ECONOMIC UPDATE

REGIONS

August 22, 2018

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July Existing Home Sales: Lean Inventories Will Keep Home Sales Range Bound

- Existing home sales fell to an annualized rate of 5.340 million units in July from June's sales rate of 5.380 million units.
- Months supply of inventory stands at 4.3 months; the median existing home sale price rose by 4.5 percent on a year-over-year basis.

Existing home sales fell to an annualized rate of 5.340 million units in July from June's sales rate of 5.380 million units, the fourth consecutive month in which the monthly sales rate has fallen, something last seen in 2013. Sales were either lower or higher than our forecast, it just depends on which forecast you pick. Our forecast of "headline" sales, i.e., the seasonally adjusted annualized sales rate, was an above-consensus 5.420 million units, which proved to be too high. Our forecast of not seasonally adjusted sales was 519,000 units, slightly below actual sales of 522,000 units. That our forecast of unadjusted sales was too low while our forecast of headline sales was too high simply means our estimate of the July seasonal adjustment factor was too high which, in the grand scheme of things, is the definition of trivial. In our weekly *Economic Preview*, we noted that the headline sales number on this week's reports on existing and new home sales would not change anyone's view of the housing market, and as if on cue the headline sales number, which after all is what gets reported on and, in turn, reacted to, fits right into the gloomy narrative of the housing market that has become quite the rage of late. As for us, our focus is what it is on each and every month, i.e., the running 12-month total of not seasonally adjusted sales. As of July, that total stands at 5.460 million units, up from June but nonetheless well below the post-recession high of 5.529 million units in both June and July of 2017. We have to see anything that would cause us to alter our view that it is the supply side of the market, not the demand side, that is holding down home sales, both existing and new.

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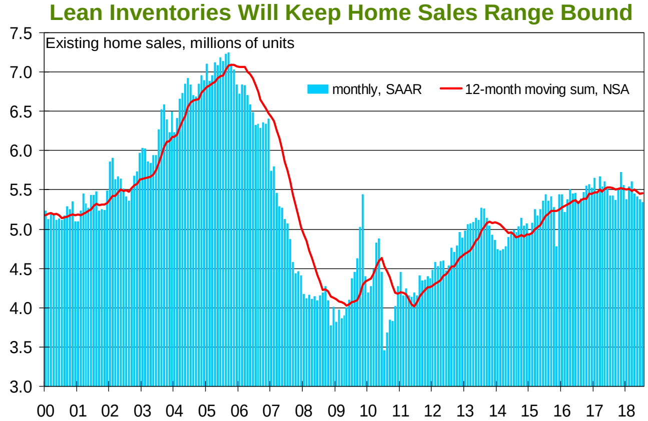
Lean Inventories Will Keep Home Sales Range Bound



In our preview of the July existing home sales report, we said the single most important number in the report would be the inventory number. Recall that the June report showed a spike in listings which came, quite literally, out of the blue. As it turns out, while listings did rise in June, they didn't rise as much as was initially reported, such that June marked the 37th consecutive month in which listings were down year-on-year. While listings typically rise, albeit only modestly, in the month of July, listings fell slightly this July but were nonetheless unchanged on an over-the-year basis. So, at least the streak of year-on-year declines is over, right? Well, let's wait and see where the initial estimate of July inventories stands after revision, but the broader point is that it won't matter much. The typical seasonal patterns (the NAR inventory data are not seasonally adjusted) in any given year show a slight increase in listings in the month of August before they drift lower over the remainder of the year. But even if we see that slight bump in inventories in the August data, it won't materially ease what is a pressing supply constraint, which will remain a drag on sales and a tailwind for price appreciation. As of July, the months supply metric stood at 4.3 months, well below the roughly 6.0 months consistent with a balanced market, and 2018 remains on course to be the fourth consecutive year in which the seasonal top in listings was lower than that of the prior year, consistent with our view that the problems in the housing market remain largely concentrated on the supply side, not the demand side.

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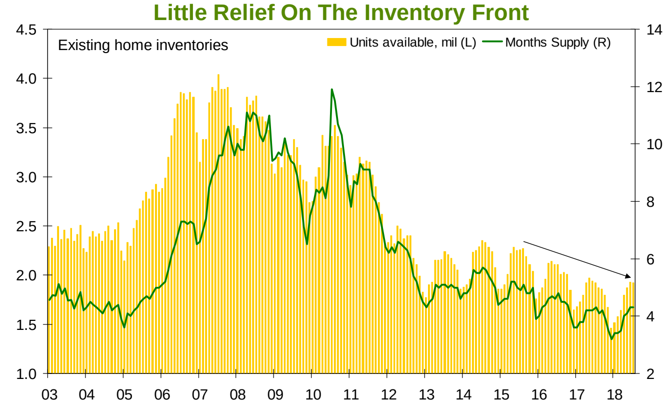
Little Relief On The Inventory Front



The impact on house price appreciation is more apparent in the various repeat sales price indexes (we prefer the CoreLogic HPI) than the NAR's median sales price. Either way, competition for listings is intense, with the median time on market for homes closed in July at just 27 days. The biggest inventory shortfall is in homes on the lower side of the price scale, much to the detriment of first-time buyers, who accounted for 32 percent of all sales in July, well off historical norms. First-time buyers are most vulnerable to the combination of limited inventories, robust price appreciation, and higher mortgage rates. It is worth noting that distress sales accounted for three percent of total existing home sales in July, having fallen back in line with the pre-crisis norm.

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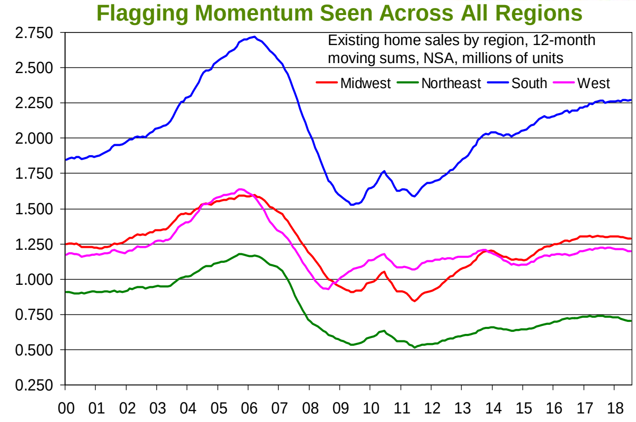
Flagging Momentum Seen Across All Regions



Our premise has for some time been that the issues in the housing market lie on the supply side of the market. Even if only in the sense that you can't get up until you actually stop falling, that the persistent year-on-year declines in listings seem to have come to an end is at least a modestly hopeful sign. That said, inventories figure to remain on the wrong side of normal for some time to come, which will keep sales fairly range bound.

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