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TD Economics

Data Release: Existing home sales pull-back slightly in December, but 2016 sales best in a decade

- Existing home sales fell by 2.8% to 5.49 million (annualized) in December, running slightly below market expectations for a pullback to 5.52 million. Previous month's sales were revised up by 40 thousand to 5.65 million. Despite the pull-back at year-end, 2016 (5.45 million) was the best sales year since 2006 (6.48 million).

- The decline was concentrated in the condo/co-op segment where transactions fell by 10.3% to 610 thousand – erasing nearly all of last month's gain. Sales in the single family segment retreated by a more modest 1.8% to 4.88 million.

- Sales activity declined across most regions, pulling back in the Northeast (-6.2%), West (-4.8%) and Midwest (-3.8%), while remaining unchanged in the South.

- The inventory of homes available for sale continued to shrink falling to 1.65 million – 6.3% lower than a year ago. This brings the level of inventory to just 3.6 months' worth of supply at the current sales pace – highlighting the tightness of the existing home market.

- Despite the low inventory the upward pressure on the median home prices moderated slightly, with home values advancing by 4% y/y in December, a slowdown from the pace observed throughout 2016.

- First time homebuyers accounted for 32% of sales – unchanged from year-ago and month prior.

Key Implications

- Today's pullback in home sales was largely anticipated. The strength in recent months can be partly attributed to the rise in interest rates which pulled forward some of the contract signing as consumers hurried to lock in the still-low rates. As that rush cools, some of the elevated sales activity will also dissipate. Pending home sales data corroborate this notion.

- Home buying is likely to face additional headwinds going forward, which include low inventory levels, rebounding prices and higher mortgage rates. Nevertheless, we don’t expect this confluence of factors to completely derail the housing recovery. With the economy still on solid footing, characterized by rising employment and incomes, and with only gradual rate increases expected from the Federal Reserve, sales activity is likely to remain well supported near the current level over the next few months.

- Changes from the new administration could offer some surprises. For instance, the recent decision to eliminate a cut to FHA mortgage insurance premiums – something which could have saved borrowers of modest means around $500 on average this year – will mean less support for sales activity on the lower end of price range. Additionally, proposed radical changes regarding personal income taxes, corporate taxes and trade policy could affect the way Americans work, save and spend – including the purchasing of homes. More details should trickle in over the next few months which will help elucidate the net effect on housing.

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