ECONOMIC UPDATE

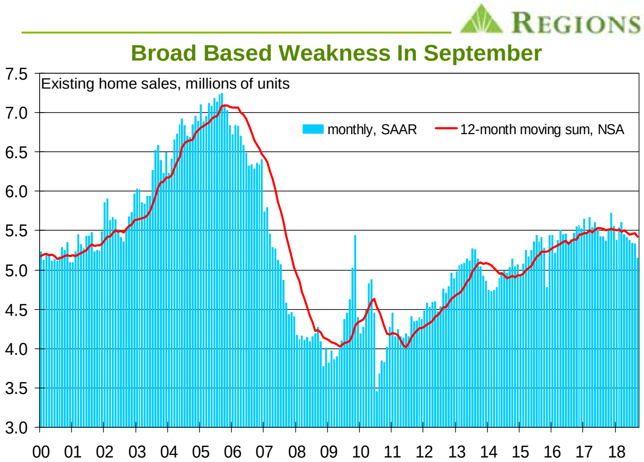
REGIONS

October 19, 2018

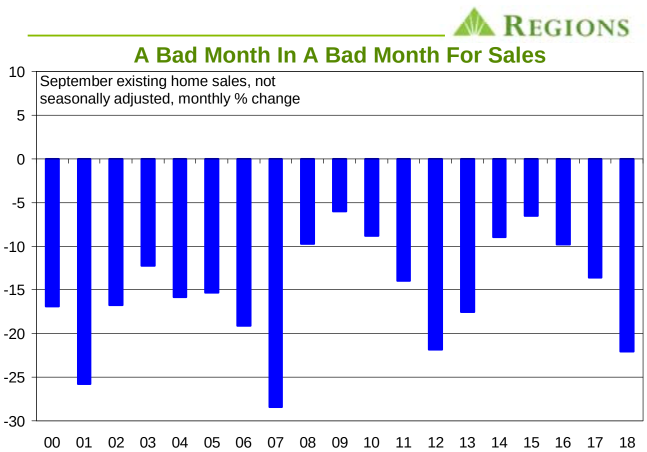
September Existing Home Sales: A Bad Month In A Bad Month For Sales

- Existing home sales fell to an annualized rate of 5.150 million units in September from August's (revised) sales rate of 5.330 million units
- Months supply of inventory stands at 4.4 months; the median existing home sale price rose by 4.2 percent on a year-over-year basis

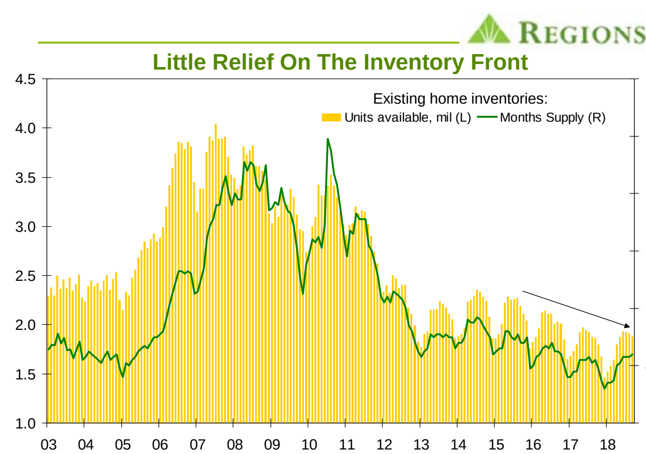
Existing home sales fell to an annualized rate of 5.150 million units in September, well below our below-consensus forecast of 5.240 million units and the lowest monthly sales rate since November 2015. On a not seasonally adjusted basis, there were 420,000 existing homes sold in September, which fell far short of our forecast of 454,000 sales. At 172,000 units, sales in the South region were in line with our forecast, which anticipated Hurricane Florence adversely impacted sales. That said, sales in each of the other three regions underperformed our expectations, which tells us the weakness in the South region cannot be entirely attributed to Florence.



As always, there is a lot going on in the data beneath the headline sales number, and as always most of that will be ignored in accounts of the weak September headline sales number. For instance, the "instant analysis," a term which is half right (we'll let you decide which half that is), put the blame squarely on higher mortgage interest rates. Okay, but keep mind that existing home sales are booked at closing, meaning that September closings reflect sales contracts which for the most part were signed from mid-July through August, a period during which mortgage rates were no different than they had been over the prior two months. So, unless mortgage interest rates have some super-cool ability to travel back in time and distort home sales that have already happened, that's not really the explanation for the weak September headline sales number. We also heard one analyst proclaim "you can't blame this on inventory anymore," the basis for this statement being that inventories had risen 1.1 percent on a year-on-year basis. Which is true, but what is more relevant is that listings fell by 1.6 between August and September, which is the more meaningful story here given what had seemed like an encouraging bump in listings over the summer months. In the "for what it's worth" category, the 1.6 decline in listings in September was below the average decline typically seen in the month of September (the NAR inventory data are not seasonally adjusted). Even leaving these points aside, a months supply metric of 4.4 months tells us that, yes, lean inventories are still a main culprit behind soft sales.



As seen in our middle chart, September is a seasonally weak month for existing home sales, second only to January in terms of the average month-to-month decline. Still, this September stood out, and not in a good way, given the magnitude of the decline in sales; the 22.1 percent decline from August is larger than the average September decline of 15.1 percent over the 1999-2017 period. There was one fewer selling day this September compared to last September, and there was at least some impact from Hurricane Florence. It isn't that we're trying our best to make a bad number a good number, but instead this simply goes to our point that there are many factors that have to be accounted for in trying to interpret the data. The September sales number is a bad number, and there isn't any way around that, but that doesn't mean that the simple and obvious explanation is the correct explanation. Either way, with the 420,000 sales in September, the running 12-month total of not seasonally adjusted sales slipped to 5.423 million units, as shown in our top chart.



Obviously higher mortgage rates come into play – rates today are about 30 basis points above where they were when the sales contracts for September existing home sales were signed. That, in and of itself, won't choke off home sales, and metrics such as months supply and what is still a low – 32 days for September sales – time on market suggest that lean inventories are still a considerable drag on sales. That listings are up year-on-year over the past two months is encouraging after a run of 37 consecutive months of year-on-year declines in listings. Inventories have likely bottomed, but by no means will the process of listings returning to more normal levels be a quick one. Keep in mind that we are in what is seasonally the weakest period of the year for inventories – listings tend to decline from September through December in any given year, so what will be more relevant over coming months are the year-on-year comparisons and months supply. We remain constructive on the demand side of the market, even allowing for higher mortgage rates, and continue to see soft existing home sales as more of a supply story.

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