Data Release: Existing home sales hit a soft patch in January

- U.S. existing home sales fell by 4.9% m/m to 4.82 million units in January – the lowest level in nine months. The number of units sold came in shy of the 4.95 million print expected by the market. Prior month's revisions provided a small consolation, with December headline revised up to 5.07 million from an earlier reading of 5.04.

- The pullback in sales was broad-based, with both single and multi-family sales edging lower on the month. The bulk of the decline was due to weaker single-family sales (-5.1% m/m). However the more volatile multi-family segment also fared worse in January (-3.5% m/m), posting its third consecutive monthly decline. On a year-over-year basis, single-family sales were up 3.9%, while sales of condos and co-ops units were down 1.8%.

- The median price of homes rose by 6.2% year-over-year in January, which was a significant acceleration relative to last months' pace of 5.3% y/y – largely due to a faster price growth in the single-family segment.

- Distressed sales made up 11% of all sales – the same as in the month prior and but down from 15% a year ago.

- First-time homebuyers accounted for 28% of the transactions – down from 29% the month prior – but still slightly above last year's level of 26%.

- The inventory of unsold homes – measured as months of supply – increased in January, with current supply rising to 4.7 months from the 4.4 months recorded in December.

- Regionally, sales were down across the country, with the largest declines in the West (-7.1% m/m) and Northeast (-6.0% m/m). Including today's data, sales in the Northeast and Midwest have now been contracting for three consecutive months.

Key Implications

- Any way you slice it, today's report was disappointing. Weakness was broad based, extending to both single and multi-family sales and across regions.

- That being said, we view the soft patch in the housing activity as temporary and chalk it up largely to weather-related factors, with cold weather and severe snowstorms in parts of the country dampening foot traffic and sales. This is also consistent with the recent weakness in other housing indicators, such as housing starts and pending home sales.

- Aside from the weather-related calamities, there is a good case for improvement in resale activity in 2015. Underlying credit conditions continue to improve, with mortgage rates in January down 70 percentage points relative to a year ago. Additionally, the robust pace of job creation, rising rents, lower energy prices and tentative signs of a pickup in wage growth should usher more U.S. households toward homeownership.

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