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TD Economics

Data Release: Existing home sales suffer a setback in November, but temporary factors likely at play

- Sales of existing homes slumped by 10.5% m/m to 4.76 million units (annualized) in November, coming in considerably weaker than expectations, which called for a 5.35 million print. Revisions to the prior month were also negative, subtracting 40k units from October's transaction tally.

- Weakness was concentrated entirely in the single-family segment, where activity fell by 12.1% m/m. Meanwhile, activity rose by 1.7% in the smaller multifamily segment - ending a four month losing streak.

- The median sales price was up by 6.3% from a year ago – a slight acceleration from last month's 5.6% y/y reading. Prices for single-family homes led gains, up 6.6% y/y, while condo and co-op prices advanced at a slower but still robust pace of 4.7% y/y.

- Inventory of single-family homes up for sale rose to 5.2 months from 4.8 in October as measured by months' supply at current rate of sales. By contrast, the inventory tightened in the condo market decreasing to 4.5 months from 4.9 months in October. The number of days a house spent on the market declined to 54 – down from 57 days a month earlier and 65 days a year ago.

- First-time home buyers accounted for 30% of the transactions in November, or 1pp lower than both in the previous month and the share from a year ago.

Key Implications

- The existing home sales report has certainly disappointed in November, with resale activity sinking to its lowest level in 19 months. However, most of the decline appears to be related to regulatory changes. In particular, the introduction of the new Know Before You Buy rule appears to have manifested in significantly longer closing timeframes, likely pushing activity into December. This notion is corroborated by a relatively steady level of pending home sales in November as well as a decline in the number of days a house spent on the market during the month. As such, we expect the activity to surge in December, with readings becoming more comparable in the new year.

- For the year as a whole, existing sales are now expected to average 5.2m. This up 5% from 2014 levels and is the highest tally since 2006. As volatility related to the new rule changes subsides, we expect that the moderate upturn in the resale activity will continue next year, supported by a recovering labor market, rising incomes, and improving household balance sheets. Borrowing costs are also likely to remain relatively low, as the increase in the Fed funds rate is expected to have a relatively modest impact on fixed-term mortgage rates. The yield on the 10-year Treasury note – a benchmark used to price 30-year mortgage rates – is expected to be just 0.2 percentage points higher by the end of 2016.

- Much of the improvement going forward hinges on first-time homebuyers, who should fare modestly better. First-time homebuyers continue to face many hurdles, including low inventory of affordable houses, relatively tight mortgage underwriting standards and elevated student debt burdens. Still, home ownership rate among people age 35 or less has perked up over the last two quarters alongside increased household formation. As young people increasingly begin to form previously delayed households, supported by improving economic fundamentals, first-time homebuying should become more active in 2016.

- Inventory shortages continue to hinder transaction activity. The number of houses and condos on the market is down 5% compared to a year ago, and is some 10% below the average seen during 2001-05 period. Still, rising homebuilding should help to reduce supply bottlenecks, albeit only gradually, in light of the subdued pace of homebuilding. This is especially true for the single-family homes at a low end of price spectrum.

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