ECONOMIC UPDATE

REGIONS

October 21, 2014

September Existing Home Sales: Momentum Continues To Build

- Existing home sales rose to an annualized rate of 5.170 million units in September from August's 5.050 million unit sales pace.
- Months supply of inventory stands at 5.3 months; the median existing home sale price rose by 5.6 percent on a year-over-year basis.

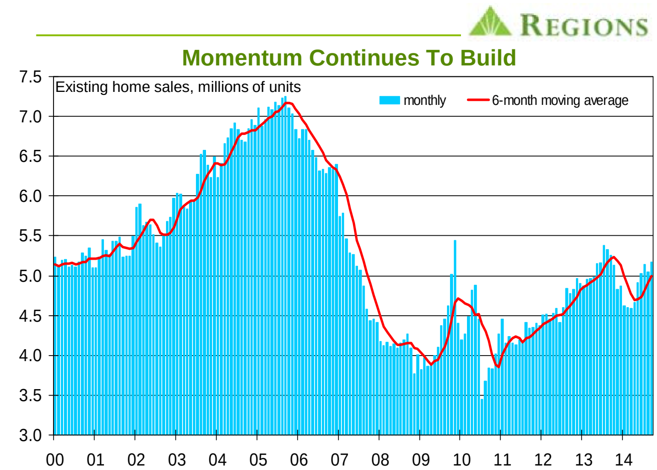
Sales of existing homes hit a one-year high in September, with the annual sales rate rising to 5.170 million units from an annual sales rate of 5.050 million units in August. Inventories of existing homes for sales fell in September which along with the increase in sales pushed the months supply metric down to 5.3 months. While the median home price fell on a month-to-month basis, this figure is not seasonally adjusted and is up 5.6 percent on a year-over-year basis.

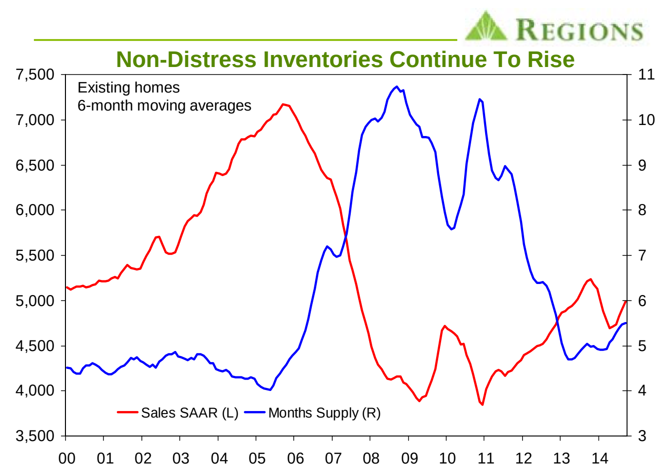
September marked the 11th consecutive month in which existing home sales were down on a year-over-year basis. As we have been pointing out over the duration, however, the decline on a year-ago basis reflects the fading influence of distress sales. In September distress sales accounted for 10 percent of all existing home sales, up a bit from recent months but below the share at this time last year. Nondistress sales have been steadily rising even as the influence of distress sales fades, so the mix of sales is better even if the year-ago comparisons are unflattering. Short sales accounted for three percent of sales in September with foreclosures accounting for seven percent. We anticipate October will bring another decline in sales on a year-over-year basis before the comparisons get a bit friendlier and over-the-year sales begin rising with the November data.

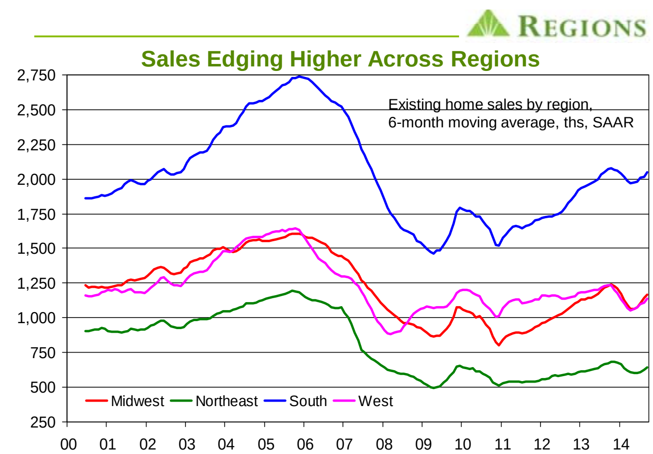
While inventories of existing homes for sale fell in September, recall the NAR data on inventories are not seasonally adjusted, and September historically is a weak month for inventories. The proper way to assess the change in not seasonally adjusted inventories is on a year-over-year basis, on which inventories were higher in September for the 11th consecutive month. A "normal" market would be characterized by around a 5 months supply of inventory, and as seen in the middle chart the existing homes market has been above that threshold for the past several months. One distinction to make, however, is that between inventories of distressed and non-distressed properties. Over recent months, non-distressed inventories have been rising which is mainly responsible for the rising months supply metric seen in the chart. The increase in non-distressed inventories has helped curb the pace of house price appreciation, which has slowed over recent months. Still, it would be misleading to conclude that the market is adequately supplied based on the months supply metric – though down considerably from their cyclical peak, distressed inventories nonetheless remain well above levels that would be seen in a normal market, and lingering distressed inventories have more or less put a floor under the months supply metric. As non-distressed inventories continue to build the months supply metric will rise further.

Regionally, sales rose in the Northeast, South, and West regions in September but fell in the Midwest region. On an over-the-year basis, sales are marginally higher in the South region but down in the three remaining regions. All four broad regions have seen the rate of price appreciation slow over recent months.

One soft spot in the market is a below-normal share of first-time buyers, who in September accounted for 29 percent of total sales, matching the prior two months but still well short of normal. Though mortgage lending standards have begun to ease, they remain stringent for those in the lower ranges of the credit score spectrum, which could capture a higher share of younger prospective first-time buyers, and thus could remain a drag on sales. But, an improved pace of job growth should ultimately lead to firmer income growth which, along with still favorable mortgage rates, will facilitate further gains in existing home sales, including a higher share of first-time buyers. As such, the momentum seen in existing home sales over recent months should be sustained in the months ahead.







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