ECONOMIC UPDATE

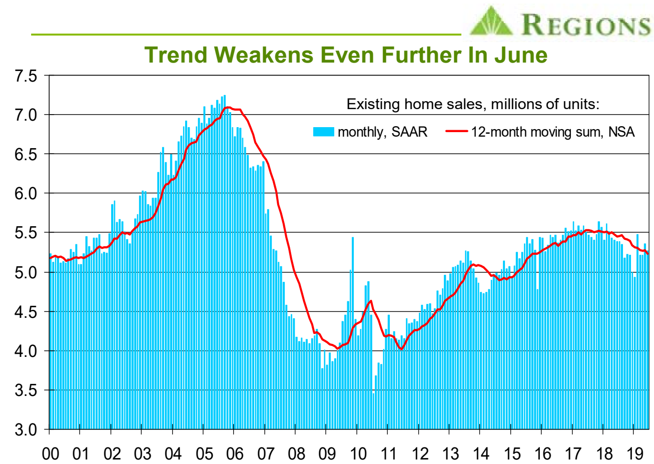
REGIONS

July 23, 2019

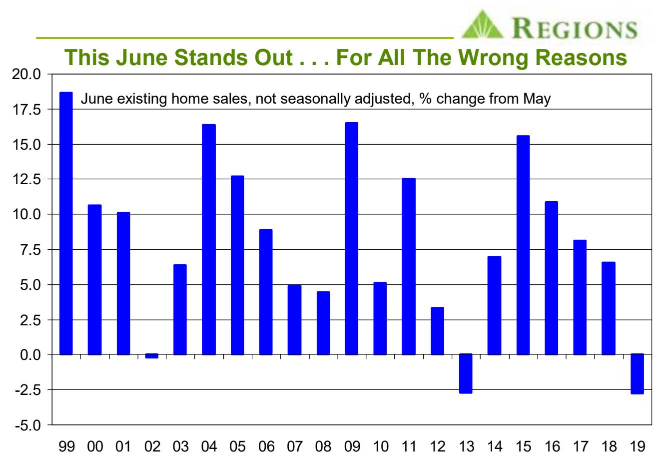
June Existing Home Sales: This June Stands Out . . . For All The Wrong Reasons

- Existing home sales fell to an annualized rate of 5.270 million units in June from May's (revised) sales rate of 5.360 million units
- Months supply of inventory stands at 4.4 months; the median existing home sale price rose by 4.3 percent on a year-over-year basis

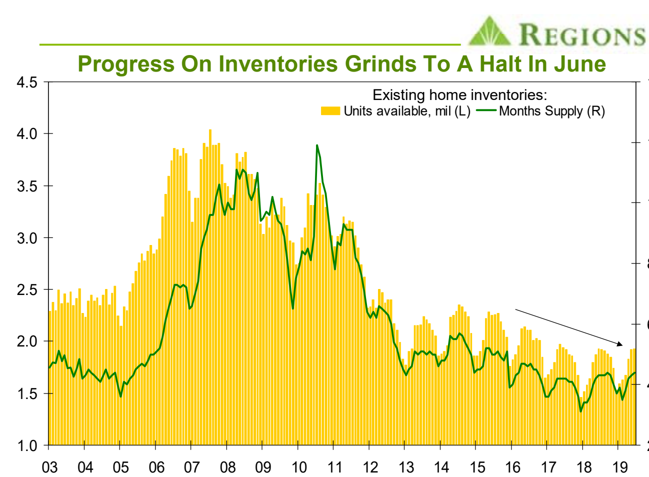
As our regular readers know, perhaps all too well, our biggest criticism of the monthly reports on residential construction and home sales is that the signal being sent by the not seasonally adjusted data is often distorted by questionable seasonal adjustment. This yields headline numbers that can be quite contrary to the underlying details. We have no such complaint with the report on June existing home sales, even though we kind of wish we did. The reality, however, is that in this case the headline sales number does full justice to the not seasonally adjusted data, both of which can be characterized as, well, lousy. Sales of existing homes fell to an annualized rate of 5.270 million units in June slightly below our forecast of 5.280 million units, and a small upward revision to May sales offers little consolation. It is important to note that weak sales in June follow exceptionally strong sales in April and May, as seen in the not seasonally adjusted data, so in that sense it isn't clear how much we should make out of the June sales data. Perhaps of more concern is that what had been steady, even if somewhat slow, progress on the inventory front came to a resounding halt in June, with inventories of existing homes for sale barely budging, and the months supply metric at 4.4 months shows the market remains significantly undersupplied. As such, sales figure to remain fairly range bound over coming months, not as a result of flagging demand but instead because of ongoing inventory constraints that are not likely to ease any time soon.



The headline sales number aside, it is the not seasonally adjusted data that really show how weak existing home sales were in June. The 527,000 not seasonally adjusted sales fell well short of our forecast of 553,000 units which, as we noted in our weekly *Economic Preview*, would have been an atypically soft June sales number. Just how weak sales were in June can best be seen in our middle chart; this June marks only the third June in the life of the current series in which not seasonally adjusted sales declined from May. On an over-the-year basis, sales were down 7.5 percent in June, and while there was one fewer sales day this June than last, the over-the-year decline far exceeds the decline one would expect on an adjusted sales day basis. As of June, the running 12-month sum of not seasonally adjusted sales, which we often refer to as the most reliable gauge of underlying sales trends, stands at 5.233 million units, the lowest since November 2015.



Sure, a bad number is a bad number, but even bad numbers deserve to be put into context. As we discussed in our weekly *Economic Preview*, what were strong not seasonally adjusted sales in April and May were turned into mush by curiously low seasonal adjustment factors which yielded middling headline sales numbers. We attributed strong unadjusted sales to buyers being quick to respond to lower mortgage interest rates amidst still limited listings of existing homes for sale, and median days on market of 24 days in April and 26 days in May lent credence to our view. But, that inventories remained lean meant the strength of sales in April and May would not be sustained without further growth in listings, which is why our forecast anticipated payback in the June data. In that sense, a weak June sales print is not that concerning, but that June sales were even weaker than we anticipated is concerning. We continue to argue that this is a supply, not a demand, issue, and with median days on market at 27 days in June, it is hard to argue that demand is waning. Instead, there is simply not enough inventory, particularly in the middle price ranges, to meet demand. As a result, there is renewed support for price appreciation after it had slowed markedly over prior months. Inventories barely budged in June and were flat on an over-the-year basis, ending a 10-month run in which listings rose year-on-year. Moreover, we are in the time of the year in which inventories tend to flatten out before drifting lower over the remaining months of the year, suggesting little relief on the supply side of the market over coming months. This – persistently lean inventories – is why we have no expectations that the FOMC lowering the Fed funds rate, even if that does translate into further declines in mortgage interest rates, will have a meaningful impact on existing home sales. While there are plenty of buyers, or at least prospective buyers, in the market, you can't buy what's not for sale.



Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com