ECONOMIC UPDATE
REGIONS
April 22, 2019

March Existing Home Sales: Not Much Spring In March Sales, But Still Upside Room

- Existing home sales fell to an annualized rate of 5.210 million units in March from February's (revised) sales rate of 5.480 million units
- Months supply of inventory stands at 3.9 months; the median existing home sale price rose by 3.8 percent on a year-over-year basis

Existing home sales fell to an annualized rate of 5.210 million units in March, lower than we (5.410 million) and the consensus (5.300 million) expected, with February sales now reported at an annual rate of 5.480 million units, down slightly from the initial estimate of 5.510 million units. On a not seasonally adjusted basis, there were 400,000 existing home sales in March, below our forecast of 424,000 sales. Though inventories rose in March, the increase was less than our forecast anticipated and, at 3.9 months, the months supply metric continues to indicate that lean inventories remain a meaningful drag on sales. While supply constraints are likely weighing more heavily on sales in the lower price ranges, sales at the higher end of the price range continue to slump on an over-the-year basis, which likely reflects the combination of affordability issues and the effects of limitations on the deductibility of mortgage interest and state/local taxes incorporated into the 2017 tax bill. Clearly, existing home sales underwhelmed in March, but our expectation remains for sales to rise modestly over coming months; applications for purchase mortgage loans point to healthy demand and, while supply constraints will remain a drag on sales, that drag figures to be less severe this year than has been the case in recent years.

The 400,000 sales on a not seasonally adjusted basis reflect a 7.8 percent year-on-year decline, and on a year-to-date basis through March existing home sales are down 6.6 percent. Existing home sales are down on a year-to-date basis in each of the four broad geographic regions, led by an 11.9 percent decline in the West, with sales down 6.6 percent in the Midwest, by 2.4 percent in the Northeast, and by 4.9 percent in the South. As shown in our middle chart, March is typically a seasonally strong month for existing home sales, with an average increase of 33.7 percent over February sales in the life of the data, but this year's 28.6 percent increase is the smallest March increase since 2014. The running 12-month total of not seasonally adjusted existing home sales, which we view as the most reliable gauge of the trend rate of sales, slipped to 5.273 million units in March, the lowest such total since December 2015. The decline in the trend rate of sales has been much more pronounced in the West region, which is the region where inventory and affordability constraints have been more binding. While the pace of price appreciation in the West region has slowed sharply, that deceleration has not been sufficient to meaningfully ease affordability constraints despite an assist from lower mortgage rates.

Listings of existing homes for sale rose by 3.1 percent in March, short of the 4.3 percent increase our forecast anticipated and the smallest increase for the month of March since 2013. Listings are 2.4 percent year-on-year, and March is the eighth consecutive month in which inventories are up on an over-the-year basis. While that may not sound all that noteworthy, keep in mind that this streak follows a run of 37 consecutive months in which listings were down on an over-the-year basis. Still, while there is clearly some relief on the supply side of the market, that relief continues to come at an uneven pace, and while our forecast anticipates that 2019 will end a run of four straight years in which the seasonal top in inventories was below that of the prior year, we'll have to see much heartier growth in listings over the next few months in order to retain any confidence in that forecast.

As we have pointed out before, the persistently lean inventories reported by NAR are not a function of sellers bypassing the traditional MLS route despite the popularity of this argument in some quarters. Distress sales have fallen considerably and, as a percentage of total existing home sales, are now back in line with historical (i.e., pre-crisis) levels. At the same time, the rise of single family REITs in the post-recession years has led to single family homes accounting for a much higher share of the rental housing stock than has been the case historically, the flip side being fewer single family homes in the owner occupied segment of the market. Neither of these factors precludes further increases in inventories, but they do limit the extent of these increases. Nonetheless, the combination of some relief on the supply front and affordability constraints having become less binding make us comfortable with our forecast of existing home sales picking up over coming months.

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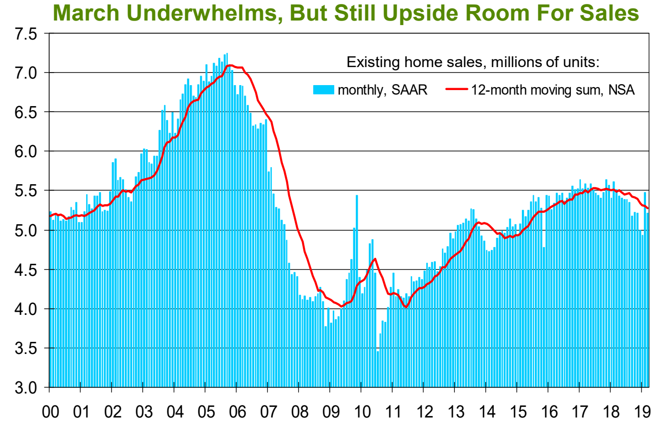
March Underwhelms, But Still Upside Room For Sales



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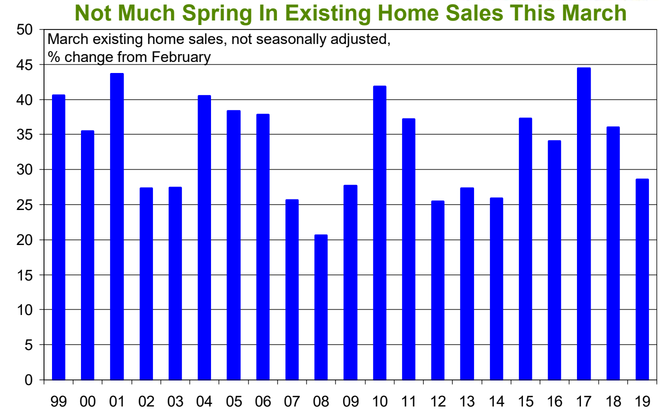
Not Much Spring In Existing Home Sales This March



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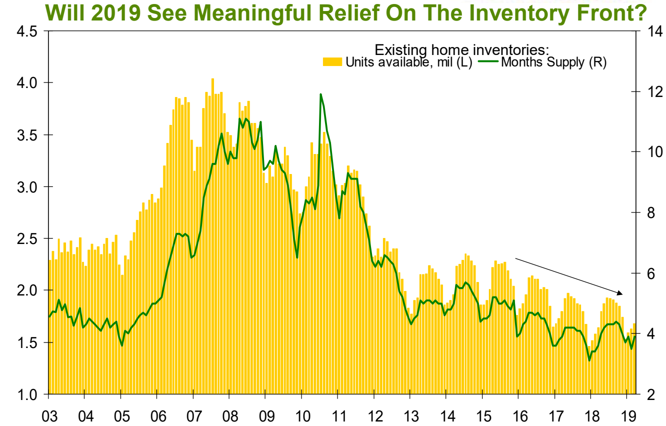
Will 2019 See Meaningful Relief On The Inventory Front?



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