ECONOMIC UPDATE

REGIONS

September 21, 2015

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August Existing Home Sales: Underlying Trend Still Showing Improvement

- Existing home sales fell to an annualized rate of 5.310 million units in August, from July's (revised) sales rate of 5.580 million units.
- Months supply of inventory stands at 5.2 months; the median existing home sale price rose by 4.7 percent on a year-over-year basis.

Existing home sales fell to an annualized rate of 5.310 million units in August, a larger decline than anticipated from July's sales rate of 5.580 million units, the fastest monthly sales pace since February 2007. August's headline sales number surprised to the downside, but the underlying trend (reflected by the red line in the top chart) shows steady improvement in sales.

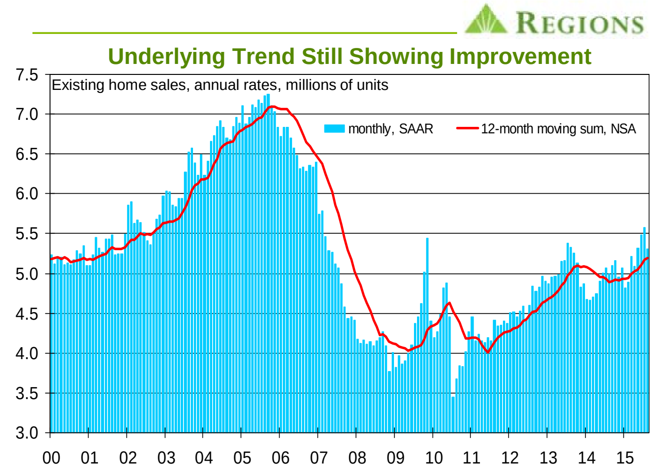
Total existing home sales were up 6.2 percent, year-on-year, in August. Distress sales accounted for 7 percent of all existing home sales, with foreclosures at 5 percent and short sales at 2 percent. Distress sales continue to account for a higher share of sales than would be seen in a fully healthy housing market, but that share is nonetheless considerably below the peak seen earlier in the recovery. Our back of the envelope calculations show distress sales were down 7.1 percent, year-on-year, in August while nondistress sales posted a 7.4 percent increase. This is a trend we have pointed to for some time now – while the headline sales number may bounce around from month-to-month, there has been sustained and steady growth in nondistress sales, which in our view is the more relevant indicator of the health of the housing market.

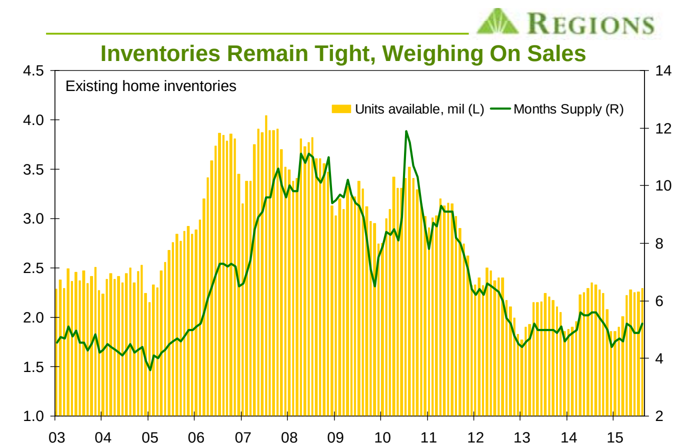
Inventories of existing homes for sale remain lean in many markets, which is acting as a drag on overall sales. Counter to typical seasonal patterns (the NAR inventory data are not seasonally adjusted) inventories rose in August, up 1.3 percent from July. Along with the slower sales rate, this pushed the months supply metric up to 5.2 months.

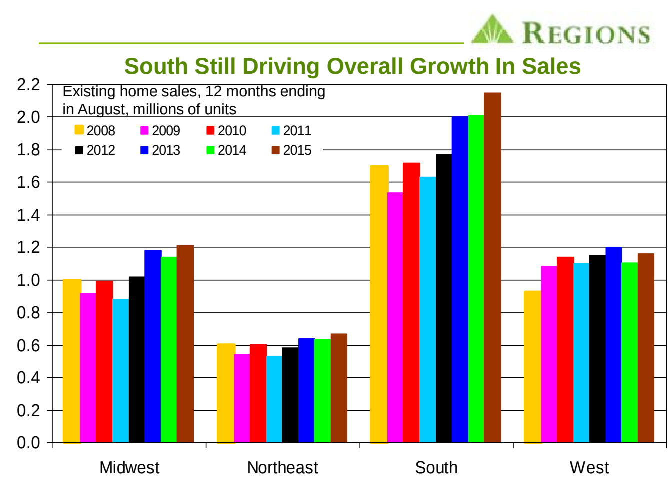
There are a few reasons inventories of existing homes for sale have not risen as quickly as would normally have been the case in a typical cycle. While many point to favorable mortgage interest rates as a support for demand for homes, they may at present be acting as a weight on supply. Over recent years many homeowners have refinanced mortgages at exceptionally low mortgage interest rates; were they to purchase another home now they would likely see higher rates on new mortgage loans and many such homeowners may simply not be willing to make this trade. Also, first time buyers continue to account for a below-normal share of existing home sales – 32 percent in August compared to the roughly 40 percent share that would be seen in a fully healthy housing market. This smaller share of first time buyers makes it more difficult for current owners to facilitate move-up trades which could be limiting listings. Also, while the share of mortgaged households currently underwater on their mortgage loans has dropped considerably from the cyclical peak, it remains above average and the lack of equity acts as a constraint on sales. Even for those who are not underwater but have only a limited equity share in their homes, i.e., less than 20 percent, lack of equity still acts as a constraint on sales as such households would likely have a difficult time qualifying for a new mortgage, which again could be holding down listings of homes for sale.

The magnitude of the declines in sales seen in the South and West regions in August is striking, though this could be more a reflection of the extent to which sales in these regions rose in July – the July numbers look more like outliers than the August numbers look like signs of weakness. As the bottom chart shows, the South region has driven growth in total existing home sales for some time now. Distress had been a driver of sales in the West region but distress inventories cleared out faster there than in other regions and recent months have seen less organic growth in inventories.

The lower headline sales number notwithstanding, the report on August existing home sales does not change our longer-term view of the housing market recovery.







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