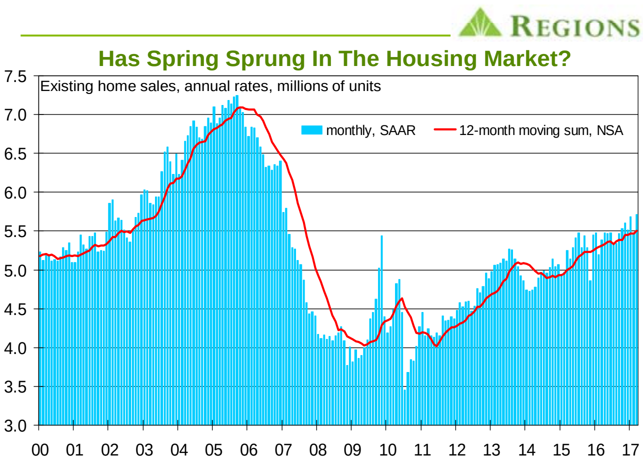
ECONOMIC UPDATE
REGIONS
April 21, 2017

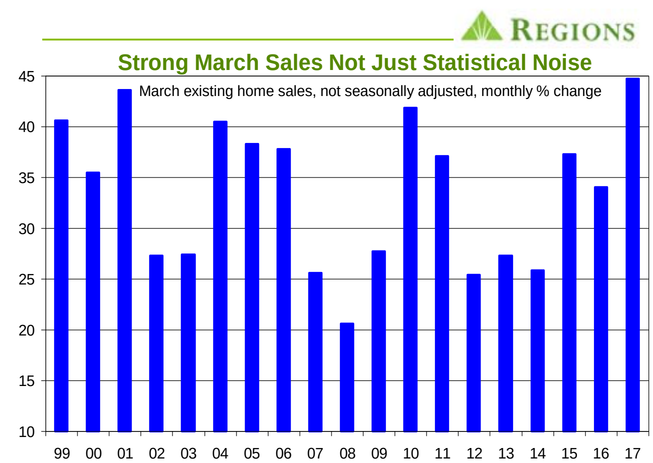
March Existing Home Sales: Has Spring Sprung In The Housing Market?

- Existing home sales rose to an annualized rate of 5.710 million units in March from February's (revised) sales rate of 5.470 million units.
- Months supply of inventory stands at 3.8 months; the median existing home sale price rose by 6.8 percent on a year-over-year basis.

Sales of existing homes rose to an annual rate of 5.710 million units in March, matching our forecast and ahead of the consensus forecast of 5.600 million units. March's sales rate marks the fastest monthly sales rate since February 2007, back when, you know, sales were beating a hasty retreat in the opposite direction. Still, despite the impressive headline sales number, we think the bigger story remains inventory, or the lack thereof. At 3.8 months in March, the months supply metric remains well below where it would be in a fully healthy housing market, and further evidence of tight market conditions comes in the form of the speed at which homes are trading and the rate of price appreciation. For some time now we have held that the demand side of the housing market is just fine and that any concerns come from the supply side. The March report does nothing to change our view.

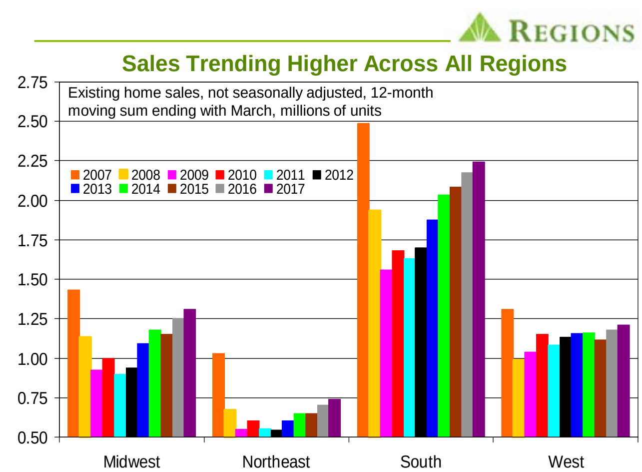


The strength of March existing home sales can best be seen by looking at the not seasonally adjusted data, which our regular readers know is what we focus on when it comes to the housing market data. While March is typically a seasonally strong month for sales, this year proved notably strong. On a not seasonally adjusted basis, there were 456,000 sales in March, topping our forecast of 436,000 units (that we got the headline number correct simply reflects our forecast for the seasonal adjustment factor being too high). This reflects a 44.8 percent increase from February, the largest such change for the month of March in the life of the NAR's current series on existing home sales, which goes back to 1999. Sales posted sizeable gains in each region, ranging from a 40.7 percent increase in the South to a 53.0 percent increase in the Northeast. The running 12-month total of not seasonally adjusted sales, which we see as the best gauge of underlying trends, stands at 5.505 million units as of March, the highest since August 2007.



Still, we do remain concerned as to how much upside there is for existing home sales thanks to lingering inventory constraints. Listings typically rise in the month of March ahead of the spring sales season, followed by a much larger increase in the month of April (the NAR inventory data are not seasonally adjusted). The 5.8 percent increase in listings this March is larger than normally seen for the month, but nonetheless leaves inventories of existing homes for sale down 6.6 percent year-on-year, the 22nd consecutive month in which listings are down year-on-year. Indeed, the number of listings in March is the second lowest for the month of March in the life of the NAR data. Our concern is that sellers may have been motivated to move faster this year, i.e., list their homes for sale sooner than would have otherwise been the case. Coming months will tell whether or not our concerns are valid, but if we are correct sales over coming months could be softer than normal during what is typically the height of the sales season.

The median days on market for homes sold in March was just 34 days, down from 47 days in March 2016 and 52 days in December 2016. While it is true that buyers could have been motivated to act by the prospect of higher mortgage rates, we think this is more a reflection of them being motivated by lean inventories, knowing that any hesitation could mean missing out. Increasingly competitive bidding on limited inventories has fueled rapid price appreciation; as we routinely note, repeat sales indices, such as the CoreLogic HPI that we follow, are a better gauge of price appreciation than the median sales price, and the various indices all indicate faster price appreciation over the past several months. Higher prices are acting as an impediment to first-time buyers, who accounted for 32 percent of all sales in March, well below the roughly 40 percent share we'd see in a more normal market. Between a far greater share of single family homes on the rental market and many current owners "locked in" by favorable mortgage interest rates, we wonder how much relief there will be on the supply side of the market over coming 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.

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