ECONOMIC UPDATE
REGIONS
September 19, 2019

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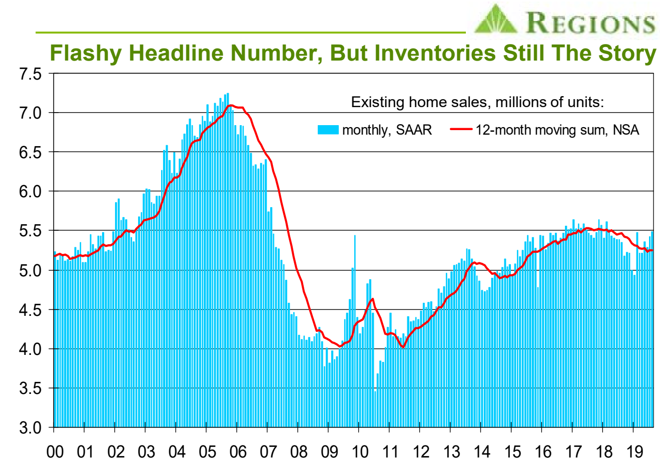
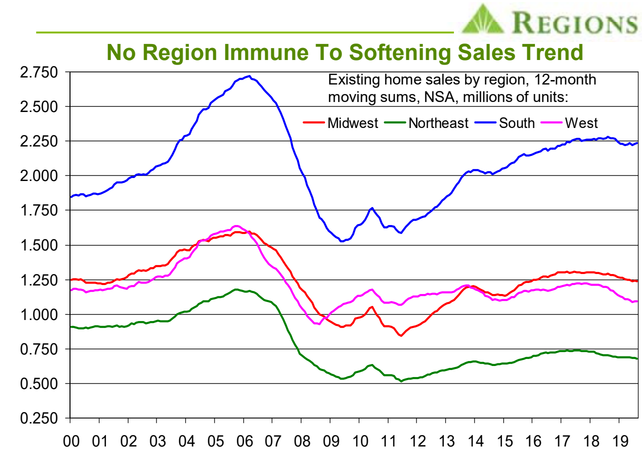
August Existing Home Sales: Flashy Headline Number, But Inventories Still The Story

- Existing home sales rose to an annualized rate of 5.490 million units in August from July's sales rate of 5.420 million units
- Months supply of inventory stands at 4.1 months; the median existing home sale price rose by 4.7 percent on a year-over-year basis

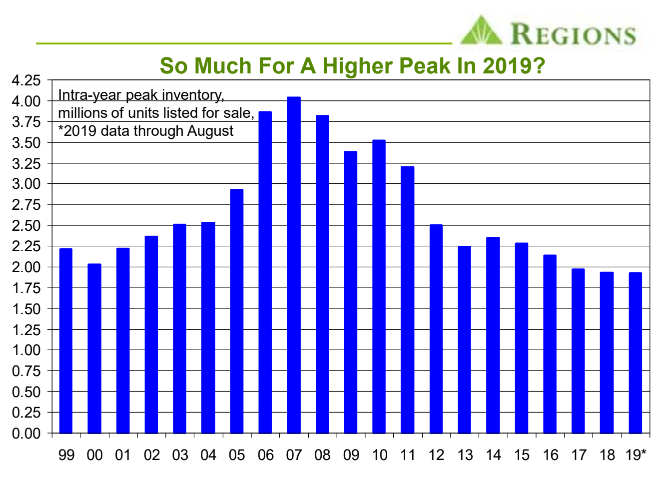
Total existing home sales rose to an annualized rate of 5.490 million units in August, topping our above-consensus forecast of 5.410 million units and the highest monthly sales rate since March 2018. At the same time, however, listings of existing homes for sale fell in August which, along with the faster sales pace, pushed the months supply metric down to 4.1 months. The median existing home sales price is up 4.7 percent year-on-year. All in all, the report on August existing home sales affirms what has long been our take on the housing market – the demand side of the market remains healthy, as would be expected given sharply lower mortgage interest rates on top of a solid labor market and elevated consumer confidence, but persistently low inventories limit any upside for sales regardless of how much further mortgage interest rates may fall. Moreover, with the inventory data having gone the wrong way over the past few months, there may be far less mileage to be had from lower mortgage rates than many anticipate will be the case.



On a not seasonally adjusted basis, there were 534,000 existing homes sold in August, beating our forecast of 526,000 sales. Sales were down 0.93 percent year-on-year, which is a function of there having been one fewer business day this August than last. On a year-to-date basis through August, total existing home sales are down 2.63 percent, with year-to-date declines of 3.43 percent in the Midwest, 2.16 percent in the Northeast, 0.71 percent in the South, and 5.75 percent in the West. As of August, the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales trend, stood at 5.246 million units. While the trend rate of sales has begun to stabilize, keep in mind that the sharp decline in sales triggered by the affordability shock of late-2018 will weigh on the trending data into the early months of 2020. As our middle chart shows, the trend rate of sales has weakened in each of the four broad regions. This is yet another illustration of a point we make repeatedly, which is that the headline sales number in any given month is relatively meaningless to anyone other than the headline writers. Rather, if you want to understand what's going on in the housing market, it is the trends in the not seasonally adjusted data that tell the story.



The overriding issue in the market has for some time been, and will remain, the relative lack of inventory. Listings of existing homes for sale fell to 1.860 million units in August, a 2.11 percent decline from July which leaves listings down 2.62 percent year-on-year. August marks a third consecutive month of over-the-year declines in listings, erasing whatever momentum had built up over the prior ten months in which listings were higher on an over-the-year basis. Don't look for any relief in the near term, at least if typical seasonal patterns hold. The period from September through December is one in which listings typically decline on a month-to-month basis as sales activity winds down. That listings fell in both July and August, i.e., ahead of the typical seasonal decline, is somewhat discouraging, but simply points to how chronically undersupplied the market remains. The August data pretty much slam the door shut on one of our 2019 housing market forecasts – we expected 2019 to end a four-year run (2015 through 2018) in which the intra-year peak in inventories was lower than that of the prior year. Through August, however, the intra-year peak in listings in 2019 was 1.920 million units (in June), below 2018's intra-year peak of 1.930 million units. Sure, we still end the title of our bottom chart with a question mark, which is pretty much hoping against all hope, never saying never, and playing until the final whistle all rolled into one despite knowing how this one will end.



Barring a significant late-year rebound that would defy typical seasonal patterns, inventories will fall short of our expectations in 2019. The reality is that you can't buy what's not for sale and, however low they may go, lower mortgage interest rates can't right the supply side of the market. While we didn't have high hopes, we did see further upside room for existing home sales over the remainder of 2019, but the recent inventory data lead us to question that call, August's flashy headline sales number notwithstanding.

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