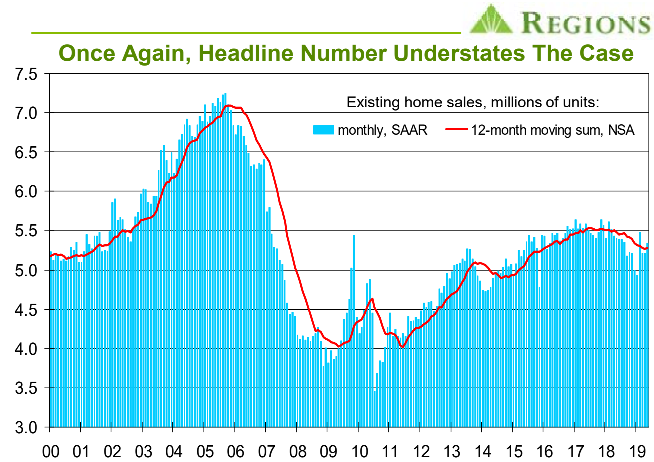
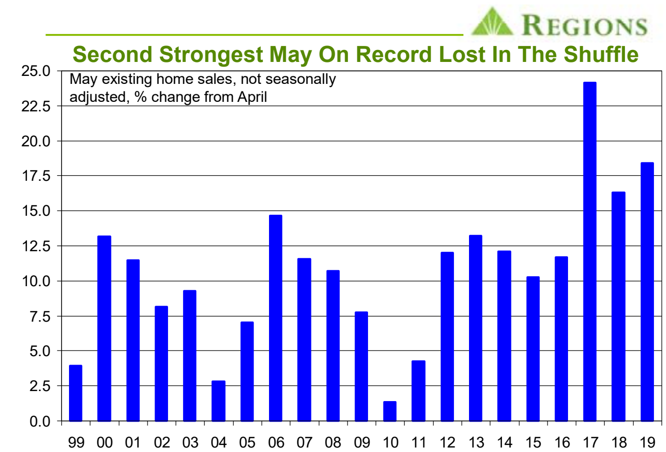
ECONOMIC UPDATE
REGIONS
June 21, 2019

May Existing Home Sales: Once Again, Headline Number Understates The Case

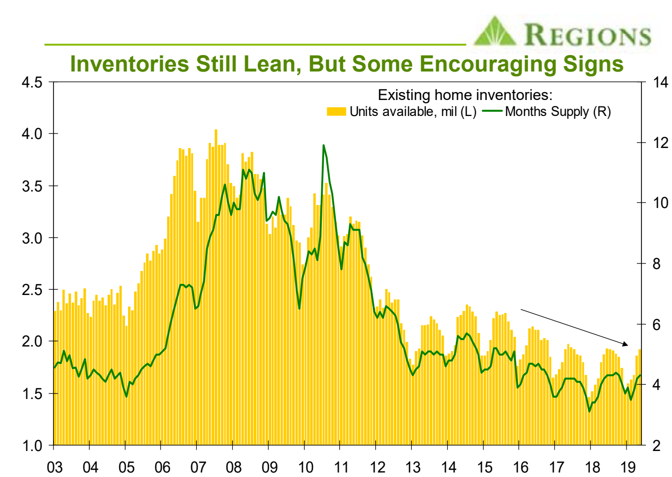
- Existing home sales rose to an annualized rate of 5.340 million units in May from April's sales rate of 5.210 million units
- Months supply of inventory stands at 4.3 months; the median existing home sale price rose by 4.8 percent on a year-over-year basis



For a second straight month, the headline number atop the report on existing home sales does not come close to doing justice to how strong sales actually were. The "headline" sales number, reported on a seasonally adjusted, annualized basis, shows existing home sales rose to an annualized rate of 5.340 million units in May, above consensus but below our forecast of 5.400 million units. May marks the 15th consecutive month in which the headline sales number is down on an over-the-year basis. Sure, at this point, you're probably wondering how on earth we can characterize this as a strong report. We do so on the basis of the numbers that actually matter, i.e., the not seasonally adjusted data. The raw, or, unadjusted data, show there were 540,000 existing home sales in May, topping our forecast of 529,000 units. This reflects an 18.4 percent increase from April which, as our middle chart shows, makes this the second strongest May on record. Moreover, sales are up, even if only a modest 0.93 percent, on an over-the-year basis, the first time this has been the case in the unadjusted data since August. This was the same pattern in the April data – what to us was a notably strong not seasonally adjusted sales number fell victim to a less than friendly seasonal adjustment factor, yielding a headline sales number that, at least to us, is misleadingly weak. Another sign of strength in the May report is the increase in listings – inventories of existing homes available for sale rose to 1.920 million units, topping our forecast of 1.890 million units. Inventories are up 2.67 percent year-on-year, the tenth consecutive month in which inventories are up year-on-year after a run of 37 straight months in which listings were down year-on-year. So, we'll say the same thing about the May report that we said about the April report – this is a strong report, but you have to look at the not seasonally adjusted data to see that.



The 114,000 sales (not seasonally adjusted) in the West region in May matched our forecast, while sales topped our forecast in each of the three other broad regions. Sales were up on an over-the-year basis in the Northeast and South regions in May, and down in the Midwest and West regions. We routinely note that we see the running 12-month total of not seasonally adjusted sales as the most reliable gauge of underlying sales trends, and as of May that total stands at 5.274 million units. As seen in our top chart, this is well below the cycle high of 5.529 million units seen in July 2017, but, the running 12-month total increased in May, ending a run of eight consecutive monthly declines. As we have noted in recent months, the sharp and sudden drop in existing home sales over the November 2018 through January 2019 period is weighing on the running 12-month total of unadjusted sales, but at some point this will fade from the data, as now seems to be occurring. It has been over a year since we made our call that the July 2017 total would mark the high point for this cycle, and we still stand by that call. That said, we have been consistent in arguing that the decline in mortgage interest rates since they hit 4.95 percent last November would spur existing and new home sales, and that has been readily apparent in the not seasonally adjusted data for anyone with the inclination to actually look at the raw data rather than simply accepting the headline sales number and spinning a narrative around it. So, while we do not expect sales to again match the July 2017 peak, we do see further upside for home sales as long as labor market conditions remain solid, consumer confidence remains elevated, and mortgage interest rates remain low. While the latter seems a given at this point, the first two will bear watching over coming months.



Some are making a big deal over the 4.8 percent increase in the median existing home sales price in May, the largest such increase since August, the premise being that low mortgage interest rates are sparking frenzied bidding for what are still lean inventories. While we do not dismiss such concerns out of hand, we routinely note that repeat home sales price indexes, with CoreLogic being our preferred gauge, are a much more reliable indicator of trends in house prices. The repeat sales indexes have shown a markedly slower pace of house price appreciation, and while the pace of price appreciation could pick up a bit, low mortgage interest rates will act as a powerful offset, helping preserve affordability. This is a key reason we see further upside room for home sales in the months ahead.

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