ECONOMIC UPDATE

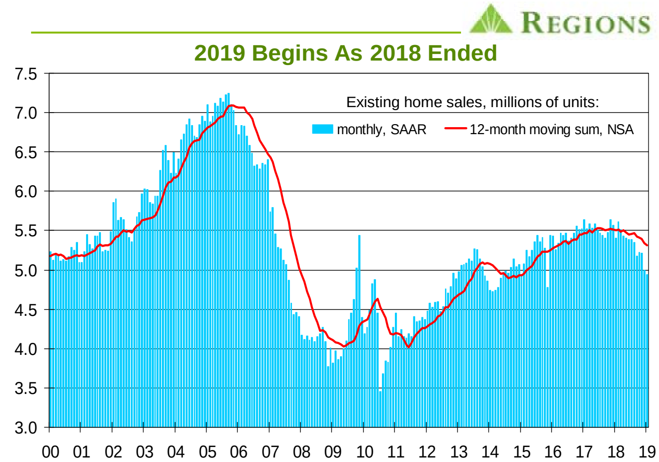
REGIONS

February 21, 2019

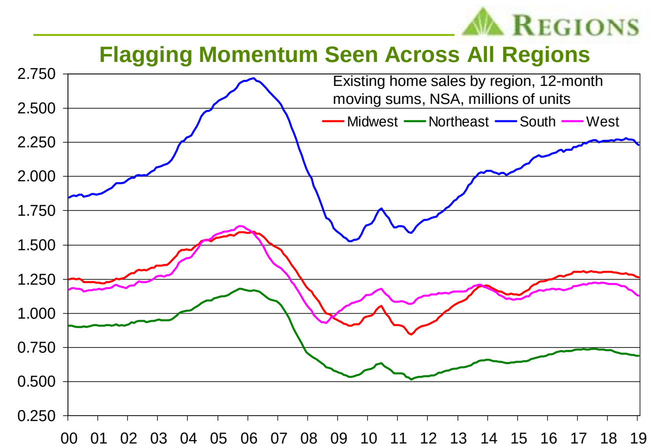
January Existing Home Sales: 2019 Begins As 2018 Ended

- Existing home sales fell to an annualized rate of 4.940 million units in January from December's sales rate of 5.000 million units
- Months supply of inventory stands at 3.9 months; the median existing home sale price rose by 2.8 percent on a year-over-year basis

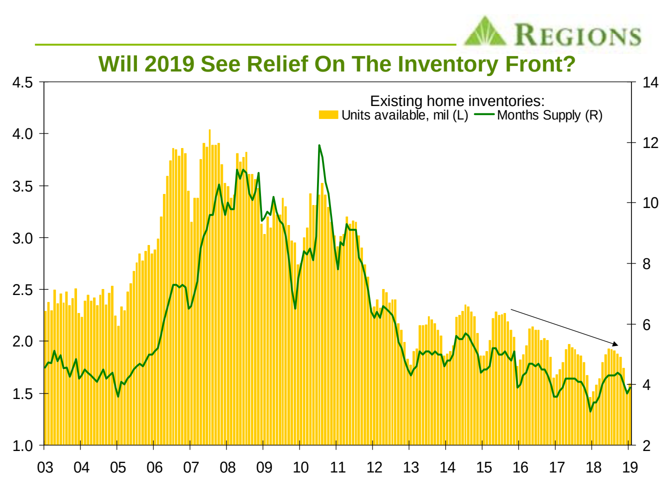
Existing home sales ended 2018 with a resounding thud and followed through by starting 2019 with a flop that would be the envy of the New York Knicks. Total existing home sales slipped to an annualized sales rate of 4.940 million units in January, shy of the consensus forecast of 5.000 million units and even further below our forecast of a 5.120 million unit sales pace. January's sales pace is the slowest monthly sales pace 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 month in which sales were lower on the merits than in January. The months supply metric stands at 3.9 months and the median existing home sales price rose by 2.8 percent year-on-year, in keeping with the marked deceleration in house price appreciation seen over the past several months. While January's headline sales number is somewhat bleak, that should not deflect attention away from what is an actual bright spot in the January data. Inventories of existing homes for sale rose by 3.9 percent, larger than the typical January increase, which leaves listings up 4.6 percent year-on-year. The disappointing headline sales number notwithstanding, we continue to believe that there is more life left in the housing market than is implied by the weak sales data over recent months.



As always, our focus is on the raw, or, not seasonally adjusted data. In our weekly *Economic Preview*, we noted that January is the weakest month of the year for not seasonally adjusted existing home sales. To a large extent, this reflects the fact that existing home sales are booked at closing, and January closings mostly reflect sales contracts signed from mid-November through late-December, a/k/a the holiday season. So, even in the best of years, January sales will be weak, but this year that inherent weakness was magnified by conditions in Q4 2018, including the ongoing rout in the equity markets, flagging consumer confidence, and diminished affordability thanks to the cumulative effects of robust price appreciation and mortgage rates that were lingering at multi-year highs. Not exactly a winning recipe for home sales, as evidenced by not seasonally adjusted sales of 285,000 units in January. This is below our forecast of 298,000 units, and marks the lowest monthly total of not seasonally adjusted sales since January 2015. As of January, the running 12-month total of not seasonally adjusted sales, which we see as the best gauge of underlying sales trends, stands at 5.315 million units, the lowest since March 2016. As seen in our middle chart, the trend sales rate has softened in each of the four broad regions, with the most pronounced erosion seen in the West region – the region in which inventory and affordability constraints have been the most pressing.



Still, while the sun may or may not come out tomorrow, we do see some upside room for existing home sales over coming months. For starters, mortgage rates are down almost 60 basis points from their November 2018 peak which, along with a slowdown in the pace of price appreciation, has eased affordability constraints. In tandem with increased affordability, the inventory data are encouraging, even if not wildly so. We have for some time pointed to supply constraints as the biggest problem in the existing homes market, and our bottom chart illustrates our point. The NAR inventory data are not seasonally adjusted, and it is telling that 2018 was the fourth consecutive year in which the seasonal peak in listings was lower than that of the prior year. January marks the sixth straight month in which listings were up year-on-year, still no match for the run of 37 months in which listings were down year-on-year, but at least moving in the right direction. To the point that, at the risk of going out on a limb here, we expect this year's seasonal peak in listings to be higher than 2018's. Should the demand side of the market hold up as we expect, based on trends in job growth, income growth, and consumer confidence, that should leave upside room for sales in 2019, particularly as any increases in mortgage interest rates are likely to be more gradual than those seen in 2018.



Sure, we expected little from January existing home sales and got even less. That said, in contrast to the "housing is done" narrative, we expect more out of the 2019 sales season.

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