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### January Existing Home Sales: Less Here Than Meets The Eye

- > Existing home sales rose to an annualized rate of 5.690 million units in January from December's (revised) sales rate of 5.510 million units.
- > Months supply of inventory stands at 3.6 months; the median existing home sale price rose by 7.1 percent on a year-over-year basis.

It's the best month for existing home sales since February 2007. Unless of course it isn't. According to the headline number, existing home sales rose to an annualized sales rate of 5.690 million units in January, which is indeed the fastest monthly sales rate in a decade based on the seasonally adjusted annualized data. Sales were above our forecast of 5.610 million units and above the consensus forecast of 5.550 million units. Beneath this shiny, and apparently newsworthy, headline number, however, the January report is much less impressive. On a not seasonally adjusted basis, there were 320,000 existing home sales in January, slightly below our forecast of 324,000 sales. We'll of course leave it up to each individual reader to decide which number they want to go with. We will, however, ask which number squares with the post-election bump in mortgage interest rates and what for some time now have been notably lean inventories of existing homes for sale.

That our forecast of unadjusted sales was a bit too high while our forecast of headline, i.e., seasonally adjusted and annualized, sales was too low means we underestimated the seasonal adjustment factor used to calculate the headline sales number. This is something we discussed in detail in our February *Monthly Economic Outlook* and is exactly why, as our regular readers by now know, we have little use for the headline numbers on the monthly reports on residential construction and sales. January is typically the weakest month for existing home sales, at least on an unadjusted basis. Recall that existing home sales are booked at closing, which typically takes place one-to-two months after the sales contract is signed. Thus, January existing home sales reflect sales contracts signed in November or December, or, during the holiday season, and the reality is there simply isn't as much activity in the housing market at this time of year. But, as we noted in this week's *Economic Preview* we did look for unadjusted sales this January to be a bit stronger than normal for the month, which proved to be the case in part because the post-election bump in mortgage rates likely pulled some sales forward. Combined with a seasonal adjustment factor that for the month of January is, let's say, generous, this yields the lofty headline number on today's report.

Our point here is not to dismiss what has been meaningful improvement in home sales, instead, it is to offer a more realistic portrayal of the extent of that improvement. Really, we love a "sales rise to decade-high as supply falls" headline as much as the next person, but, really? Our preferred measure of the underlying trend in sales, the 12-month moving sum of not seasonally adjusted sales, stands at 5.470 million units as of January, which is the highest such total since August 2007. It is most certainly the case that lean inventories have been a drag on sales. In January, new listings rose modestly from December, in keeping with normal seasonal patterns (the NAR's inventory data are not seasonally adjusted), but nonetheless were down 7.1 percent year-on-year, the 20<sup>th</sup> consecutive month in which listings were down year-on-year. The months supply metric held at 3.6 months in January, the lowest since January 2005, which was pretty much the height of the frenzied pre-recession "housing boom" but recall that at that time sales were running at over a 7-million unit annualized rate.

Other metrics illustrate tight market conditions. The median days on market for homes sold in January was 50 days, down from 64 days in January 2016, with non-distress homes taking 49 days to sell. The median existing home sales price was 7.1 percent higher than January 2016. As we routinely note, repeat sales indices, such as the CoreLogic HPI that we follow, are a better gauge of price appreciation, and the various indices all indicate faster price appreciation over the past several months.

We believe demand remains healthy but worry that higher mortgage rates along with rapid price appreciation may take a toll. For now, though, it is lean inventories that make us question how much upside there is for existing home sales in 2017.

