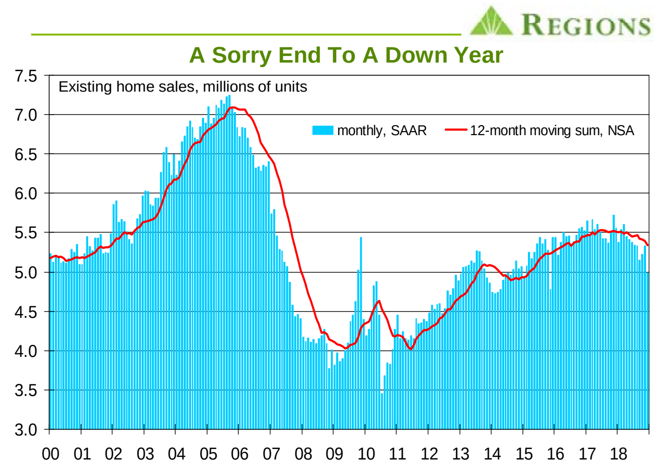
ECONOMIC UPDATE
REGIONS
January 22, 2019

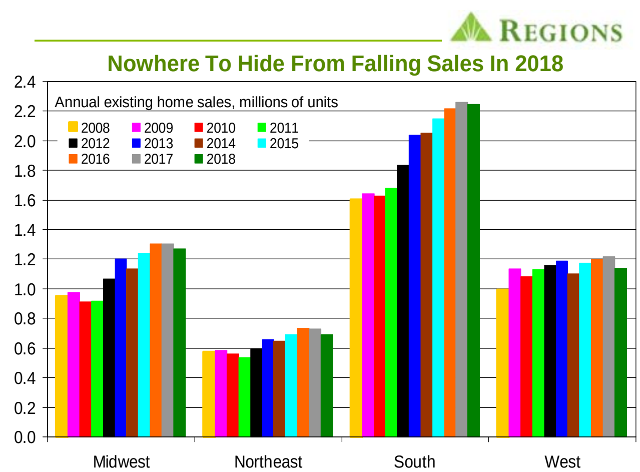
December Existing Home Sales: A Sorry End To A Down Year

- Existing home sales fell to an annualized rate of 4.990 million units in December from November's sales rate of 5.330 million units
- Months supply of inventory stands at 3.7 months; the median existing home sale price rose by 2.9 percent on a year-over-year basis

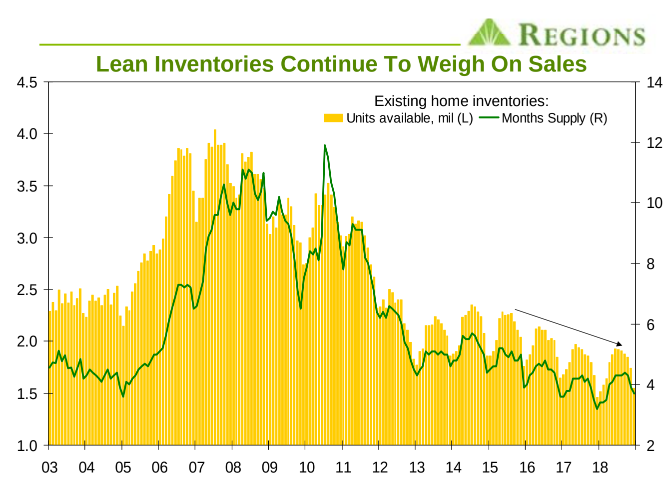
We noted in our weekly *Economic Preview* that, when it came to the report on December existing home sales, there would be good news and bad news. The good news would be that the report would be released on schedule, undisturbed by the partial government shutdown. The bad news would be that the report would be released on schedule, or, at least this would be bad news if our forecast of an annualized sales rate of 4.980 million units was anywhere near the mark. As it turns out, existing home sales sank to an annualized rate of 4.990 million units in December, in line with our forecast but far below the consensus forecast of 5.220 million units. December's sales rate is the lowest monthly sales rate since November 2015, though sales in that month were impacted by regulatory changes (TRID rules), so one would have to go back to January 2015 to find a lower monthly sales rate than that seen in December. Even with the steep decline in sales, the months supply metric fell in December, and now stands at 3.7 months. The median existing home sales price was up just 2.9 percent year-on-year, marking a further deceleration in price appreciation. As we also noted in our weekly *Preview*, however, we think there is more life to the housing market than is implied by the dismal December data.



As it turns out, the December data were even more dismal than we expected, despite our coming close on our forecast of the headline sales number. As our regular readers know, we pay little attention to the seasonally adjusted annualized data on residential construction and home sales, instead focusing on the trends in the not seasonally adjusted data. On a not seasonally adjusted basis, there were 377,000 existing home sales in December, well below our forecast of 396,000 sales. While our forecasts of unadjusted sales in the Northeast and West regions were on the mark, sales in the Midwest and the South regions were weaker than our forecast anticipated. For 2018 as a whole, there were a total of 5.343 million existing home sales, down 3.48 percent from 2017. Sales were down by 2.94 percent in the Midwest, by 6.56 percent in the Northeast, by 0.95 percent in the South, and by 6.87 percent in the West. As we've frequently noted, inventory and affordability constraints have been much more binding in the West than in the other three regions, one indication of which is that, at 1.138 million units, 2018 was the weakest year for existing home sales in the West since 2014.



While we've for some time been of the mind that most of the problems in the for-sale segment of the housing market, new and existing, have been on the supply side of the market, it was clear that as 2018 wound down, the combination of higher mortgage rates and a prolonged period of robust house price appreciation had done a number on demand for home purchases. But, though still too soon to draw definitive conclusions, there are at least tentative signs that easing affordability constraints are pulling prospective buyers back into the market. House price appreciation has ebbed over recent months – recall that in December 2017 the median existing home sales price was up 5.7 percent year-on-year – and mortgage rates have fallen from their 2018 highs. Thus far in January, applications for purchase mortgages have spiked, and what remains to be seen is whether this simply reflects a surge of those sitting on the fence waiting for another chance to buy or whether there is more underlying demand than has been apparent in the sales data over recent months. Our view is that it is more of the latter than the former, but it will take more time to be able to answer this question, particularly in the absence of data on new home sales thanks to the ongoing partial government shutdown. Another encouraging sign is that listings of existing homes for sale rose 6.2 percent year-on-year in December (our forecast anticipated a 6.8 percent increase), marking the fifth consecutive month in which listings rose year-on-year. As the Spring selling season approaches, the single most important data point to focus on, at least to us, will be the inventory of homes for sale.



We expected little from the December existing home sales data and got even less. That said, we continue to think that a healthy labor market and at least some improvement on the inventory front leave some upside room for home sales in 2019.

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