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TD Economics

Data Release: Existing home sales kick off the year on a solid footing

- Existing home sales rose by 0.4% m/m in January to 5.47 million units (annualized) coming on the heels of an outsized gain in a prior month. The reading was well-above consensus forecast, which called for sales to soften to 5.33 million.
- The uptick was entirely due to the increase in the sales of single-family homes, which rose by a strong 1% m/m to 4.48 million units. Meanwhile, the sales of condos/co-ops have softened on the month (-4.7% m/m) after a solid performance in December.
- On a year-over-year basis the median sales price was up by 8.2% - accelerating from prior month's 7.2% y/y reading and remaining over 2 percentage points above the average gain during the last 6 month. In the single-family segment prices were up by 8.3% y/y, while prices for condo and co-op prices rose by a more subdued, but still hefty, 7.4% y/y.
- Inventory of existing for-sale homes – measured in months' supply – increased to 4 months, up ever slightly from 3.9 in December. Still, total inventory of houses available for sale remains tight, down 2.2% from a year-ago levels.
- First-time homebuyers accounted for 32% of all sales in January – the same level as in the prior month but 4pp higher than a year ago.
- Regionally, activity was up in the Northeast (+2.7% m/m) and Midwest (+4% m/m) regions, flat in the South and down in the West (-4.1% m/m).

Key Implications

- Despite only a modest gain in the headline, January's existing home sales report is a very healthy one. Led by a gain in the less-volatile single-family segment, total sales rose to the highest level since July of 2015, even as a severe blizzard battered many states in the Northeast and South at the end of January. The uptick is also encouraging given that it follows the double-digit gain seen December. Overall, it appears that much of the recent volatility related to the introduction of new mortgage application regulation is now behind us, and activity should be off to a smoother performance as we approach the key spring selling season.
- There are plenty of factors that bode well for homeownership. Chief among them are rising employment and incomes, which has helped to improve the household formation rate, as well as better access to credit. Borrowing costs are also expected to remain low. In fact, mortgage rates have fallen by 35 basis points since the start of the year, and should remain very low over the course of 2016 with the Fed expected to raise rates only [twice this year](#).
- The one area of major concern, however, is the tight inventory of available houses for sale which is motivating very brisk increases in home prices, which continue to outpace income gains. Rising homebuilding should help to reduce supply bottlenecks and temper price gains, albeit only gradually. Moreover, additional inventory should come on the market as prices continue to rise, lifting more American households out of negative equity positions. Still, this will likely only be a gradual process, with home sales likely to continue improve at a very moderate pace in the near term.

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