ECONOMIC UPDATE

REGIONS

October 20, 2016

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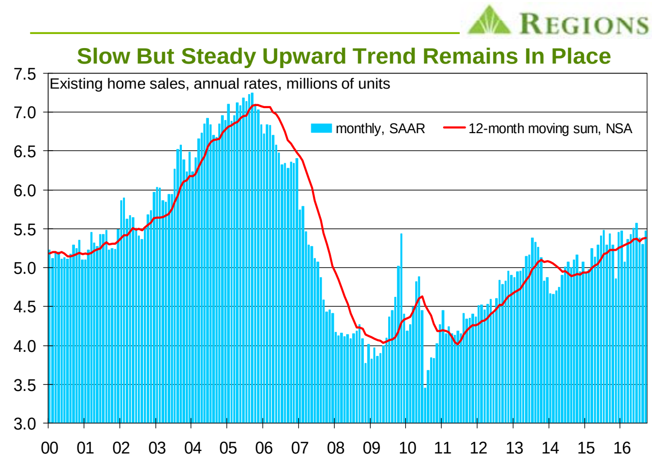
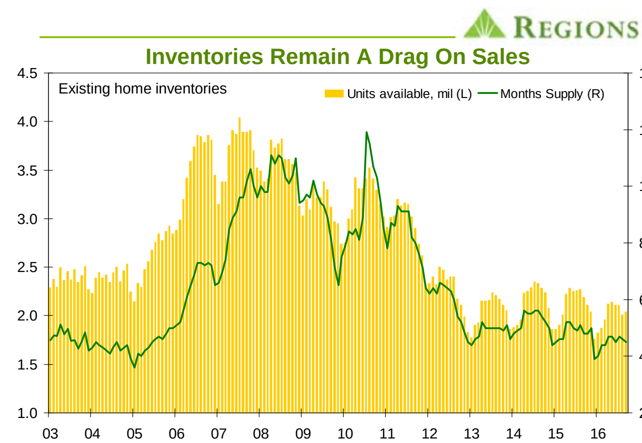
September Existing Home Sales: Slow But Steady Upward Trend Remains In Place

- Existing home sales rose to an annualized rate of 5.470 million units in September from August's (revised) sales rate of 5.300 million units.
- Months supply of inventory stands at 4.5 months; the median existing home sale price rose by 5.6 percent on a year-over-year basis.

Existing home sales rose to 5.470 million units in September, falling between the consensus forecast of 5.320 million units and our high-end forecast of 5.570 million units. Inventories remain a persistent drag on sales, with the months supply metric fell to 4.5 months, while supporting sturdy house price appreciation, with the median sales price up 5.6 percent year-on-year. Reflecting lean inventories, average time on market was 39 days, down from 49 days last September. All in all, the September report on existing homes is consistent with what for some time has been the housing market narrative – solid demand side fundamentals held back by supply constraints.

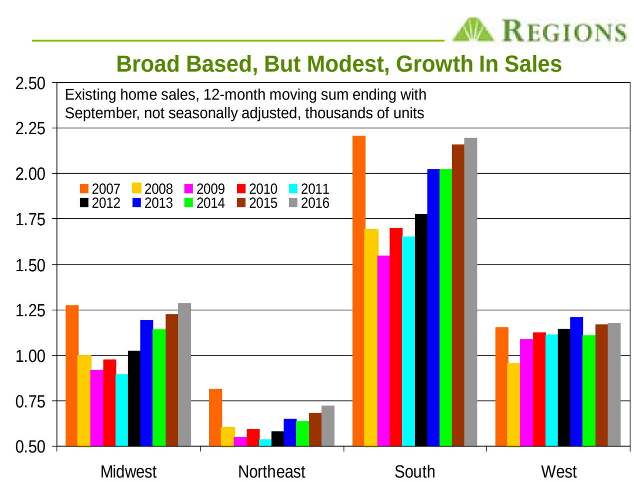


As with much of the economic data of late, disruptions in normal seasonal patterns are impacting the headline existing home sales numbers. For instance, not seasonally adjusted sales fell to 484,000 units in September (our forecast was 494,000 units), down 10.2 percent from August. While it is normal for unadjusted sales to fall in September, this year's decline was larger than is typical, but this reflects unadjusted sales in August being much stronger than the norm for that month. So, in that sense the two months even out to leave underlying sales right about where they would be with typical seasonal patterns. More importantly, as seen in our top chart, the underlying trend, as gauged by the running 12-month sum of unadjusted sales, continues to show steady, albeit somewhat slow, improvement. As of September the running 12-month sum stood at 5.381 million units, the highest since September 2007. As shown in our bottom chart, over the past year sales are higher in each of the four broad regions, though only nominally in the West, where supply constraints are most pressing.



While the increase in listings of existing homes for sale in September, up 1.5 percent from August, runs counter to typical seasonal patterns, this comes after an unusually large decline in August. We have for some time now been expecting robust price appreciation to draw out more inventory, but given the disruption in seasonal patterns we cannot conclude this is what led to September's increase in listings. Coming months will provide the answer, but for now what we see as more significant is even with the month-to-month increase in September, inventories have fallen on an over-the-year basis for 16 consecutive months and now are 6.9 percent below their year-ago level. This is why we remain more concerned with the supply side, rather than the demand side, of the market, which is also the case with new home sales.

One persistent drag on inventories has been a steady decline in distressed sales, which in September accounted for just four percent of all existing home sales. This is the lowest share on record since NAR began tracking this metric in October 2008. CoreLogic has a longer history, which suggests a "normal" share for distressed sales would be right at three percent, so while there is further to go in what has been a protracted process of clearing distress inventories, the end of that process is at least in sight. Another drag on inventories over much of this cycle, negative or low equity positions in homes, has faded and will diminish further as long as price appreciation remains robust. But, one drag on inventories that won't soon fade is the presence of the single family REITs formed in recent years with the purpose of buying up distressed properties and placing them on the rental market. Single family homes have made up an increasing share of the occupied rental housing stock over the past few years, which has left fewer homes to be placed on the market for sale. Lack of supply and rapid price appreciation have likely had a disproportionate impact on first-time buyers, but in September first-time buyers accounted for 34 percent of all existing home sales, below the 40 percent that would be normal but the highest share in over four years.



Beneath what has been considerable seasonal noise in the data, the underlying trends show healthy demand-side fundamentals. But, to the extent supply constraints linger and mortgage rates head higher, we worry how much upside is left for sales,

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