ECONOMIC UPDATE

REGIONS

June 22, 2021

May Existing Home Sales: Much Worse Than The Headline Number Implies

- Existing home sales fell to an annualized rate of 5.800 million units in May from April's sales rate of 5.850 million units
- Months supply of inventory stands at 2.5 months; the median existing home sale price rose by 23.6 percent on a year-over-year basis

Total existing home sales fell to an annualized rate of 5.800 million units in May from April's sales rate of 5.850 million units, a bit better than the 5.730 million unit pace we and the consensus expected. While the May headline sales number may have been a bit better than expected, the real May sales number is much worse than the headline number implies. As our regular readers know, when it comes to the data on residential construction and sales, we have no use for the seasonally adjusted annualized headline numbers and even less use for any attempts at analysis based on these numbers, with our sole focus on the not seasonally adjusted data. The unadjusted data show that there were 528,000 existing homes sold in May, far below our forecast of 561,000 sales. While this is up from 513,000 sales in April, the 2.9 percent increase is much smaller than the typical increase for the month of May. As has been the case for years, not months, lean inventories were once again a drag on sales in May. Listings of existing homes rose to 1.230 million units in May, a touch higher than our forecast of 1.220 million units, but this nonetheless left listings down 20.7 percent year-on-year. The median existing home sales price rose to $350,300, the highest on record and a year-on-year increase of 23.6 percent, though the median sales price is being skewed higher by the mix of sales being increasingly weighted toward the higher price ranges given the dearth of inventory in the lower price ranges. 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.

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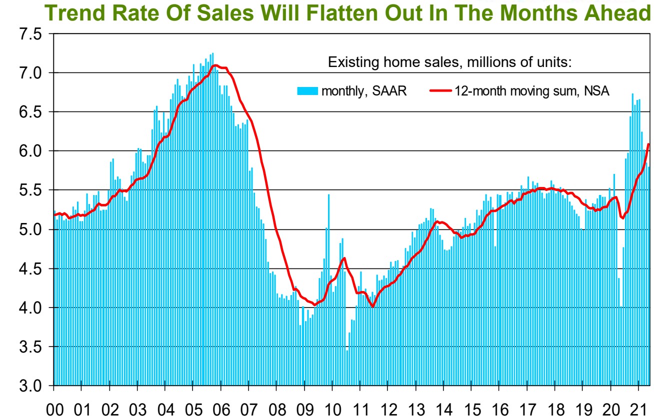
Trend Rate Of Sales Will Flatten Out In The Months Ahead



As noted above, on a not seasonally adjusted basis, there were 528,000 existing homes sold in May, which is a 2.9 percent increase from April. As can be seen in our middle chart, however, this is much weaker than the typical May increase; over the 2000-2019 period, the average May increase in not seasonally adjusted sales was 11.0 percent. To go from this weak of a not seasonally adjusted sales number to the 5.800 million seasonally adjusted and annualized sales rate took a seasonal adjustment factor far more generous than is typical for the month of May, thus somewhat inflating the headline sales number. The reality, however, is that sales were notably weak in May. The 12-month moving sum of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales trend, rose to 6.088 million units as of May, the highest such total since April 2007. Still, we think that the trend sales rate will flatten out once we get past the June data as the brief bout of weakness in the early phases of the pandemic washes out of the data.

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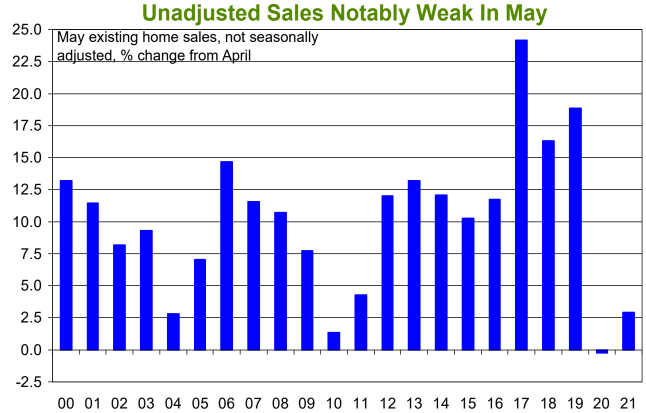
Unadjusted Sales Notably Weak In May



Sustaining the upward trend in sales, at least at anything close to the recent pace of ascent, will take more relief on the inventory front than we have seen to date. We've noted that we saw February as the cyclical low for listings, but the increases in listings over subsequent months have been smaller than is typical for these months. So, while there are signs that demand has begun to soften a bit, the market for existing homes remains badly out of balance, For instance, the median number of days on market for homes that closed in May was 17 days, matching April, and NAR reports that 89 percent of homes that closed in May were on the market for less than a month. Even allowing for the effects of the mix of sales, this imbalance is fueling rapid growth in house prices. We see the repeat-sales price indexes as being more reliable indicators of house price appreciation than the median sales price, but the repeat-sales measures are all showing double-digit price appreciation.

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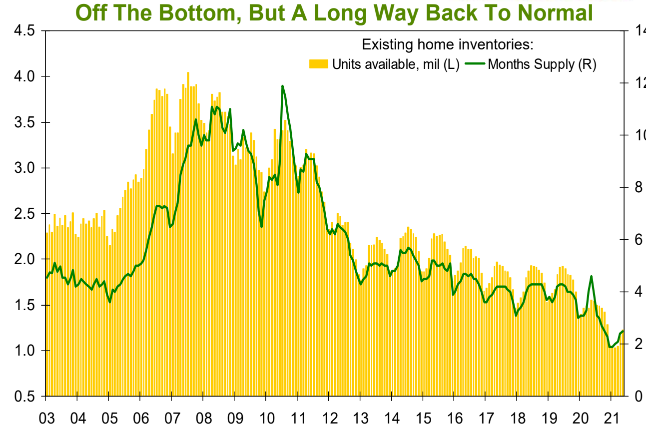
Off The Bottom, But A Long Way Back To Normal



We look for the pace of price appreciation to begin to ease as we move through the summer months – recall that it was last July that the pace of price appreciation really began to ramp up, so the over-the-year comparisons will be more challenging beyond that point. More fundamentally, we look for further relief on the supply side of the market over coming months, with inventories outperforming typical seasonal norms (the NAR inventory data are not seasonally adjusted). Combined with what is likely to be further softening on the demand side, thanks to the cumulative increases in house prices, this should result in a more moderate pace of price appreciation. The group most likely to be left out, however, is first-time buyers for whom lack of suitably priced inventory will remain a sizable hurdle.

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