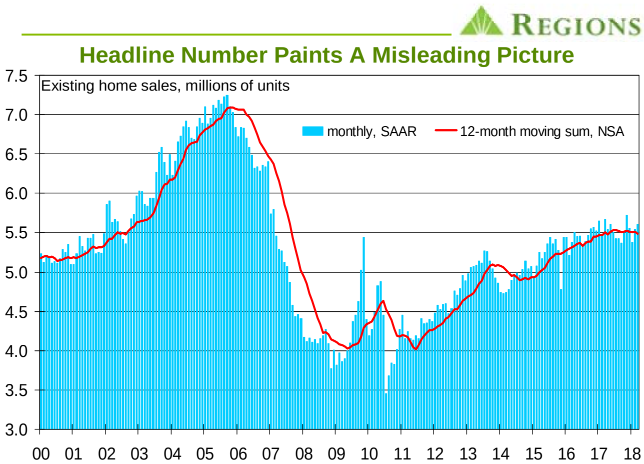
ECONOMIC UPDATE
REGIONS
April 23, 2018

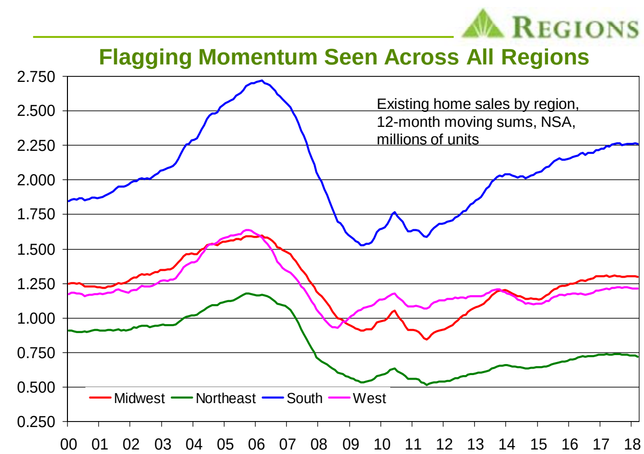
March Existing Home Sales: Another Month, Another Useless Headline Number

- Existing home sales rose to an annualized rate of 5.600 million units in March from February's sales rate of 5.540 million units.
- Months supply of inventory stands at 3.6 months; the median existing home sale price rose by 5.8 percent on a year-over-year basis.

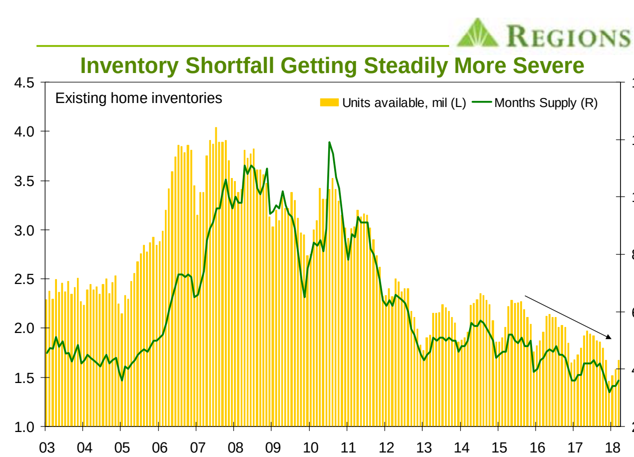
Our forecast for March existing home sales was too low. At the same time, our forecast for March existing home sales was too high. Okay, you're likely hopelessly confused, and it only took us two sentences to get you to that point, so allow us to explain. On a seasonally adjusted and annualized basis, existing home sales rose to 5.600 million units in March, above both consensus (5.540 million) and our forecast (5.510 million). This being the "headline" sales number, this is what most people are running with to form their narratives of housing market conditions. As for us, we'll do what we do every month and instead focus on the not seasonally adjusted data, which show sales of 434,000 units in March, below our forecast of 441,000 units. As was the case with the February data, the headline sales number for March sales is inflated by an overly friendly seasonal adjustment factor that makes sales look stronger than is actually the case. The reality is that underneath the headline sales number, the details of today's release do not at all change what for some time now has been our housing market story, i.e., notably lean inventories remain a material drag on sales and continue to drive robust house price appreciation. While we're not at this point quite yet, continued robust price appreciation combined with higher mortgage rates will at some point take a toll on affordability and further restrict sales.



The 434,000 sales, again, not seasonally adjusted, in March reflect a year-on-year decline of 4.6 percent, the third over-the-year decline in the past four months. This leaves the running 12-month total of not seasonally adjusted sales, to us the most reliable gauge of underlying sales trends, at 5.488 million units. As shown with the red line in our top chart, the running 12-month total has actually turned lower over recent months, having, at least for now, topped out at 5.529 million units in August 2017. Indeed, the 12-month total is down year-on-year as of March, the first such decline since March 2015. As can be seen in our middle chart, the running 12-month total of sales is either flat-lining or has turned lower in each of the four broad regions.



As we routinely note, we put the flagging trend rate of sales squarely on the supply side, not the demand side, of the market, and see little in the inventory data to suggest any meaningful change in these trends any time soon. One may see the increase in listings in March, up by 5.7 percent to 1.670 million units, as contradicting our view of the market. Keep in mind, however, that the NAR inventory data are not seasonally adjusted, and we are in that time of the year in which listings begin to rise ahead of the peak selling season. While the February-to-March increase in listings is a bit larger than is normal for the month of March, is nonetheless leaves listings down 7.2 percent year-on-year and March marks the 34th consecutive month in which listings are down year-on-year. As our bottom chart shows, 2018 is on pace to be the fourth consecutive year in which the seasonal peak in inventories is lower than that of the prior year.



The median number of days on market for sales that closed in March was 30 days, well below normal. Lean inventories are supporting robust house price appreciation, as seen in the 5.8 percent year-on-year increase in the median sales price and even better seen in the various repeat sales house price indexes. The biggest inventory shortfall is in homes on the lower side of the price scale, much to the detriment of prospective first-time buyers. While many think this pool to be an attractive target for builders of new homes, the reality is that higher materials costs, higher labor costs, regulatory constraints, and shortages of buildable lots limit the degree to which builders can build to lower price points. As with new home sales, existing home sales are becoming increasingly concentrated amongst the higher price points. In March, sales of homes priced between $750,000 and $1 million were up by 15.1 percent year-on-year, with sales of homes priced over $1 million up 17.3 percent.

Our premise has for some time been that the issues in the housing market lie on the supply side of the market, not the demand side. We've yet to see anything to cause us to change our view, artificially inflated headline sales numbers notwithstanding.

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