June 21, 2017

TD Economics

Data Release: Existing home sales rise in May, defying expectations

- Existing home sales rose 1.1% m/m to 5.62 million (annualized) in May, following a slightly downwardly revised 5.56 million print in April. The headline surprised to the upside with markets expecting another modest pullback on the month.
- Activity improved in both the single family and condo/co-op segments, with sales rising 1% to 4.98 million in the former and 1.6% to 640 thousand in the latter.
- Activity improved across most regions, with sales reversing course only in the Midwest (-5.9%), while rebounding in the Northeast (6.8%), South (2.2%) and West (3.4%).
- The number of homes available for sale rose 2.1% on the month but remained low by historical standards at seasonally unadjusted 1.96 million. This is down 8.4% from year-ago and accounts for just 4.2 months' worth of sales at the current pace compared – down from 4.7 at the same time last year.
- The tight inventory is keeping upward pressure on prices, with the median price advancing by 5.8% y/y. Properties typically stayed on the market for 27 days – down from 29 days in April and 32 days a year-ago.
- First-time homebuyers accounted for 33% of sales, down from 34% in the month prior but up from 30% a year ago. Meanwhile, all-cash sales rose to 22% from 21% in April.

Key Implications

- Today's better-than-expected print is an encouraging signal that reinforces the notion of a resilient housing market that's been helped by an decline in mortgage rates recently. Low mortgage rates should provide further support in June, with the volume of mortgage applications on an upswing during the month. While residential investment is unlikely to add much to grow during the second quarter, the recent numbers suggest a pick-up is likely during the third quarter.
- The increase in inventory was a welcome development, but inventory levels remain tight for the time being and are boosting price growth. Still, higher prices should bring about more supply later this year, which alongside higher rates should help cool price growth.
- The robust price growth to date has led to some erosion in affordability, which together with the likely increases in mortgage rates throws into question the sustainability of the housing recovery. Still, households are likely to withstand the incremental increases in borrowing costs thanks to a solid labor market that is poised to deliver continued job and income gains, with an improvement in the homeownership rate also expected to provide a gentle tailwind as outlined in our recent report, with sales expected to improve by 3.4% this year.

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