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July Existing Home Sales: Have Existing Home Sales Hit The Wall?

- Existing home sales fell to an annualized rate of 5.390 million units in July from June's sales rate of 5.570 million units.
- Months supply of inventory stands at 4.7 months; the median existing home sale price rose by 5.3 percent on a year-over-year basis.

Total existing home sales fell to an annual rate of 5.390 million units in July, below expectations and down 1.6 percent year-over-year. Lack of inventory continues to weigh on sales with July marking the 14th consecutive month in which listings have fallen on a year-over-year basis. Lean inventories are helping support healthy price appreciation, with the median existing sales price up 5.3 percent year-on-year. Still, while demand remains healthy, supported in no small part by low mortgage interest rates, lack of inventory limits the upside potential for existing home sales.

As we routinely note, we are far more interested in the not seasonally adjusted data than in the seasonally adjusted annualized headline sales numbers. In July, there were 514,000 sales on a not seasonally adjusted basis, well below our forecast of 548,000 units and down 6.7 percent year-on-year. There were two fewer selling days this July than last year, and that was accounted for by a generous seasonal adjustment factor which yielded the headline sales number of 5.390 million units. Our preferred gauge of the underlying trend in sales, the running 12-month total of not seasonally adjusted sales, slipped to 5.334 million units, though this is still 3.1 percent above last July's total. As seen in the middle chart, 2016 is on course to be the best year for existing home sales since 2007 but, again, lack of inventory could result in sales for the year falling short of 2015's count when all is said and done.

Distress sales, i.e., foreclosures and short sales, accounted for five percent of all sales in July. While this is down considerably from the height, or, should we say, depths, of the housing market downturn, it is still greater than the share of sales that would be accounted for by distress in normal market conditions. On an over-the-year basis, total existing home sales were down 1.6 percent in July, with distress sales down 29.7 percent and non-distress sales up 0.5 percent. Our bottom chart shows distress sales as a share of total existing home sales based on data from CoreLogic, which has a longer history than the NAR data but exhibits the same trends. While fading inventories of distressed properties have acted as a drag on total sales, we think it important to point out that considerable shares of distress sales in recent years went to investors, including single family REITs.

Most of these properties went to the rental market, and the single family segment of the rental market has enjoyed notably low vacancy rates and strong rent growth. But, that so many more single family homes are currently in the rental segment of the market as opposed to the owner occupied segment is one factor behind what are now lean inventories of existing homes for sale. This is perhaps most evident in the data on first-time buyers. First-time buyers accounted for 32 percent of all sales in July, up from last year but still considerably below normal. This is perhaps where the lack of inventory is being felt most acutely, with sales on the lower end of the price range lagging badly in the South and West regions while sales of lower priced homes are lagging sales of higher priced homes in each of the four broad regions.

Listings of existing homes for sale did rise by around one percent in July, which is typical for the month (the NAR's inventory data are not seasonally adjusted). As noted above, however, inventories have fallen year-on-year for 14 consecutive months. Moreover, we are getting to that time of the year when listings begin to decline month-to-month, which offers little hope of relief on the inventory front any time soon.

Whether new homes or existing homes, we maintain a constructive view of the demand side of the market. Ongoing job and income growth, stepped-up household formation, and still favorable mortgage rates are supporting demand. But, we have been and remain concerned that inventory constraints will choke off growth in sales. This, not the demand side, is our main concern for the housing market at present.

