Economics Group

Existing Home Sales Rise Solidly in December

Home sales ended the year on a strong note, with resales of existing homes rising 3.6% to a 5.54 million-unit annual rate. Lower mortgage rates have brought buyers back out, but inventories remain thin.

Housing Looks Set To Drive Stronger Economic Growth

Sales of existing homes rose a solid 3.6% in December to a 5.54 million-unit pace, which is the strongest since February 2018. Lower mortgage rates have brought buyers back into the market, particularly in the South and West, where population and employment growth remain exceptionally strong. The strength in existing home sales follows a string of positive housing reports and should offset some of the drag being exerted on the economy from sluggish global economic growth.

Rising home sales have huge knock-on effects. Realtors’ commissions add meaningfully to economic gains and rising sales also mean more homes have to be inspected, financed and insured. Existing homes also tend to be updated and repaired after the new owners move in, driving sales at home improvement centers, furniture retailers and appliance stores.

The December data are consistent with the pending home sales data, which had risen solidly in previous months. Existing home sales reflect closings, while pending home sales reflect purchase contracts. Most of the leading indicators of home sales suggest that the positive momentum should carry over into 2020. Mortgage applications for the purchase of a home have risen solidly so far this year, consumer confidence remains high and household balance sheets are in solid shape. A rising number of Millennials are also reaching a point in their lives where they are more likely to get married and start a family, milestones which are key determinants of home buying.

Sales of single-family homes rose 2.7% to a 4.92 million-unit pace, while sales of condominiums and co-ops rose 10.7% to a 620,000-unit pace. The median price of an existing single-family home is up 8.0% from last December to $276,900. Sales were plummeting in December 2018, however, which elicited quite a bit of discounting. The median price of a condominium or co-op sold in December rose 6.0% from the prior year to $255,400.

Sales rose in most areas during December, up 5.7% in the Northeast, 5.4% in the South and 4.6% in the West. Sales fell 1.5% in the Midwest. The improvement in sales in the Northeast suggests that the region is moving past the hit to demand that followed the 2017 tax reform, which limited deductions for state & local taxes and mortgage interest.

Preliminary data show existing home sales for 2019 totaling 5.34 million units, which is even with their 2018 level but is slightly below our forecast for the year. We are expecting sales to rise 1.4% in 2020 to 5.435 million units but we will need to see more sellers to hit that level. The number of existing homes for sale at the end of December fell 14.6% from the prior month and is down 8.5% from last December. At the current sales pace, there is just a 3.0 months’ supply of homes available for sale.

Source: National Association of Realtors and Wells Fargo Securities