ECONOMIC UPDATE

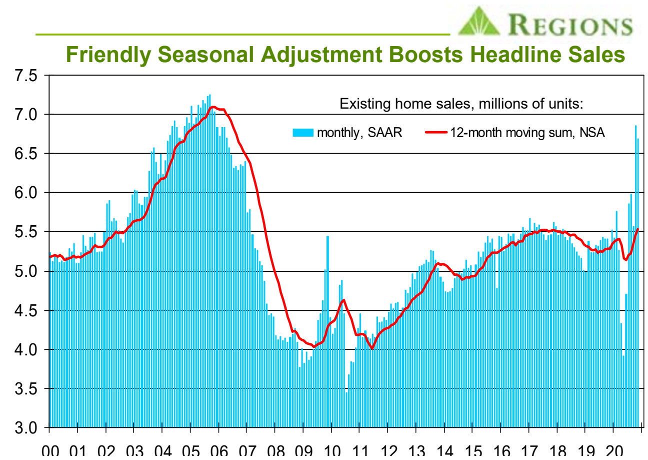
REGIONS

December 22, 2020

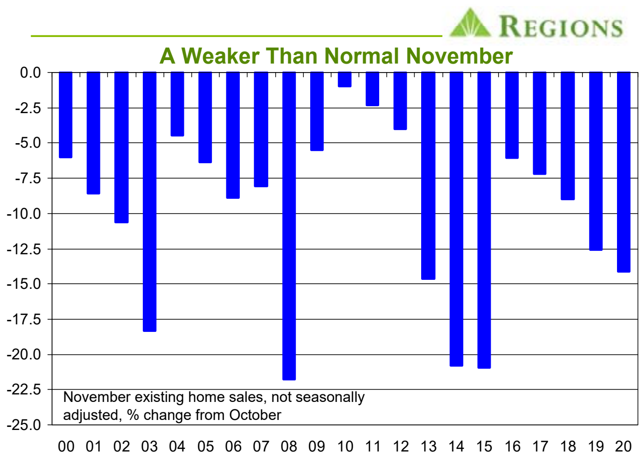
November Existing Home Sales: Less To The Headline Sales Number Than Meets The Eye

- Existing home sales fell to an annualized rate of 6.690 million units in November from October's (revised) sales rate of 6.860 million units
- Months supply of inventory stands at 2.3 months; the median existing home sale price rose by 14.6 percent on a year-over-year basis

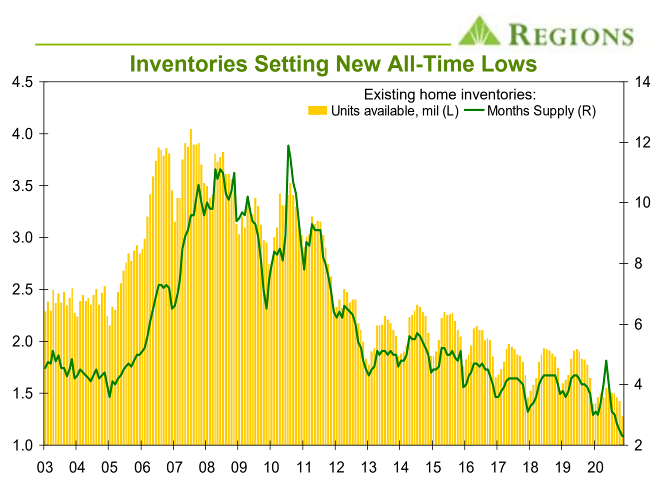
Total existing home sales fell to an annualized rate of 6.690 million units in November, in line with the consensus forecast of 6.700 million units but well above our forecast of 6.540 million units. Not to be the Grinch (well, at least the Grinch before they ruined him in those last three minutes), but there is far less to the November headline sales number than meets the eye, as an overly generous seasonal adjustment factor propped up what even for the month of November were weak sales. Our forecast anticipated not seasonally adjusted sales of 513,000 units in November, down 10.5 percent from October. As we noted in our *Economic Preview*, this would have been a larger than normal decline for the month of November – the average November decline over the 2000-2019 period was 9.85 percent. As it turns out, however, our forecast of unadjusted sales was too high, as actual sales came in at 492,000 units, down 14.1 percent from October and the largest November decline since 2015. It is only through the generosity of the seasonal adjustment factor applied to the raw sales number that NAR arrives at the lofty headline sales number, second only to October as the highest monthly sales rate since April 2006. This masks what we have long argued is the real story in the market for existing homes, which is the extent to which lean inventories are acting as a drag on sales and fueling faster and faster rates of price appreciation.



As our long-time readers well know, we have little use for the headline, or, seasonally adjusted and annualized, sales number, and instead focus on the running 12-month total of not seasonally adjusted sales as the more meaningful gauge of underlying sales trends. Our first chart illustrates the difference. As of November, the running 12-month total of unadjusted sales stands at 5.539 million units and is back to a level last seen in 2017, a far cry from "second best monthly sales rate since 2006." Our long-time readers also know that we have for years been pointing to lean inventories as a meaningful drag on sales, but instead of easing, that drag has become more and more intense. In November, listings of existing homes for sale fell to an all-time low of 1.280 million units, down 9.9 percent from October and leaving listings down 22 percent year-on-year – our forecast anticipated a year-on-year decline of 18 percent. It helps to recall that the NAR's inventory data are not seasonally adjusted, as it can be confusing trying to square the seasonally adjusted and annualized headline sales numbers with the inventory numbers. The proper comparison for inventory is with the unadjusted sales number. Also, while we are in the time of the year in which inventories tend to fall, the decline this November was much larger than is normal for the month. It could be that the ongoing surge in COVID-19 cases acted as an extra weight on listings in November, perhaps keeping some homes that would otherwise have been listed from hitting the market (as existing home sales are booked at closing, the surge in cases is unlikely to have had a material impact on November sales).



Still, the broader point is that the trend in listings had been deteriorating long before the pandemic, and with notably low mortgage interest rates fueling demand, the side effects of persistently lean inventories are intensifying. The median number of days on market for homes sold in November was 21 days, matching October and September as the lowest on record. Another sign of a frenzied sales pace is that cash sales accounted for 20 percent of all sales in November, with this share rising steadily over the past several months. While this may seem at odds with mortgage interest rates being where they are, not having to rely on securing financing makes a buyer much more attractive to many sellers. The median existing home sales price was up 14.6 percent, the fourth straight month with a double-digit year-on-year increase. While the median sales price is sensitive to the mix of sales, prices are rising rapidly across all price points, which is what is driving the rise in the median sales price. Moreover, the various repeat sales price indexes have consistently shown accelerating price appreciation over the past several months.



As we've been noting over recent months, while we remain constructive on the demand side of the market, we worry that affordability constraints may begin to eat away at demand. We do not believe that we are that point right now, but we may not be far from it.

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