ECONOMIC UPDATE

REGIONS

March 21, 2016

February Existing Home Sales: Pick The Number That Works For You

- Existing home sales fell to an annualized rate of 5.080 million units in February from January's (unrevised) sales rate of 5.470 million units.
- Months supply of inventory stands at 4.0 months; the median existing home sale price rose by 4.4 percent on a year-over-year basis.

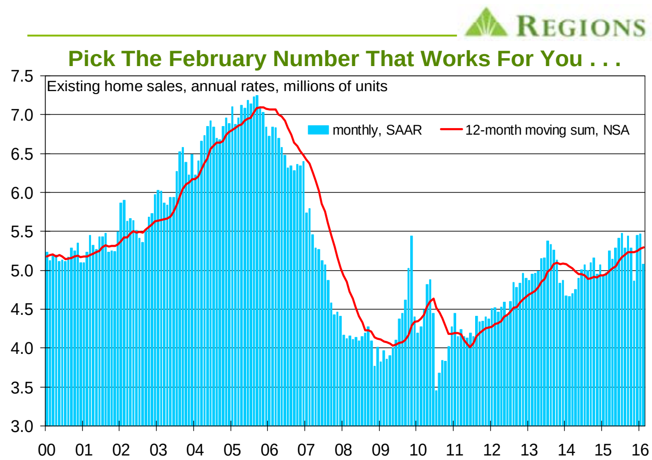
Total existing homes fell to an annual rate of 5.080 million units in February, down 7.1 percent from January and well below consensus estimates of 5.35 million units (our forecast was 5.26 million units). For those inclined to take the headline number from any given data release and run with it, particularly those prone to take a below consensus headline number and run straight into despair, this is your day. As is our usual habit, however, we'll sort through the details which, while admittedly far less emotionally fulfilling than launching into a "the end is nigh" rant, is perhaps a bit more useful. Particularly when the details tell a starkly different story than the headline number, which is especially common in those cases in which the headline number is reported on a seasonally adjusted annualized basis.

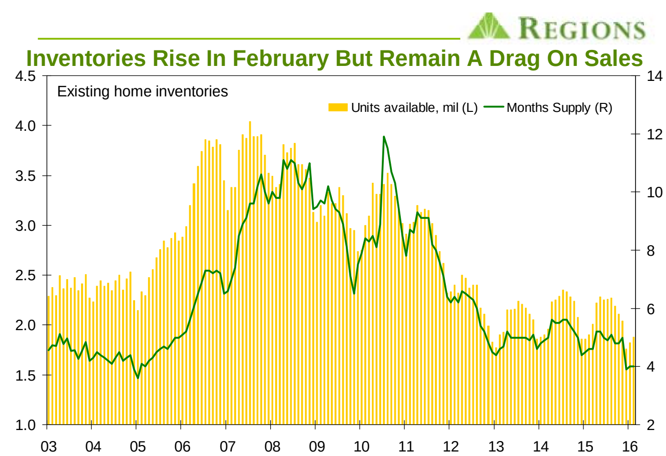
As our regular readers by now know, in these cases we always focus on the underlying trend in the not seasonally adjusted data. The unadjusted data show that over the 12 months ending with February, there were 5.297 million existing homes sold in the U.S., the highest 12-month total since October 2007 – when sales were beating a hasty retreat on the opposite direction. This gives a much different take on the housing market than the seasonally adjusted annualized headline number, which is seen in the top chart. No, this isn't an effort to put a happy spin on a lousy number, it's an attempt to assess what is actually going on in the market which anyone reacting to a headline number has no hopes of doing. And, neither is this to say all is well with the housing market – lean inventories clearly remain a drag on sales. February marks the ninth consecutive month in which inventories are down on a year-over-year basis and a months supply at just 4.0 months is indicative of a significantly undersupplied market.

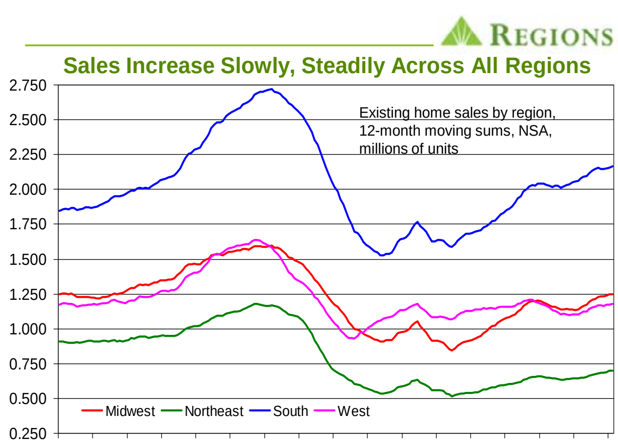
Even here, though, a little perspective can go a long way. The NAR inventory data are not seasonally adjusted and typically the month of February sees a modest bump in listings ahead of much bigger bumps in March and April that fuel the spring selling season. This February, inventories rose 3.3 percent from January, which itself posted a 3.4 percent increase from December. Both the January and February increases are larger than has been typical for these months in recent years. So, yes, inventories are still lean but the month-to-month increases seen over the past two months suggest more progress than is implied by the months supply metric alone. Interestingly, distress sales accounted for 10 percent of all sales in February, the highest share since last May. There are still elevated backlogs of foreclosure inventories in most parts of the U.S., it could be that heady price appreciation has given lenders the impetus to begin clearing these backlogs at a faster pace.

On a seasonally adjusted annualized basis, February sales were down in all four broad regions while the unadjusted data show sales up modestly in the Midwest and Northeast, up more in the South, and down slightly in the West. Looking at the 12-month moving sums of raw sales, one has to go back to late-2007/early-2008 to find levels this high in the Midwest, Northeast, and South, while the 12-month total of 1.177 million units in the West was seen in 2013 when foreclosure inventories were being snapped up by investors. Nationally, the 12-month sum as of February is 7.0 percent higher than February 2015, with increases of 9.8 percent in the Midwest, 8.7 percent in the Northeast, 5.1 percent in the South, and 6.6 percent in the West – note the latter two regions account for roughly two-thirds of all existing home sales.

The underlying trend in existing home sales – continued steady improvement – is right in line with what for some time now has been our forecast for the housing market. Our concerns are affordability and inventories, which of course are to some extent related and which bear watching over coming months. But, those underlying trends clearly tell a different story than that being told by those basing their tale on a managed and massaged headline sales number.







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