

US EXISTING HOME SALES RISE IN OCTOBER, BUT LARGER GAINS EXPECTED SOON

**US existing home sales advanced 2% to an annualized 5.48mn in October – the best monthly gain since March – after two hurricanes depressed activity in August (5.35mn) and September (5.37mn), see Chart 1.*

**Existing home sales in the South (region affected by hurricanes) accounted for 40k of the 110k increase, in line with their normal share of total US sales, but they are still depressed (see Chart 2).*

**Residential fixed investment is poised to increase in Q4 and add to GDP after declining in Q2 and Q3.*

Existing home sales in the South are likely to post stronger gains in coming months when transactions to replace storm-damaged homes are finalized. Note that the National Association of Realtors counts existing home sales at contract closing while the Census Bureau counts new home sales when the initial sales contract is signed. This explains why September new home sales surged 19% to a 10 year high.

Several economic indicators that were adversely impacted by the inclement weather between August and September (industrial production, housing starts, jobs) rebounded in October. Stronger gains in existing home sales are likely by year-end. Real GDP in Q4 is on track to grow by 3% annualized for the third consecutive quarter.

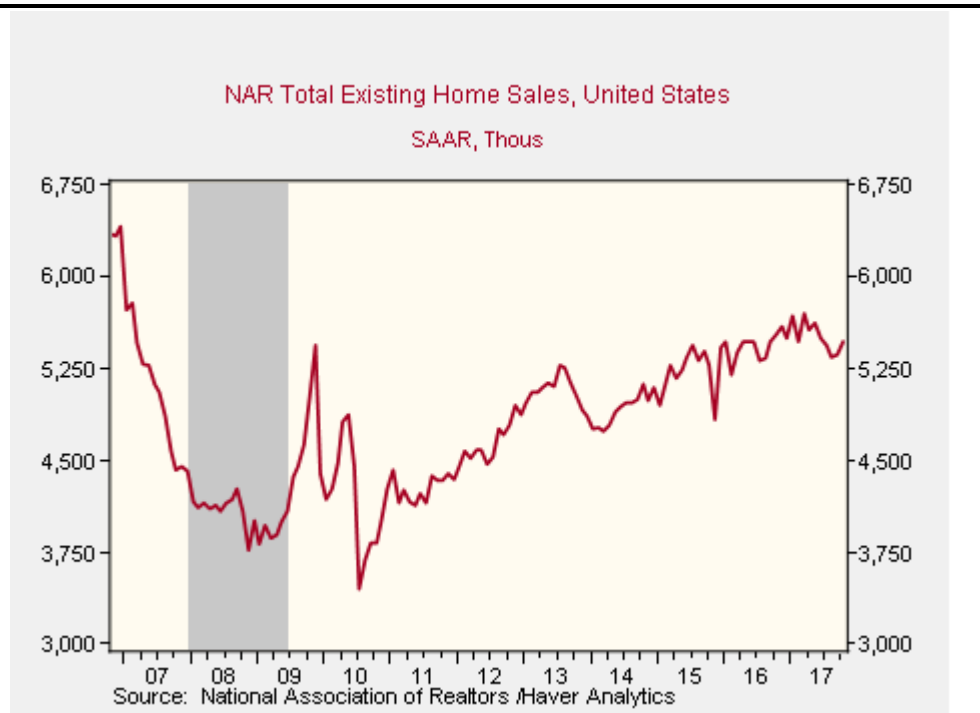
The increased replacement-demand is stretching the tight inventory of existing homes and is shifting some homebuilding resources – already in short supply – away from other regions. The inventory of homes available for sale – ratio of existing homes available for sale to actual sales – fell to 3.9 months from 4.2, the lowest since March (see Chart 3). Homes stayed on the market for only 34 days in October, compared to 41 days a year ago.

This tight supply is placing upward pressure on home prices - up 5.5% yr/yr in October to \$247k (see Chart 4). The strong home price appreciation has contributed to rising household net worth, but has reduced home affordability, particularly for first-time home buyers.

The boost to home sales and new residential construction is expected to continue into 2018Q1. The outlook is positive for 2018, reflecting further job gains and low unemployment, favorable demographics, low mortgage interest rates and strong equity price appreciation (see [“US Housing: Choppy Improvement, Solid Fundamentals, Favorable Outlook”](#), September 2017) and [“US housing market: plenty of room for improvement”](#), June 26, 2017).

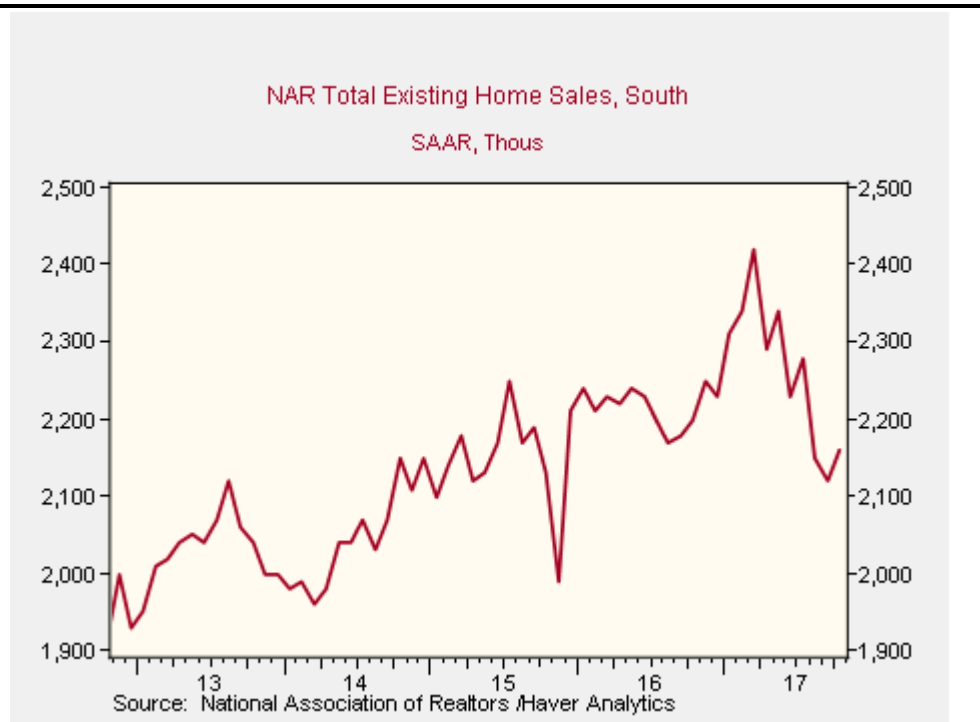
21 November 2017

Chart 1: US Existing Home Sales



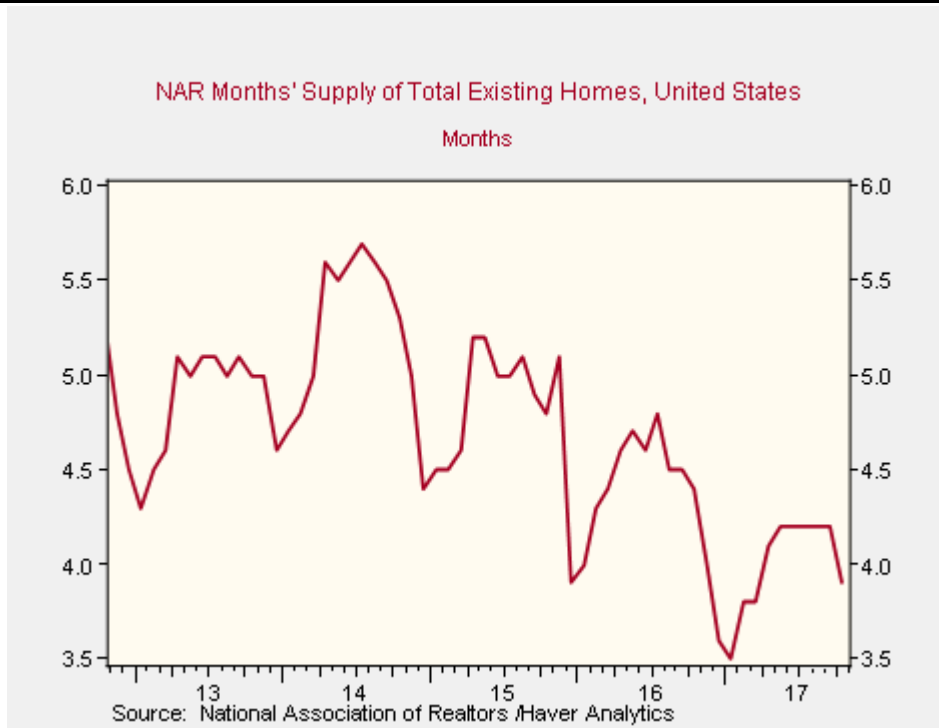
Source: Monthly data. Source: National Association of Realtors and Haver Analytics

Chart 2: Existing Home Sales in the South



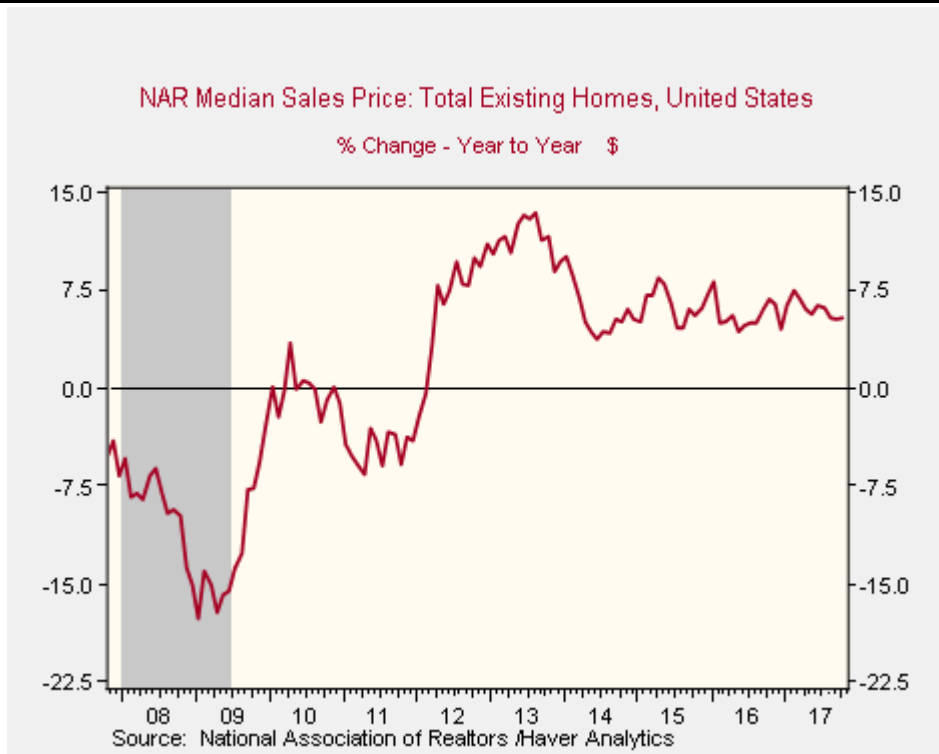
Source: Monthly data. Source: National Association of Realtors and Haver Analytics

Chart 3: Months' Supply of Total Existing Homes



Source: Monthly data. Source: National Association of Realtors and Haver Analytics

Chart 4: Median Sales Price for Existing Homes



Source: Monthly data. Source: National Association of Realtors and Haver Analytics

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