ECONOMIC UPDATE

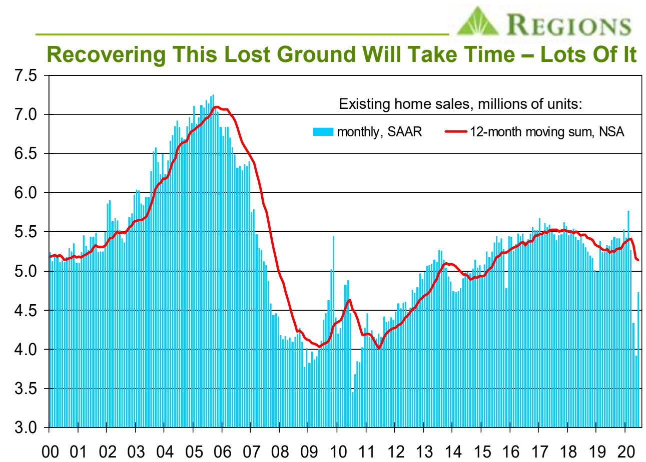
REGIONS

July 22, 2020

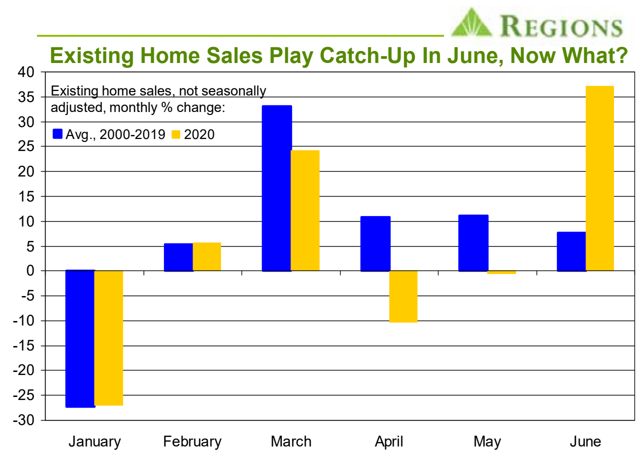
June Existing Home Sales: Long Road Back For Existing Home Sales

- Existing home sales rose to an annualized rate of 4.720 million units in June from May's sales rate of 3.910 million units
- Months supply of inventory stands at 4.0 months; the median existing home sale price rose by 3.5 percent on a year-over-year basis

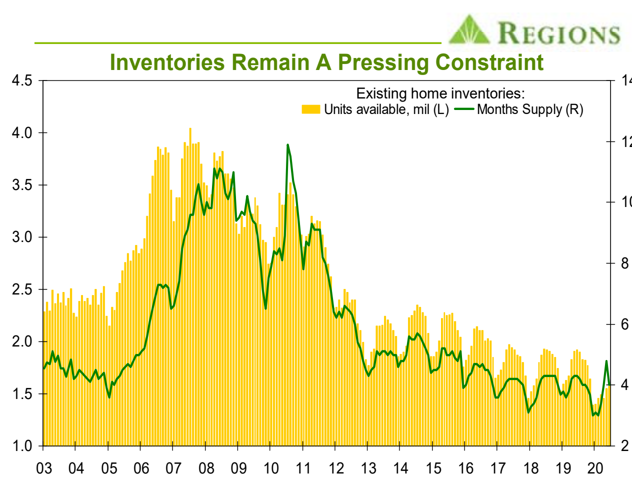
Existing home sales rose to an annualized rate of 4.720 million units in June, between our forecast of 4.660 million units and the consensus forecast of 4.810 million units. As always, the not seasonally adjusted sales count is far more meaningful than the "headline" (i.e., seasonally adjusted and annualized) sales number, and the unadjusted data show 510,000 sales in June, topping our forecast of 493,000. To some extent, the June data reflect payback for sales having dipped so low in April and May in the midst of the shutdowns stemming from the COVID-19 virus and the efforts to stem its spread. While higher frequency data, such as the weekly data on applications for purchase mortgage loans, show demand for home purchases is holding up better than most of us would have expected, we do question how much longer that will remain the case absent more meaningful improvement in labor market conditions than has been seen to date. And, to the extent demand does hold up, more and more of that demand will migrate to the market for new homes, given the ongoing, and of late worsening, inventory picture in the market for existing homes. Though listings rose modestly in June, they were nonetheless down 18.2 percent year-on-year, the 13th consecutive month in which listings were down year-on-year.



As noted above, on a not seasonally adjusted basis, there were 510,000 existing home sales in June, a 37.1 percent increase from May. As impressive as it might sound, however, that increase must be put in proper context, which goes to our point about payback in the June data. As seen in our middle chart, while 2020 started out normally enough, at least in the market for existing homes, unadjusted sales in March, April, and May were much weaker than is normal for those months. The shortfall in March in part reflected a worsening inventory situation, but also reflected some closings having been cancelled as the effects of the pandemic began to work their way through the economy. Those effects were much more visible in the April and May data – not seasonally adjusted sales fell in both of those months, contrary to normal historical patterns. As economic activity began to come back online in May, there was a dramatic increase in signed sales contracts which translated into the spike in June closings (existing home sales are booked at closing). With that payback now in the books, gains in existing home sales will be tougher to come by in the months ahead, particularly if there is no improvement on the inventory front. As a side note, the 20.7 percent increase in the seasonally adjusted annualized sales rate in June is the largest such gain on record and, as headline writers don't do context, we've already seen more than one headline making much more of this than is merited.



The months supply metric stands at 4.0 months as of June, considerably below the level consistent with a balanced market – the spike in this metric in May had more to do with how low sales fell than any meaningful improvement in listings. With such lean inventories, in many markets there is fierce competition for listings. For those homes sold in June, the median time on market – from listing to signed sales contract – was just 24 days, which in many markets would be an eternity given how quickly homes were being snapped up. One implication is that buyers have been more aggressive with their offers, thanks in no small measure to notably low mortgage interest rates, and house price appreciation has been firmer than would otherwise have been the case. While growth (year-on-year) in the median existing home sales price has slowed over the past two months, keep in mind the median price is sensitive to the sales mix, and the various repeat sales price indexes are a better measure of movement in house prices. At this point, however, two of the main repeat sales price indexes are sending mixed signals – the FHFA HPI fell by 0.3 percent in May while the CoreLogic HPI rose by 0.7 percent. We've noted on many occasions that the CoreLogic HPI is our preferred measure of house prices, and we do expect it to soften in the months ahead. Whether, or to what extent, it does so will be a signal of flagging demand.



Thus far, the housing market has fared better than the broader economy through the fallout from the pandemic. There is no guarantee that will remain the case, and the bar is even higher for existing home sales thanks to a chronic undersupply of homes for sale.

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