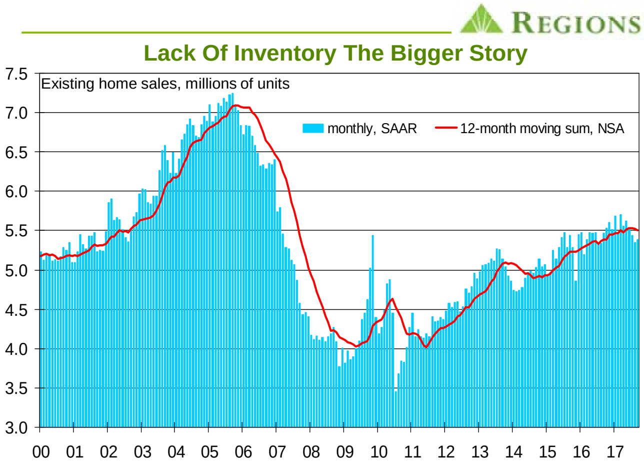
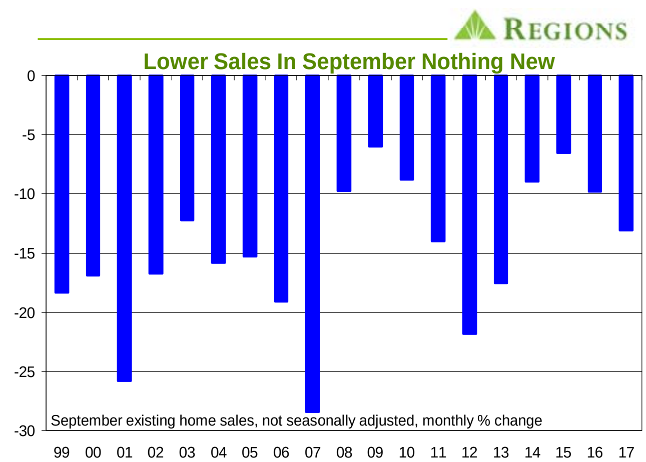
September Existing Home Sales: Lack of Inventory The Bigger Story

- Existing home sales rose to an annualized rate of 5.390 million units in September from August's sales rate of 5.350 million units.
- Months supply of inventory stands at 4.2 months; the median existing home sale price rose by 4.2 percent on a year-over-year basis.

Sales of existing homes rose modestly in September, with the annualized sales rate up to 5.390 million units from August's sales rate of 5.350 million units. Nonetheless, sales were down year-on-year for the first time since July 2016, which to a large extent reflects limited inventories of existing homes for sale. Inventories were once again down year-on-year and the months supply metric stands at 4.2 months, easily below what would be seen in a more balanced market. We see little to suggest the inventory picture will change to any meaningful degree any time soon.

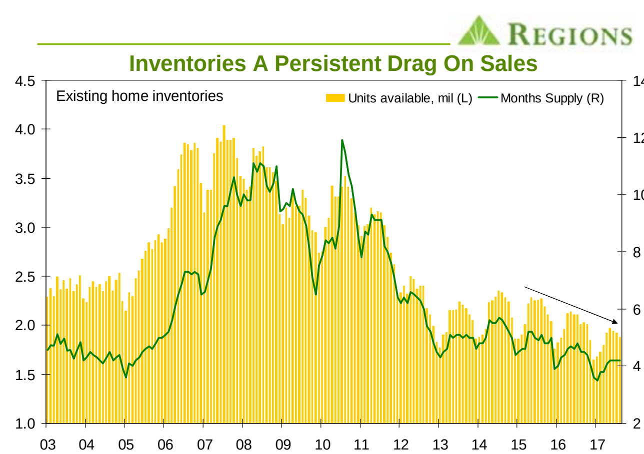


September's headline (i.e., seasonally adjusted annualized rate) sales figure came in easily above our forecast of 5.280 million units. But, on a not seasonally adjusted basis, September sales of 465,000 units were in line with our forecast of 462,000 units. That our forecast of the headline sales number was well off the mark simply reflects the seasonal adjustment factor used by NAR being more generous than we had anticipated even though we accounted for there being one fewer sales day this September than last. Unadjusted sales were down in each of the four broad regions, though sales in the South were a bit better than we had expected in the wake of Hurricanes Harvey and Irma. Keep in mind that existing home sales are booked at closing, so while Harvey led to many closings in the Houston metro area being put off in August many of those were made up for in September. Florida will show a similar pattern, i.e., many sales put off in September due to Irma will be made up for in the October data.



While the distortions from the hurricanes will even themselves out, a more notable story is that even allowing for normal seasonal patterns, sales in the other three regions were weaker in September than is typically the case. As seen in our middle chart, unadjusted sales typically fall in the month of September, but in the Midwest, Northeast, and West regions the decline in sales this year was larger than the typical September decline, and by a large measure. What is even more notable is sales of homes priced at or below $250,000 were down significantly year-on-year in each of the four regions, while in the Northeast and West sales in the $250,000-to-$500,000 price range were also down year-on-year. This largely reflects inventory constraints that have helped push sales prices steadily higher.

Listings of existing homes for sale rose to 1.900 million units in September – the inventory data are not seasonally adjusted and listings typically fall in the month of September, so for anyone looking for a glimmer of hope . . . Nah, not really, as despite the modest increase in September listings are down year-on-year for a 28th consecutive month and the 1.900 million listings is still the lowest number for the month of September on record. The median number of days on market for homes sold in September was 34 days, slightly above what was seen at the height of this year's sales season but still below the 39 day median seen last September and much lower than would be seen in a balanced market.



The shorter time on market is one effect of lean inventories, and another effect is robust house price appreciation. While it is true that the 4.2 percent year-on-year increase in the median sales price in September is the smallest such increase since August 2014, we're not sure this is all that meaningful given the median price is sensitive to the mix of sales, and it should also be kept in mind that base effects mean the year-on-year comparisons will get harder as time goes on. We put much more stock in the repeat sales price indexes, and these show continued rapid house price appreciation. Perhaps a more telling signal of the impact of this period of rapid price appreciation is that first-time buyers, who will be more sensitive to pricing issues, accounted for just 29 percent of all sales in September, well below the 40 percent considered normal.

We continue to see the demand side of the market as healthy, though vulnerable to a material increase in mortgage interest rates. While there remains a high volume of hurricane related noise in the data, ongoing inventory constraints remain the bigger story.

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