

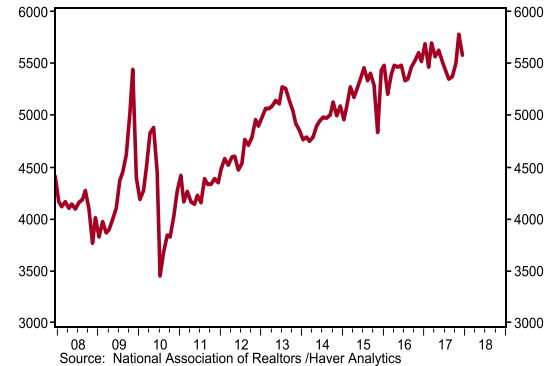
December Existing Home Sales

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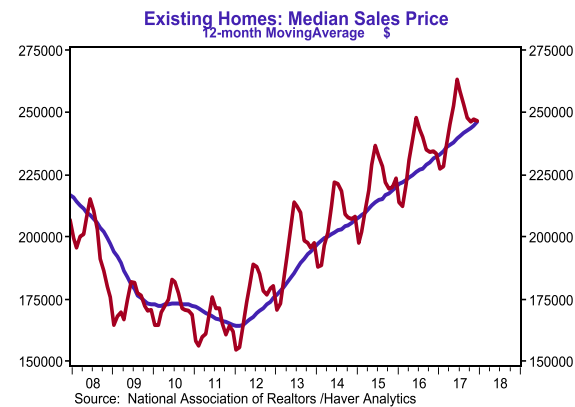
- Existing home sales declined 3.6% in December to a 5.57 million annual rate, below the consensus expected 5.70 million. Sales are up 1.1% versus a year ago.
- Sales in December fell in all major regions. The drop was due to both single-family homes and condos/coops.
- The median price of an existing home rose to \$246,800 in December (not seasonally adjusted) and is up 5.8% versus a year ago. Average prices are up 4.8% versus last year.
- The months' supply of existing homes (how long it would take to sell the entire inventory at the current sales rate) fell to 3.2 months in December. The decline in months' supply was due to the drop in inventories outrunning the slower pace of sales.

Implications: After three straight months of gains, existing home sales ended 2017 on a soft note. Sales of previously-owned homes fell 3.6% in December to a 5.57 million annual rate, but are still up 1.1% from a year ago. Despite the weak headline number, sales posted their best year since 2006, showing the upward trend is still intact. And now that the effects of the hurricanes have mostly subsided, there may be some pent-up demand to provide a tailwind to sales in early 2018. That said, the major headwind for existing homes has been inventories, now lower on a year-over-year basis for 31 consecutive months, down 10.3% from a year ago, and at the lowest level since at least 1999. The number of existing homes for sale declined 11.4% in December alone to 1.48 million. This drop was large enough to more than offset the slower pace of sales, pushing the months' supply of existing homes – how long it would take to sell the current inventory at the most recent sales pace – to 3.2 months in December, also the lowest level on record. According to the NAR, anything less than 5.0 months (a level we haven't breached since 2015) is considered tight supply. Despite the lack of options, demand for existing homes has remained remarkably strong, with 44% of homes sold in December remaining on the market for less than a month. Higher demand and a shift in the "mix" of homes sold toward more expensive properties has also driven up median prices, which are up 5.8% from a year ago. The strongest growth in sales over the past year is heavily skewed towards the most expensive homes, signaling that supply constraints may be disproportionately hitting the lower end of the market. Tough regulations on land use raise the fixed costs of housing, tilting development toward higher-end homes. Although some analysts may be concerned about the impact of tax reform on home sales, the reality is that few homeowners exceed the new thresholds for deductibility. Finally, though mortgage rates may be heading higher, it's important to recognize that rates are still low by historical standards, incomes are growing, and the appetite for homeownership is starting to move higher again. That's why we expect home sales, [like the stock markets](#), to move higher in 2018. In other housing news this morning, the FHFA index, which measures prices for homes financed by conforming mortgages, rose 0.4% in November and is up 6.6% in the past year, little different from the 6.5% gain in the year ending November 2016. Look for further price gains in the year ahead, although at a slightly slower rate and, given recent tax changes, with growth tilted more toward lower tax states. On the manufacturing front, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, came in at a still robust 14 in January versus 20 in December.

NAR Total Existing Home Sales, United States
 SAAR, Thous



Existing Homes: Median Sales Price



Existing Home Sales	Dec-17			Nov-17	Oct-17	3-month	6-month	Yr to Yr
	Seasonally Adjusted Unless Noted, Levels in Thous.	% Ch.	level	level	level	moving avg.	moving ave.	% Change
Existing Home Sales		-3.6%	5570	5780	5500	5617	5502	1.1
Northeast		-7.5%	740	800	750	763	728	-2.6
Midwest		-6.3%	1330	1420	1310	1353	1315	1.5
South		-1.7%	2300	2340	2160	2267	2225	3.1
West		-1.6%	1200	1220	1280	1233	1233	-0.8
Median Sales Price (\$, NSA)		-0.2%	246800	247200	246000	246667	249800	5.8

Source: National Association of Realtors