ECONOMIC UPDATE
REGIONS
October 22, 2015

September Existing Home Sales: Steady Improvement, But Will It Last?

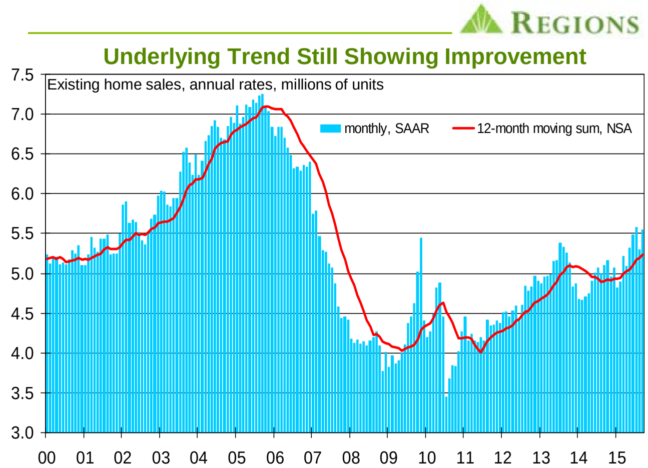
- Existing home sales rose to an annualized rate of 5.550 million units in September from August's (revised) sales rate of 5.300 million units.
- Months supply of inventory stands at 4.8 months; the median existing home sale price rose by 6.1 percent on a year-over-year basis.

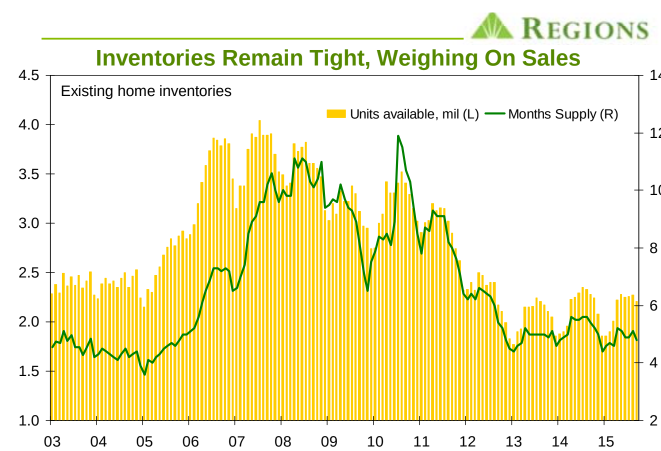
Existing home sales rose to an annualized rate of 5.550 million units in September, easily ahead of consensus and above our forecast of 5.510 million units. The months supply metric dipped to 4.8 months in September and the median existing home sales price was up 6.1 percent year-on-year. While the median price is highly sensitive to the mix of sales in a given month, data from the various repeat sales price indices show a firmer pace of house price appreciation over recent months. This is consistent with the premise that lean inventories continue to fuel faster price appreciation. As we frequently note in our discussions of the various housing market data, we prefer to look at the trends in the not seasonally adjusted data as opposed to the seasonally adjusted annualized data as reported in the headline numbers. As seen in the top chart, the raw data show ongoing steady improvement in existing home sales. Some of the details in the data, however, give cause for concern as to how much longer the steady uptrend in sales can be sustained.

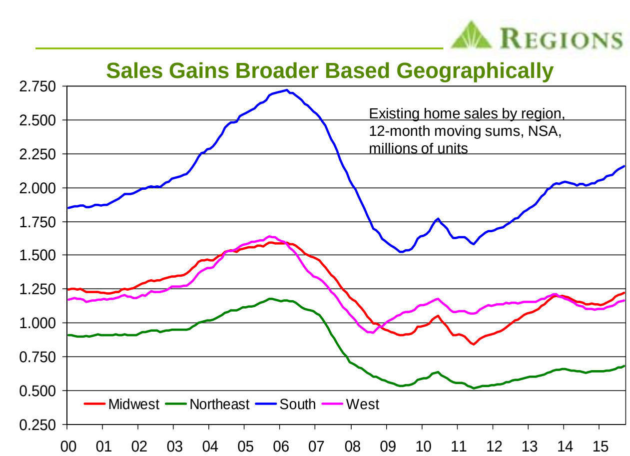
Distress sales accounted for 7 percent of all existing home sales, with foreclosures at 6 percent and short sales at 1 percent. Distress sales continue to account for a higher share of sales than would be seen in a fully healthy housing market (roughly 3.5 percent), but that share continues to fade. Our back of the envelope calculations put distress sales down 23.9 percent, year-on-year, in September with nondistress sales 12.7 percent higher, leaving total sales up 8.8 percent. 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. Sales have also become more geographically dispersed over recent months – while the South and West regions continue to post the fastest growth in sales the Midwest and Northeast are at least making bigger contributions. We do, however, think the Midwest bears watching as the region is taking a hit from a struggling factory sector. Recent months have seen dips in new residential construction; it would not be unreasonable to expect sales to follow suit.

As to some of our concerns as to how much longer the uptrend in sales can be sustained, at least at the current rate, obviously inventories jump to the top of the list. Keep in mind the NAR inventory data are not seasonally adjusted and it is normal for inventories to fall in the month of September. Our concern here is broader, as we would have by now expected more supply to be drawn to the market. We continue to think underwater mortgages – down as a share of all mortgage loans but still above norms – and a significant number of "limited equity" mortgagers (less than 20 percent equity) continue to act as constraints on existing home sales, which would manifest itself in lower inventories. Also, while many point to favorable mortgage interest rates as a support on the demand side, mortgage rates 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. Finally, first time buyers continue to account for a below-normal share of existing home sales – 29 percent in September 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.

We remain constructive on the outlook for existing home sales, but that is contingent upon improvement in some of the underlying drivers, without which the pace of improvement in sales will slow.







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