ECONOMIC UPDATE

REGIONS

May 21, 2021

April Existing Home Sales: Rising Trend Sales Rate Will Be Harder To Sustain

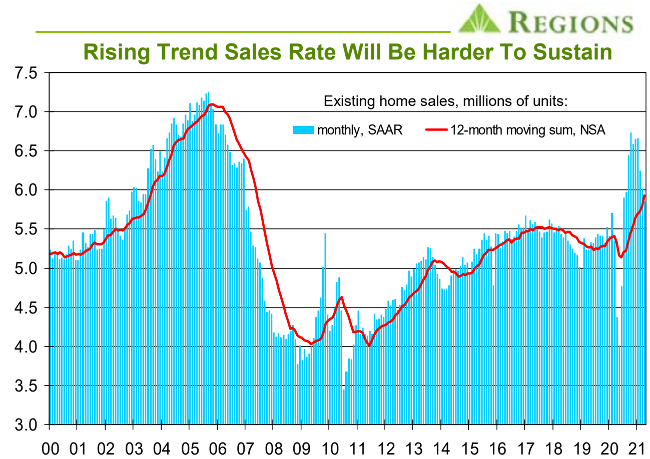
- Existing home sales fell to an annualized rate of 5.850 million units in April from March's sales rate of 6.01 million units
- Months supply of inventory stands at 2.4 months; the median existing home sale price rose by 19.1 percent on a year-over-year basis

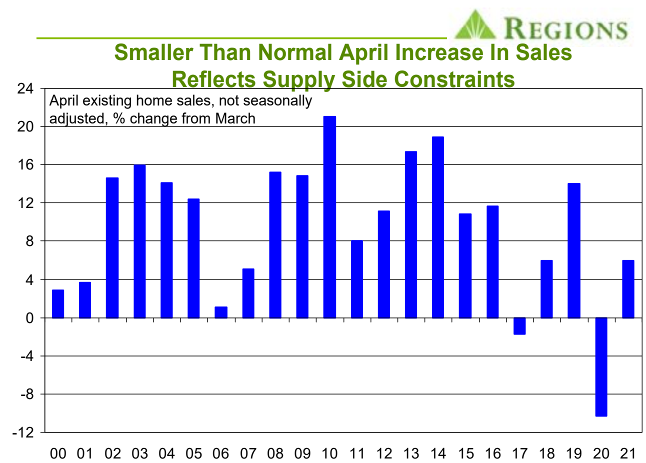
Total existing home sales fell to an annualized rate of 5.850 million units in April, lower than our below-consensus forecast of 5.940 million units. Sales were more in line with our forecast where it actually matters, i.e., in the not seasonally adjusted data, with the 513,000 sales in April just a touch above our forecast of 512,000 sales. Listings of existing homes for sale increased to 1.160 million units, matching our forecast, though there is less to April's increase than meets the eye. While the 10.5 percent increase in listings is larger than the average April increase, that follows a smaller than typical increase over February and March, meaning that this year's spring sales season has been very much a seller's market, with the median number of days on market falling to a new record low of 17 days and the median existing home sales price up 19.1 percent year-on-year in April. To be sure, mix issues are pushing the median sales price higher, reflecting the dearth of inventory at the lower end of the price spectrum, but mix issues alone cannot account for the lofty rate of price appreciation. While we do look for some relief on the supply front over the back half of 2021 to help blunt the pace of house price appreciation, affordability will remain an issue, particularly for prospective first-time buyers.

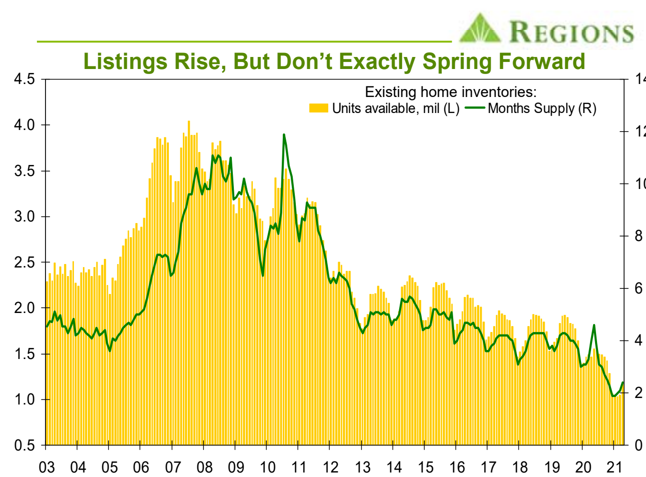
As noted above, on a not seasonally adjusted basis, there were 513,000 existing homes sold in April. This reflects a 5.99 percent increase over March sales, which is smaller than the typical April increase – over the 2000-2019 period, the average April increase in not seasonally adjusted sales was 10.84 percent. Note that we've omitted 2020 from our calculation, in light of how sales plummeted last April as the economy was shutting down. Either way, that this year's April increase was smaller than normal is in large measure a reflection of chronic and persistent undersupply. As of April, the running 12-month total of not seasonally adjusted sales, which we think to be the most reliable gauge of the trend sales rate, stands at 5.932 million units, the highest such total since May 2007. The 2.598 million sales in the South region over the past 12 months is that region's highest 12-month total since October 2006.

The main question at this point is whether the steady upward trend in sales, depicted by the red line in our top chart, can be sustained in the months ahead. Given how home sales picked up last summer as economic activity began to rebound and low mortgage interest rates sparked a rush of demand for home purchases, sustaining the upward trend in existing home sales will be challenging. Sustaining that upward trend without meaningful relief on the inventory front will be impossible. Even with April's double-digit increase from March, listings are still down 20.55 percent year-on-year. Still, we do think that we've hit the bottom on listings and expect further sequential increases in the months ahead. Hitting the bottom, however, has very different connotations in different settings. For instance, hit the bottom of the Sea of Azov and you've only got about 46 feet until you're back on the surface; hit the bottom of the Caribbean Sea and you've got about 25,217 feet until you're back on the surface. In this sense, the existing homes market seems much more like the Caribbean Sea than the Sea of Azov.

As economic activity continues to normalize and consumers feel more comfortable moving about, literally and figuratively, that should help draw out more inventory. Also, as those borrowers still in mortgage forbearance programs exit those programs in the months ahead, not all of these loans will cure, which will be another factor leading to more listings, though current market conditions and stronger equity positions mean such sales will be more orderly, as opposed to the wave of foreclosures that hit the market during the last cycle. Still, it remains to be seen how much additional inventory we will see over the second half of this year, and even if affordability constraints begin to curb demand, whatever increase we do see in supply will likely not fully keep pace with demand. That suggests a slower pace of house price appreciation, not the widespread declines in prices many are fearing, which are mainly a function of how the last cycle played out. Aside from double-digit rates of house price appreciation, however, now and then have little in common.







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