ECONOMIC UPDATE

REGIONS

July 24, 2017

June Existing Home Sales: Headline "Miss" Masks Best Month For Sales Since 2006

- Existing home sales fell to an annualized rate of 5.520 million units in June from May's sales rate of 5.620 million units.
- Months supply of inventory stands at 4.3 months; the median existing home sale price rose by 6.5 percent on a year-over-year basis.

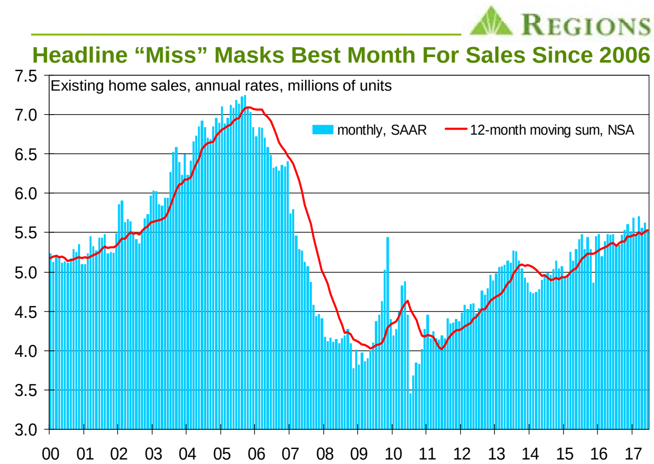
June existing home sales were both below and above our forecast. We know what you're thinking, but, no, we haven't come up with a new way to be wrong twice with a single forecast, though that would sure give those anemic productivity numbers a boost. In any event, June's headline sales number, reported on a seasonally adjusted and annualized basis, came in at 5.520 million units, shy of our forecast of 5.590 million units. While that "miss" is what will drive the narrative of the reporting on the June data, the miss that actually matters will likely get very little attention, at least outside of this page. On a not seasonally adjusted basis, June existing home sales came in at 601,000 units, ahead of our forecast of 584,000 units and, oh by the way, the best month for existing home sales since August 2006. Good luck finding that bit of information in any coverage of today's report.

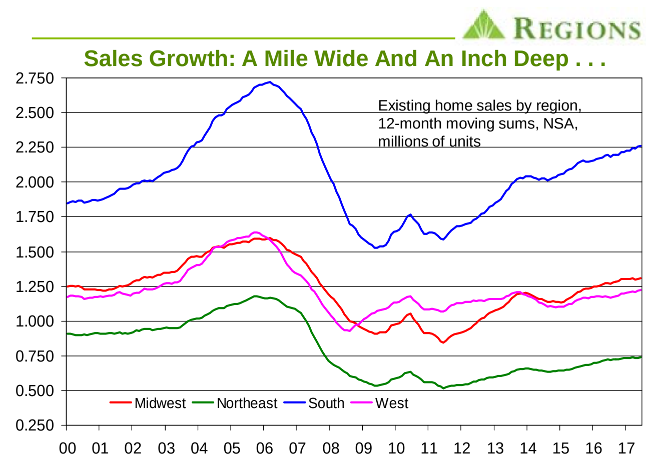
That our forecast of not seasonally adjusted sales was too low while our forecast of the seasonally adjusted annualized headline number was too high simply says we were off in our estimate of the seasonal adjustment factor (it was smaller than we had estimated) which, in the grand scheme of things, is meaningless. This is, however, yet another illustration of why we repeatedly stress the importance of the not seasonally adjusted data on residential construction and home sales, regardless of whether or not other accounts give those numbers the attention they deserve. We consider the 12-month moving sum of not seasonally adjusted sales to be the best gauge of underlying trends, and with the June data that total now stands at 5.530 million units, the highest since August 2007. June saw unadjusted sales rise in each of the four broad regions though, as seen in our middle chart, sales are struggling to consistently find higher ground in three of the four regions, the South being the exception and even there growth is hardly robust.

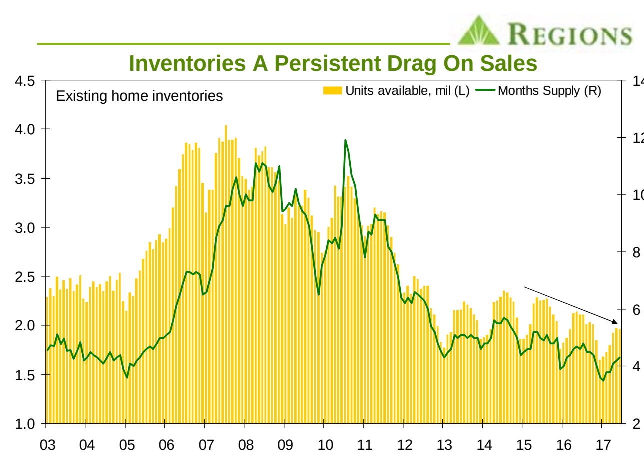
Even with June having been the best month for existing home sales since August 2006, the main story of the market remains supply. Or, lack thereof. Listings of existing homes for sale fell to 1.960 million units June, below our forecast of 1.980 million units. The NAR inventory data are not seasonally adjusted, and we typically see the seasonal peak in listings in the May-July period. In that sense, the decline in listings in June is not a huge surprise, but what is striking is that listings were down 7.1 percent year-on-year, making June the 25th consecutive month in which inventories are lower year-on-year. As seen in our bottom chart, what this means is that the seasonal peaks have been getting progressively lower in each subsequent year since 2014. Keep in mind that a main factor behind what were higher inventories earlier in the post-recession period was the flood of distress properties coming back to the market. Distress sales accounted for 4.0 percent of all existing home sales in June, still above the roughly 3.0 percent share that served as "normal" the last time that word had any meaning as applied to the housing market, but between 2009 and 2011 distress sales accounted for between 25 and 33 percent of all sales according to data from CoreLogic. Another factor behind lean listings, one we have been commenting on for the past few years, is the increased prominence of single family REITs, which have snapped up what in many markets are significant numbers of existing single family homes and placed them on the rental market.

We have noted many times we don't look for much relief on the supply side any time soon. As to the single family REITs, they are at present enjoying the best of both worlds – steady rent growth is fueling cash flow while at the same time rapid price growth is fueling capital appreciation. While the median existing home sales price was up 6.5 percent, year-on-year, in June, the more relevant gauge of home prices comes by way of repeat sales price indices, such as the CoreLogic HPI, which continue to show steady and rapid appreciation.

We believe demand remains healthy but worry that rapid price appreciation may take a toll, particularly if mortgage rates move up appreciably. For now, though, it is lean inventories that make us question how much more upside there is for existing home sales even given what, despite the headlines, was a notably strong June.







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