ECONOMIC UPDATE

REGIONS

November 22, 2021

October Existing Home Sales: A Lump Of Coal All Wrapped Up In Ribbons And Bows . . .

- Existing home sales rose to an annualized rate of 6.340 million units in October from September's sales rate of 6.290 million units
- Months supply of inventory stands at 2.4 months; the median existing home sale price rose by 13.1 percent on a year-over-year basis

Total existing home sales rose to an annualized rate of 6.340 million units in October, just shy of our forecast of 6.360 million while beating the consensus forecast of 6.180 million units. In that sense, the headline (i.e., seasonally adjusted and annualized) sales number is little more than a nicely wrapped holiday gift, as not seasonally adjusted sales fell to just 526,000 units, far below our forecast of 558,000 units and down from 546,000 sales in September. That unadjusted sales were so far below our forecast while headline sales were basically in line with our forecast reflects nothing more than the seasonal adjustment factor being much more generous than we anticipated. In other words, beneath that nicely wrapped headline sales number lies a lump of coal but, then again, perhaps there's some profit to be made in that given that coal seems to be in short supply these days. In any event, while listings of existing homes for sale rose to 1.250 million units in November, they are nonetheless down 12.0 percent year-on-year and sufficient to cover only 2.4 months of sales, well below the 6.0 months that would be consistent with a balanced market. As we expected, there was further moderation in median sales price appreciation, with the median sales price up 13.1 percent year-on-year – recall that in both May and June the over-the-year increase topped 23 percent. Still, the recent moderation in the pace of price appreciation to some extent reflects base effects, as the over-the-year comparisons have been tougher since July. While elevated prices have fostered appreciation constraints that have caused some prospective buyers, particularly first-time buyers, to leave the market, other indicators, such as days on market and cash transactions, point to an extremely tight and competitive market. That will not change without meaningful and sustained improvement on the inventory front.

As noted above, on a not seasonally adjusted basis, there were 526,000 existing homes sold in October, down 3.7 percent from September and down 8.2 percent year-on-year, with sales falling in each of the four broad regions. It should be noted that there was one fewer selling day this October compared to last, but even adjusting for selling days, existing home sales were disappointingly soft this October. As of October, the running 12-month total of not seasonally adjusted sales, which we consider the most reliable gauge of underlying sales trends, stood at 6.135 million units, down sharply from September's total of 6.182 million units and even further below what was a multi-year peak of 6.199 million units in August. With inventories also heading lower after having risen earlier in the year, the trend sales rate could drift even lower in the months ahead. Recall that inventories put together a string of five straight monthly advances from March through July but have now fallen in each of the past three months. To be sure, we are in the time of the year in which inventories typically decline (the NAR inventory data are not seasonally adjusted), but with normal seasonal patterns of economic activity having been significantly disrupted since the onset of the pandemic, there had been some hope of further relief on the inventory front. That is not proving to be the case, however, and it could be that limited supplies and elevated prices are working to keep some prospective buyers effectively locked in place given that selling their current home would mean having to navigate the marker from the buyer side.

Buying conditions remain particularly challenging. Median days on market edged up to 18 days in October from the 17 days that prevailed over the prior six months, but that is still well below normal, and NAR reports that 82 percent of homes closed on in October were on the market for less than a month. Investor interest perked up in October, with investors accounting for 17 percent of all sales, up from 13 percent in September, and all-cash transactions accounted for 24 percent of all sales in October. The group most impacted by lean inventories and competitive market conditions is first-time buyers, who accounted for just 29 percent of all sales in October. Inventories are particularly lean across the lower price points, and first-time buyers are less likely to be able to compete with cash offers, which are more attractive to sellers as they remove concerns over mortgage approvals and appraisals not matching sales prices. Again, this will not change without a reversal on the inventory front. Indeed, we've been talking about lean inventories for years now, making it all the more frustrating that there are still no signs of meaningful and sustained improvement.

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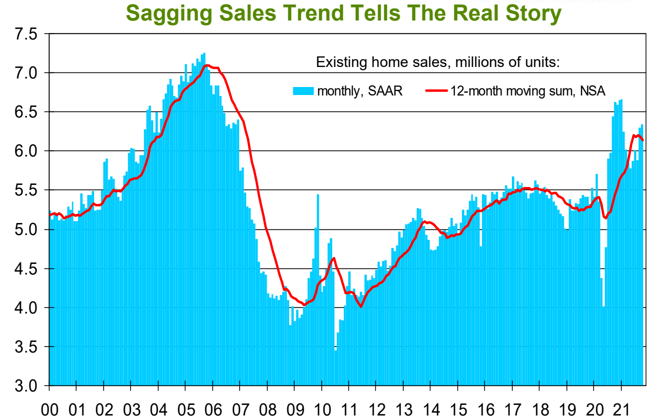
Sagging Sales Trend Tells The Real Story



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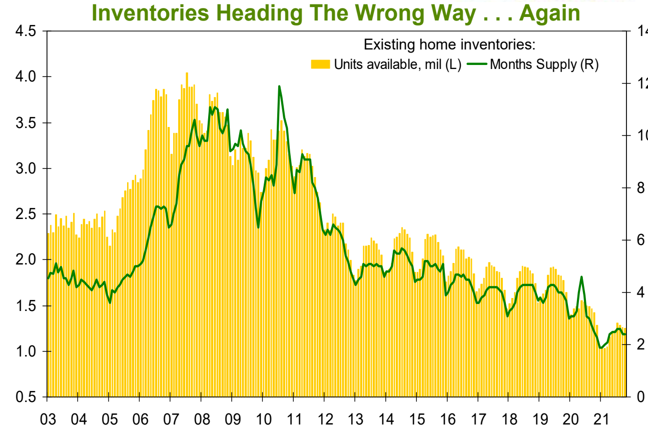
Inventories Heading The Wrong Way . . . Again



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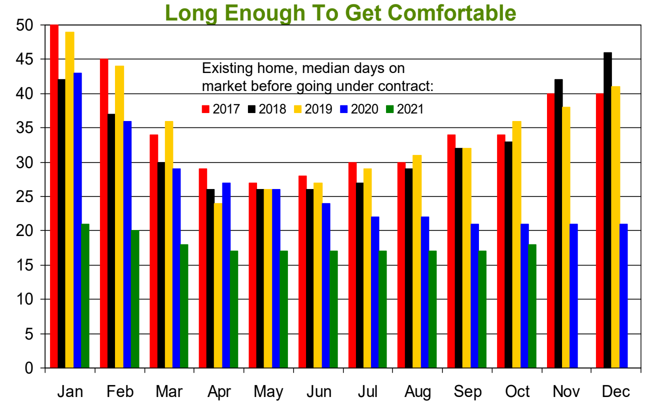
On The Market, But Not For Long Enough To Get Comfortable



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