TD Economics

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Data Release: Existing home sales surprise expectations, rising to the highest level since February 2007

- Existing home sales rose 2.0% m/m in October to 5.60 million units (annualized) from an upwardly revised 5.49 million in September. The headline print marked the second consecutive monthly gain and came in well above market expectations, which called for a moderate decline to 5.44 million units.

- Gains were concentrated entirely in the single-family segment, where transactions increased by 2.3% to 4.99 million. The multifamily segment remained flat at 610 thousand.

- On a regional basis, sales activity was up across the board. Sales rose robustly in the South (+2.8%) and Midwest (+2.3%), while more moderate gains were recorded in the Northeast (+1.4%) and West (0.8%).

- The number of homes available for sale fell 0.5% on the month, bringing the moths' supply of inventory down from 4.4 to 4.3 worth of sales at the current pace. In level terms, the number of homes available for sale is 10.4% below last year.

- The low supply of homes on the market is keeping upward pressure on home prices, with the median price advancing 6.1% y/y in October – a considerable acceleration from the 5.0% pace in the previous month.

- First-time home buyers accounted for 33% of all sales in October, down 1% from last month but still up 2% from last year.

Key Implications

- Today's report is very encouraging, with sales reaching the highest level since February 2007 and activity up across the board. If there is one sore spot, it would be the decline in inventory levels which will likely weigh on momentum down the road.

- The recent climb in interest rates is likely behind some of the strength seen in activity. In the near-term, the rate rise will likely continue pulling forward some of the contract signing as consumers try to lock in the still-low rates, while likely having a dampening effect on sales activity in subsequent quarters, a trend made more acute by eroding of affordability.

- It is important to note that the recent back-up in mortgage rates is unlikely to derail the U.S. housing recovery. First, much of the sharp rebound in rates appears to be front-loaded, and while the Fed is fully expected to resume a very gradual tightening cycle next month, future rate increases are likely to be relatively gradual. Second, the U.S. economy remains on solid footing and there are plenty of factors that bode well for homeownership. Chief among them is the rising employment, incomes, and participation rate. As such, while rising rates and low inventory will likely keep sales from rising in the coming quarters, activity should nonetheless remain relatively well supported during this time.

Admir Kolaj, Economic Analyst
416-944-6318

@TD_Economics