ECONOMIC UPDATE

REGIONS

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June Home Sales: Lofty Headlines Aside, Slow But Steady Increases Still The Real Story

- New home sales rose to an annualized rate of 592,000 units in June from a revised rate of 572,000 units in May.
- Existing home sales rose to an annualized rate of 5.570 million units in June from May's (revised) sales rate of 5.510 million units.
- Year-over-year, the median new home sale price rose by 6.1 percent, while the median existing home sale price rose by 4.8 percent.

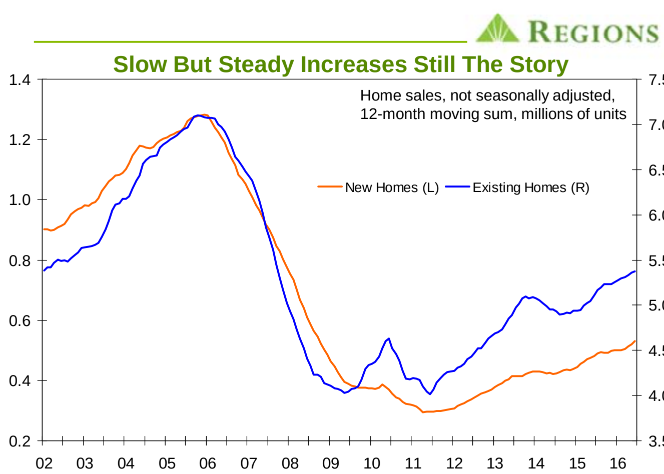
New Home Sales: New home sales jumped to an annual rate of 592,000 units in June, the highest monthly sales rate since February 2008, while prior estimates for May sales were revised sharply higher. June sales handily topped expectations, including our forecast of a 557,000 unit sales rate, so, clearly we and other analysts who have been fretting about supply constraints acting as a drag on new home sales have been doing so for no good reason, right? Not so fast. On a not seasonally adjusted basis, there were 54,000 new home sales in June, a bit higher than our forecast of 52,000 units. Raw sales for May were revised up to 54,000 units from the prior estimate of 51,000. That these small differences in raw sales result in such large swings in the headline number – seasonally adjusted and annualized –illustrates why we focus on the raw data as the more meaningful guide to underlying trends. The raw data show over the past 12 months there have been 530,000 new homes sold, the highest total since September 2008. As seen in the chart below, then, despite the lofty headline print on the June report, the story for new home sales remains steady, but somewhat slow, improvement.

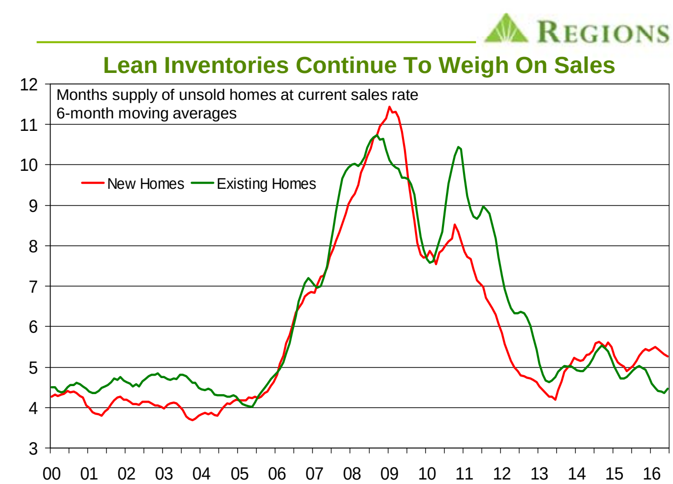
Along with the underlying trend in sales, the June report also support other points we have been making about new home sales. First, lean inventories remain an issue, as indicated in the downward drift in the months supply metric. Sales of units on which construction had not yet started accounted for one-third of all sales in June, pointing to builders having trouble keeping up. Also, sales of homes priced at or above $300,000 accounted for 53 percent of all sales in June, a share that has been and remains atypically high. All in all, then, June's headline sales number does nothing to alter our view of the new homes market.

Existing Home Sales: Existing home sales posted their best month since February 2007, with an annualized sales rate of 5.570 million units in June, ahead of our forecast of 5.540 million units. Sales to first-time buyers accounted for 33 percent of total sales, the highest since July 2012 but still well short of the 40 percent mark typically seen in a healthy housing market. Distress sales accounted for just six percent of total sales, down considerably from the peak but still well higher than is normal. Sales to individual investors accounted for 11 percent of all sales, and what has been a steady decline in this metric points to a rising share of sales to owner occupants. On a not seasonally adjusted basis, there were 583,000 existing homes sold in June. This is ahead of our forecast of 567,000 units, but our entire miss is due to sales in the Midwest region coming in at 149,000, far stronger than we expected while our calls on the other three regions were right on the mark. June leaves the running 12-month total of sales (not seasonally adjusted) at 5.372 million units, the highest since September 2007.

Lack of inventory remains a drag on sales. Listings fell 0.9 percent in June, itself not notable as June typically sees only modest changes in either direction (the NAR inventory data are not seasonally adjusted) as the frenzy of the spring sales season begins to wane. What is notable, however, is that June marks the 13th consecutive month in which inventories fell on a year-over-year basis. Inventory constraints are being felt most acutely in the lower price points, which is one reason for the ongoing shortfall of first-time buyers. While most explanations of this shortfall center on demand side factors – lack of down payment, inability to procure mortgage financing, too much other debt – what is often overlooked is the sizeable number of existing homes that over the past several years have gone from owner occupied to the rental market. Census Bureau data show better than 35 percent of rental housing is comprised of single family homes, easily ahead of the historical norm of roughly 30 percent. This supply gap is fueling faster house price appreciation than would otherwise be the case, thus negating some of the boost to affordability brought on by notably low mortgage rates.

As has been the case for some time, we remain constructive on the demand side of the housing market but concerned on the supply side. The reports on June home sales did nothing to change our view.





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