ECONOMIC UPDATE

REGIONS

December 21, 2016

November Existing Home Sales: How Much More Upside Remains?

- Existing home sales rose to an annualized rate of 5.610 million units in November from October's (revised) sales rate of 5.570 million units.
- Months supply of inventory stands at 4.0 months; the median existing home sale price rose by 6.8 percent on a year-over-year basis.

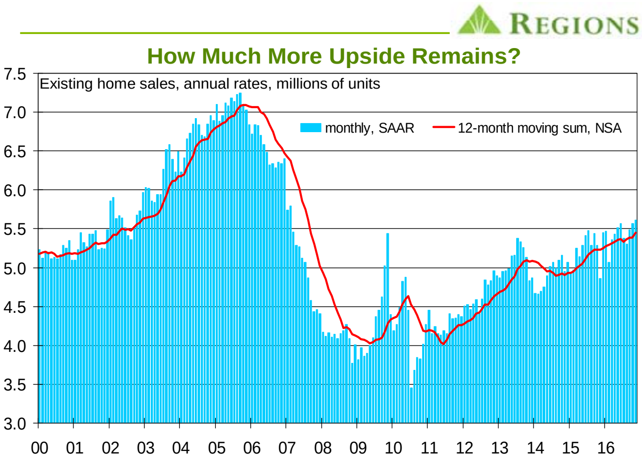
Existing home sales rose to an annual rate of 5.610 million units in November, above the consensus forecast of 5.500 million units but slightly below our forecast for 5.660 million units. November's sales rate is the highest monthly sales rate since February 2007 when, as can be seen in our top chart, sales were hastily beating a retreat from a cyclical peak of better than seven million units. That prior cyclical peak is not a realistic target to shoot for, unless of course anyone is up for another credit fueled housing bubble that, at least as we recall, doesn't end all that well. Still, it is a valid question to ask how much more upside there is for sales in the current cycle given the combination of notably lean inventories and the prospect of further increases in mortgage interest rates over coming quarters.

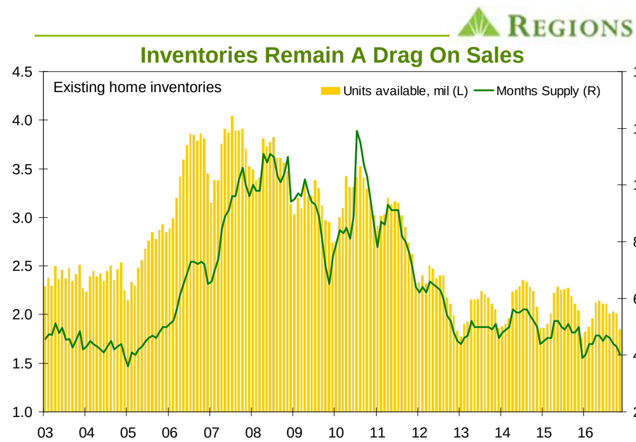
On a not seasonally adjusted basis, there were 415,000 existing homes sold in November, right in line with our forecast of 414,000 sales (we were slightly off on our estimate of the seasonal adjustment factor, hence our miss on the seasonally adjusted annualized headline sales number). This leaves the running 12-month total of existing home sales, which we see as the most reliable gauge of underlying sales trends, at 5.448 million units, the highest such total since August 2007. Not seasonally adjusted sales were up 18.2 percent year-on-year, though keep in mind the new TRID rules helped hold down sales last November. Of more significance, the 12-month moving sum of unadjusted sales stands 4.15 percent higher than a year ago, with sales on this basis up 5.51 percent in the Midwest, 6.56 percent in the Northeast, 3.22 percent in the South, and 3.00 percent in the West.

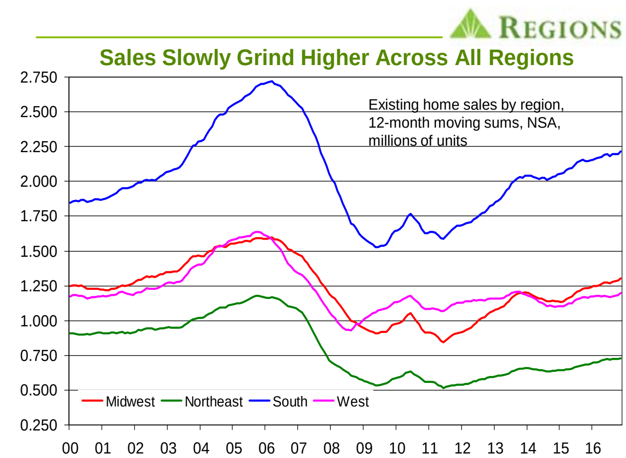
Perhaps a bigger story is the further decline in listings in November. Listings were down 9.31 percent year-on-year, and November is the 18th consecutive month in which listings were down year-on-year. Moreover, the level of listings fell eight percent from October, a larger than normal decline for the month of November (the NAR inventory data are not seasonally adjusted). The months supply metric dipped to 4.0 months in November, and the median time on market for homes sold in November was 43 days, down from 54 days last November. The middle chart helps illustrate our point about how lean inventories are. The seasonal patterns in inventory are clear in the chart, but what is also clear is that the normal seasonal tops are lower in 2016 than was the case in 2015, and were lower in 2015 than was the case in 2014.

The inventory data illustrate a point we have been making for some time, i.e., that despite solid demand side fundamentals there was cause for concern on the supply side of the market. We have argued these concerns will get worse going forward, and the November data don't argue otherwise. Lean inventories have helped fuel robust house price appreciation, which is better seen in the various repeat-sales price indices than the more commonly cited median price metric, but notably low mortgage interest rates have been acting as a buffer between higher prices and affordability. As mortgage rates push higher, that buffer will become thinner and thinner. The post-election bump in mortgage rates is not sufficient to freeze home sales, but it likely will become more pronounced in 2017. This will hit hard on the lower ends of the price scale, particularly for prospective first-time buyers. To be sure, continued job and income growth will help blunt the impact of higher mortgage rates, but only up to a point, particularly given how robust price appreciation has been. Moreover, we've argued that anyone who has purchased a home or refinanced a mortgage at a low rate could feel "locked in" by that mortgage rate and thus be unwilling to move if it means taking on a higher interest rate on a new mortgage loan, which would further limit for-sale inventories.

We continue to believe demand remains healthy, but the impact of higher mortgage rates should not be discounted. As such, given ongoing supply constraints, it is reasonable to question how much more upside there is for existing home sales.







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