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Economics Group

WELLS FARGO SECURITIES

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Charlie Dougherty, Economist
charles.dougherty@wellsfargo.com • (704) 410-6542

Existing Home Sales Drop in December

Existing home sales fell 6.4% to a 4.99 million-unit pace during December. Despite lower mortgage rates recently, sales ended the year 10.3% lower relative to last year. Home prices continue to ease amid softer sales.

Existing Home Sales Fall to Slowest Pace Since 2015

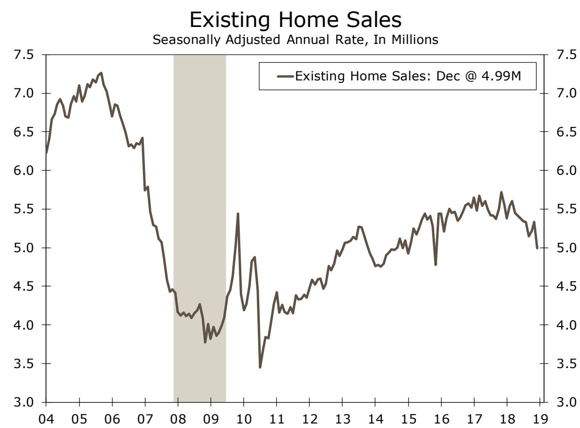
Hopes of lower mortgage rates leading to a noticeable improvement in home sales were dashed during December. Existing home sales for the month broke a two-month string of positive gains and fell 6.4% to a 4.99 million-unit pace, well below expectations and the slowest pace since November 2015. On a year-over-year basis, sales were 10.3% lower during December. Housing market data for the winter months are notoriously difficult to interpret given the unusually large seasonal adjustment factors. However, December's report caps a year in which the combination of rising home prices and higher mortgage rates weighed considerably on home buying conditions. Sales throughout 2018 saw a significant loss of momentum compared to 2017. Throughout 2018, sales averaged a 5.34 million-unit pace, 3.6% below the average 5.53 million-unit posted in 2017, and the first annual drop since 2014.

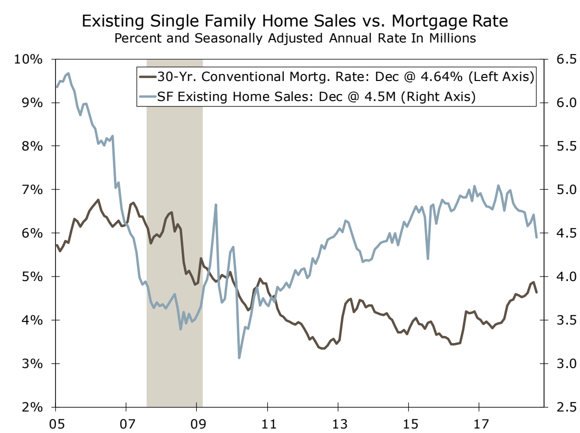
Sales fell in every region during December. The Midwest posted the largest monthly drop, declining 11.2%. The Northeast and the West declined 6.8% and 1.9%, respectively. The South, which represents the largest region for existing home sales, dropped 5.4%.

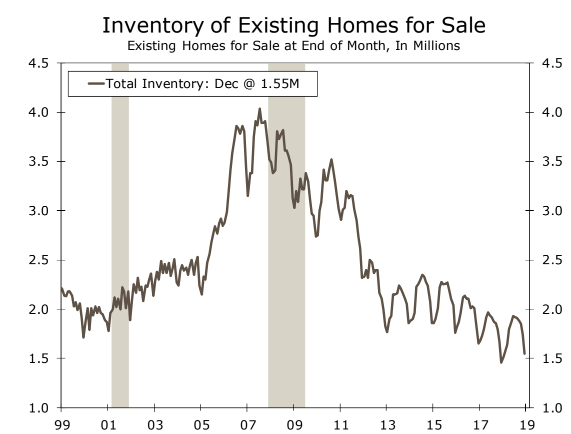
There were a few bright spots in December's report. Inventory levels fell 12.3% to 1.55 million, however increased 6.2% on a year-over-year basis. After declining on a year-over-year basis for 37 consecutive months, inventory levels have now risen in each of the past five months. A lack of inventory on the market was a driving force behind the rapid price appreciation seen through much of this expansion and was a significant impediment to overall sales.

Homes are staying on the market slightly longer, which gives buyers more negotiating power. The average home stayed on the market for 46 days in December, up from 42 days in November and 40 days a year ago. Against the backdrop of slower sales and rising inventories, home prices continued to moderate. The median existing single-family home price rose to $255,200, a 2.9% year-over-year increase. However, the increase marks the slowest increase since 2012. Given the rapid appreciation of prices seen earlier in the cycle, some moderation should benefit homebuyers as mortgage rates will likely continue to gradually trend higher in coming months.

The partial federal government shutdown, which began on December 22, likely had little impact on existing home sales during the month. However, a prolonged shutdown may cause delays in the mortgage underwriting process, which could potentially weigh on sales in coming months. Delays may arise from longer turnaround times in the verification of borrowers' incomes from the IRS. Overall, the impact should not be significant as Fannie Mae and Freddie Mac are not directly affected by the shutdown, and single-family Federal Housing Administration loans are still being funded.







Source: National Association of Realtors, Freddie Mac and Wells Fargo Securities

Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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