn't happen (insert one-handed economist joke here) depending on how one views the data. As reported on a seasonally adjusted annualized basis, January sales were stronger than anticipated, with the monthly sales rate the second highest since February 2007. But, as our regular readers by now know, we prefer the 12-month moving sum of not seasonally adjusted sales as the more meaningful gauge of the underlying trend in sales and, as seen in the top chart, on this basis the story is one of the same steady, albeit somewhat slow, improvement in sales that has been in place for some time now. In the 12 months ending with January, there were 5.275 million existing homes sold, up 6.5 percent from January 2015.

The middle chart illustrates our concern that lean inventories pose a downside risk to the spring selling season. The 4.0 months supply of inventory in January harkens back to the frenzied days of 2004-05, which is the last time months supply was so low. That figure, of course, is in part a function of the top-line sales number and we put far more emphasis on the actual number of listings, which does not alleviate our concerns given the string of year-over-year declines in listings. February, March, and April typically see inventories pick up appreciably but there is little to suggest that will be the case this year. This is somewhat puzzling in light of what has been solid price appreciation, which in theory would draw out more supply. As a side point, we don't put too much stock in the median sales price as a meaningful measure of appreciation, as this number is swayed by the mix of sales in a given month. But, in the various repeat sales indexes, which are far better gauges of house price appreciation, we are consistently seeing house prices rise in the mid-single digit range. It is on this basis we would expect to see solid price appreciation draw out more inventory.

It is interesting to juxtapose the low inventories reported by NAR with the solid earnings reported by Home Depot earlier today, earnings largely supported by spending on home improvement expenditures. This could mean one of two things – either homeowners have decided to spruce up and stay put (a strong possibility for those with mortgages carrying ultra-low interest rates), or homeowners are spending heavily on home improvement ahead of listing their home in the spring selling season. While we try to avoid drawing sweeping conclusions without being able to actually quantify them, this seems a plausible interpretation. Our sense is that there is more staying put than sales prep going on, and the inventory data over the next three months will help determine if we are right or wrong about this.

At the same time, however, we continue to believe demand side fundamentals are steadily improving. If so, at some point something will have to give, and we will either see inventories rising or further acceleration in price appreciation. Either way, the data on existing home sales will be quite interesting to watch in the months ahead.

