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November Existing Home Sales: We're Not Buying

- Existing home sales rose to an annualized rate of 5.810 million units in November from October's revised sales rate of 5.500 million units.
- Months supply of inventory stands at 3.4 months; the median existing home sale price rose by 5.8 percent on a year-over-year basis.

The headlines say existing home sales rose to an almost 11-year high in November, with an annualized sales rate of 5.810 million units, smashing not only the consensus forecast of 5.500 million units but also our above-consensus call of 5.660 million units. So, clearly those of us who for months have been going on and on about lean inventories acting as a material drag on existing home sales have simply been wrong, right? Umm, maybe not. As we noted in our weekly *Economic Preview*, there would be a considerable volume of noise in the November data on residential construction and home sales that would make the data look much better than the reality of the housing market. This was the case with yesterday's release on residential construction, and it is true of today's release on existing home sales.

Our suggestion was to dismiss the headline numbers on the November reports and focus on the not seasonally adjusted data. The not seasonally adjusted data show there were 427,000 existing home sales in November, our forecast was for 426,000 sales; as of November, the running 12-month total of existing home sales, which we see as the most reliable gauge of underlying trends, stood at 5.523 million units. As seen in our chart to the side, what had been a slow but steady increase in that trend pace of sales has ground to a halt over the past six months. This is by no means a reflection of the demand side of the market, which remains quite healthy, but it is a reflection of what remain notably low inventories.

We noted in our *Preview* that in the life of the data not seasonally adjusted sales had never risen in the month of November and this year would prove no exception. So, that sales fell 6.77 percent from October, with sales lower in each of the four broad regions, is not news, though it may make you wonder how the headline sales number hit an almost 11-year high in November. Three words – generous seasonal adjustment. As if to prove our point, the slight upward revision to the initial estimate of October sales reflects an upward revision not to unadjusted sales but to the seasonal adjustment factor applied to unadjusted sales. The aim here isn't to bash seasonal adjustment but to point out that process isn't perfect and, though they seldom get the attention they deserve, the trends in the not seasonally adjusted data tell the real story. For now, the story is that sales have flattened out.

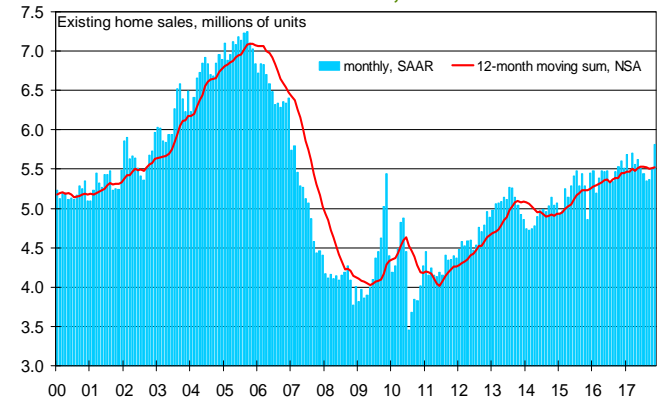
Again, the issue is lack of inventory. There were just 1.670 million listings in November, the second lowest on record. Inventories have now fallen on an over-the-year basis for 30 consecutive months. The months supply metric fell to 3.4 months in November, which is the lowest on record – even lower than at the peak of the housing market frenzy that led up to the 2007-09 recession. This year is the third straight year in which the seasonal top in listings (the NAR inventory data are not seasonally adjusted) has been lower than the prior year's, and contrary to the expectations of many analysts that the year-on-year declines would get progressively smaller as this year wore on, the opposite is turning out to be the case. Another sign of the dearth of listings is that the median time on market for homes sold in November was 40 days, up a bit from October but lower than November 2016.

Persistently lean inventories are supporting faster price appreciation than would otherwise be the case. The median sales price in November was up 5.8 percent year-on-year. While the median sales price in any given month is sensitive to the mix of sales, the details of the data show sales being increasingly concentrated in the higher price ranges, and the various repeat sales price indexes, such as CoreLogic, that we see as a better reflection of price trends continue to show robust price appreciation. As this endures, the danger is that more and more prospective buyers, particularly first-time buyers, get priced out of the market, and a meaningful increase in mortgage rates would heighten this downside risk to sales.

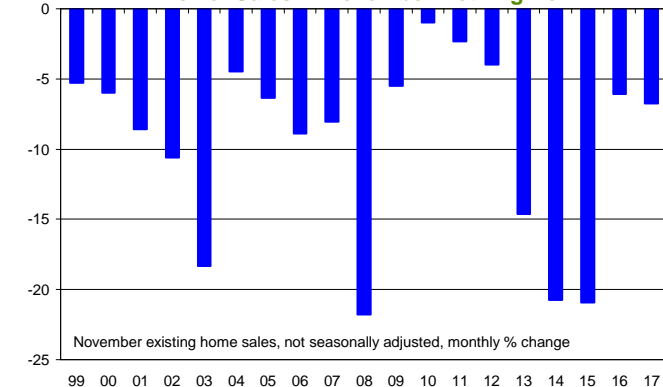
Headline numbers come and go, but our take on the market remains the same. The demand side of the market remains healthy and, concerns over pricing notwithstanding, we expect this to remain the case. At the same time, we expect the bigger story to be persistently lean inventories continuing to act as a material drag on sales.



Toss Out The November "Headline," Focus On Our Red Line




Lower Sales In November Nothing New




Inventories A Persistent Drag On Sales

