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TD Economics

Data Release: Existing home sales rise more than expected in November, as inventories tighten

- Existing home sales increased by 0.7% to 5.61 million (annualized) in November, ahead of market expectations for a pullback to 5.5 million. Previous month's sales were revised down by 30 thousand to 5.57 million.
- Sales decreased in the single family (-0.4%) segment, to 4.95 million, but rose sharply (+10%) in the condo/co-op segments to 660 thousand.
- Sales were strong in the Northeast (+8%) and advanced in the South (+1.4%) but pulled back in the Midwest and West, down 2.2% and 1.6%, respectively.
- Inventory of unsold homes continued to dwindle, with only 1.85 million available for sale – four months' worth of sales at the current pace, marking the tightest market since early 2016.
- Low inventories continued to pressure prices. The median price continued to rise at a robust 6.8% y/y rate, with both single-family homes (+6.8%) and condo/co-op prices (+5.8%) up robustly.
- While first time homebuyers accounted for 32% of transactions, up from the 30% a year ago, but down slightly from the 33% share recorded in the previous month.

Key Implications

- Despite the slight downward revision the report is overall fairly constructive, with sales activity rising to its highest level since February 2007. The condo market appeared to be all the rage in November, while single-family home sales also held up well.
- Much of the recent rise is likely related to the rise in interest rates, with mortgage rates, in particular, surging more than 70 basis point to above 4% in recent weeks many would-be homeowners likely jumped at the opportunity and bought homes to get ahead of future hikes. As such, the elevated activity will begin to dissipate as the rush passes, with higher mortgage rates increasingly becoming headwinds for the market from an affordability perspective. This will be especially the case given the rapid price gains, motivated by a lack of inventory of existing home sales.
- Still, while higher rates will likely take a bite out of sales in early-2017 and beyond, they won't throw the market into a tailspin. The economy appears resilient with job and income gains remarkably robust in recent months. Alongside a still gradually moving Fed, and long-bond yields pressured down by global liquidity, we expect the market to remain well supported near the 5.5 million mark in the coming months.

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