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TD Economics

Data Release: Existing home sales slip in July - first decline in five months

- Existing home sales took a step back in July, with activity falling by 3.2% m/m to 5.39 million (annualized) after reaching a post-recession high of 5.57 million in June. This marked a first decline since February. The headline print was weaker than market expectations, which called for sales to pullback modestly to 5.51 million units.
- The slowdown in activity was broad-based. Sales of single-family homes declined by 2% m/m to 4.82 million, while sales in the smaller and more volatile condo/co-op segment retreated more substantially, falling by12.3% m/m to 570 thousand.
- However, the market remains in short supply, which is keeping pressure on home prices. Median prices advanced by 5.3% y/y, up from a 4.8% pace in June. Single-family homes led the way, with values increasing 5.4% year-over-year. Prices for condos and co-ops were 4.1% y/y higher than a year ago.
- First-time homebuyers accounted for 32% of transactions, marginally lower than 33% in June but an improvement from 28% seen a year ago. That being said, the share of first-time homebuyers remains depressed relative to historical levels.
- Inventory of houses available for sale remained low. While the number of for-sale homes edged higher on the month (+0.9% m/m), thy remained 5.8% lower than a year ago.
- The houses continued to sell relatively briskly amid low inventory, staying on the market on average for 36 days, down from 42 days a year ago.

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Key Implications

- Following four months of back-to-back gains, existing home sales were expected to moderate in July. Still, the pullback in activity was larger than the market participants were expecting.
- A substantial decline in mortgage rates during the first half of 2016 was one of the key factors behind this year's pickup in activity. While the overall fundamentals remain supportive of continued progress in the housing market, there are signs that additional support coming from falling interest rates may have run its course and sales momentum is beginning to moderate. This is corroborated by MBA indexes of purchase and refinance activity, which have both slipped from their recent peaks.
- Low inventory of houses available for sales also continues to weigh on sales performance and affordability. As a result, while we expect home purchases to continue to rise in the second half of the year on the back of job market gains and low mortgage rates, the improvement is likely to be more gradual given the very low supply.

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