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August Existing Home Sales: Here We Go Again . . . Seriously?

- Existing home sales fell to an annualized rate of 5.330 million units in August from July's (revised) sales rate of 5.380 million units.
- Months supply of inventory stands at 4.6 months; the median existing home sale price rose by 5.1 percent on a year-over-year basis.

The August report on existing home sales is yet another illustration of how maddening dealing with the economic data can be, and how much more maddening the instant "analysis" and reporting on the data can be. We are told that existing home sales fell to an annual rate of 5.330 million units in August, far below the consensus forecast of 5.450 million units and even further below our forecast of 5.490 million units. So, naturally, we are now being treated to a litany of housing market woes and being told August existing home sales are the latest sign of impending doom for the economy.

What if we told you existing home sales actually rose by 5.5 percent, month-to-month, in August and were up 7.3 percent on a year-over-year basis? No, we're not making up numbers to make us, if not you, feel better, we're simply looking at the not seasonally adjusted data, which show there were 541,000 existing home sales in August compared to 513,000 in July and actually a tad above our forecast of 538,000 units. So, how does what was actually a solid number get turned into a lousy headline number, and how could our call on not seasonally adjusted sales be so close yet our call on the headline sales number be so far off? In short, there were two more selling days this August than last, so to compensate NAR slashed the seasonal adjustment factor used to arrive at the annualized headline sales number. So, in essence what people are freaking out about this morning isn't the number of home sales, it is the seasonal adjustment factor. Which of course is nonsensical. And, sure, at the end of the year (what, you thought we were going to say "at the end of the day"?) it all evens out, but the problem is over the course of the year people go from ecstasy to despair with each twist and turn of the headline numbers. And you wonder why we're so cranky all the time?

In terms of the data that actually tell us something useful, over the past 12 months there have been 5.370 million existing home sales, matching June for the highest such total since September 2007. Unadjusted sales rose in each of the four broad regions in August leaving the running 12-month total at levels last seen in 2007 in the Midwest, Northeast, and South regions. This isn't to say there are never issues with the raw data, indeed, we noted that the decline in not seasonally adjusted sales seemed curiously large to us and expected there to be payback in August, leaving the underlying trend largely intact. While we still have not heard a compelling explanation for July's decline in sales, there was indeed payback in August, and the trend of slow but steady improvement in sales still holds.

To be sure, we're not saying there is no cause for concern. For some time we've been pointing to lean inventories as a meaningful drag on sales and, if anything, we're more concerned now that we see the August data. August is typically a month in which there is little change in inventories (the NAR's inventory data are not seasonally adjusted, go figure) but listings fell by an atypically large 3.3 percent in August, leaving them down 10.1 percent year-on-year, the 15th consecutive year-on-year decline. Part of the issue is gradually fading distress inventories – distress sales accounted for just five percent of total sales in August, still a bit higher than normal but far below the peak of almost 30 percent. One factor behind lean inventories is that recent years saw single family REITS, many newly formed for this purpose, buying up distress properties and placing them onto the rental market. Whatever the reasons, however, lean inventories are clearly fueling faster price appreciation than would otherwise be the case. To some extent, this is making it more difficult for first-time buyers who accounted for just 31 percent of all sales in August, compared to normal levels of around 40 percent.

So, yes, there are legitimate causes for concern with the housing market, but these fall mainly on the supply side of the market, which is the case for both new and existing homes. At the same time, demand side fundamentals remain solid but, unfortunately, too many people seem too distracted by noisy headline numbers to notice that.

