

## US EXISTING HOME SALES - BOOST FROM STORM-REBUILD, FUNDAMENTALS, TAXES

*\*U.S. existing home sales surged 6% to an annualized 5.81mn in November, well above the consensus forecast of 5.53mn and the highest since December 2006 (see Chart 1)*

*\*Post-hurricane home replacement drove a 180k increase in sales in the South, but the 50k increase in sales in the Northeast and the 110k increase in the Midwest suggest more than just a hurricane-replacement story*

*\*Strong economic momentum and labor market performance point to further housing market improvement in 2018*

Besides favorable economic conditions, some persons may have accelerated home purchases to November after the release of the initial Congressional House tax proposal on November 2 that proposed lowering the cap on the mortgage interest deduction to \$500,000 from \$1 million effective for new home purchases made after November 2. Some may have decided to take a chance regardless and accelerate their home purchases. In the final tax bill, the mortgage cap was lowered from \$1 million to \$750,000 with the effective date for the lower cap moved to December 15, 2017, so taking such a chance would have paid off.

We expect the lower cap on the mortgage interest deduction and the disincentivizing of itemized deductions to have *a limited impact* on national housing market activity. **According to the National Association of Realtors' president, "Only 6 percent of homeowners have mortgages exceeding \$750,000, and only 5 percent pay more than \$10,000 in property taxes, but most homeowners won't itemize under the new regime."**

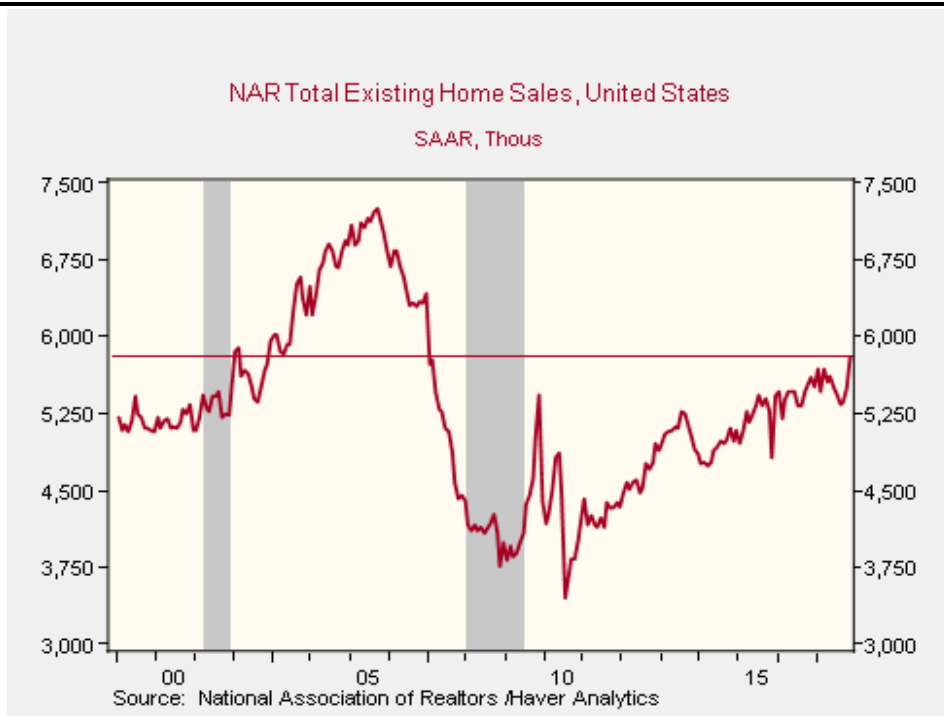
*Favorable demographics, higher net worth from the sharp run-up in equity prices this year, sustained robust job growth, the very low unemployment rate, and strong optimism will likely outweigh any short-term disruption to the housing market (see Chart 2).*

It is also possible that people are trying to lock in low mortgage rates before year-end in fear of higher interest rates in 2018. Mortgage rates have remained historically low, below 4%, for the last couple of years (see Chart 3).

The chronic shortage of for-sale homes poses some risk to existing home sales going forward, so we expect stronger momentum in the market for new homes. The months' supply of single-family existing homes on the market – ratio of homes available for sale to existing home sales – fell to 3.5, an all-time low in November (see Chart 4). With housing demand strong and likely to improve, residential construction activity – which remains low despite solid improvement lately – will have to accelerate in coming years to replenish the depleted housing stock (see ["US housing market: plenty of room for improvement"](#), June 26, 2017).

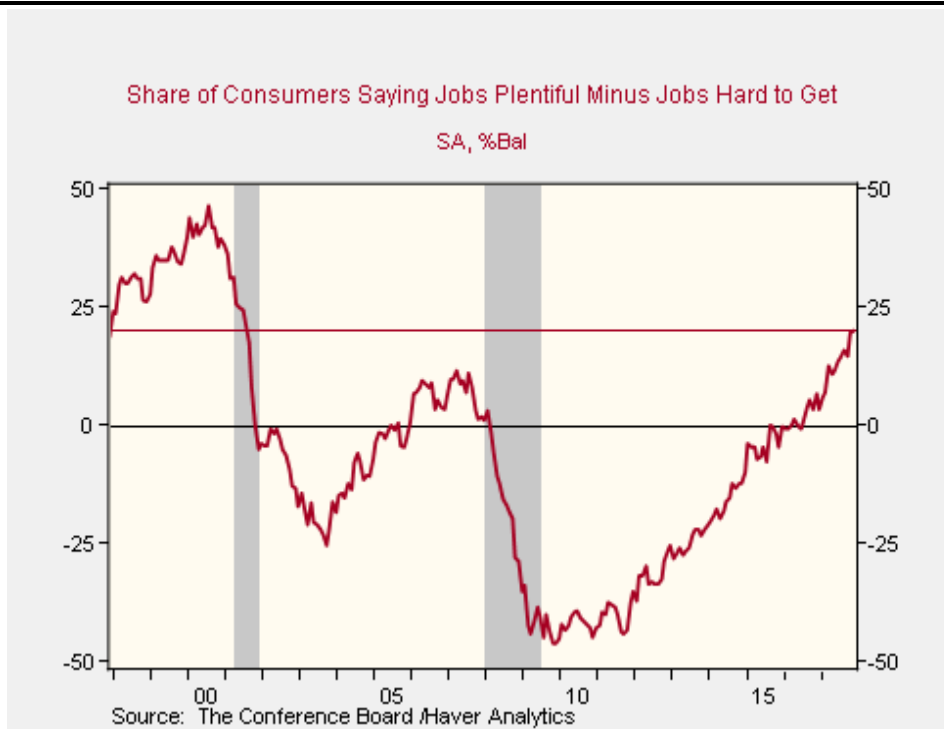
20 December 2017

Chart 1: US Existing Home Sales



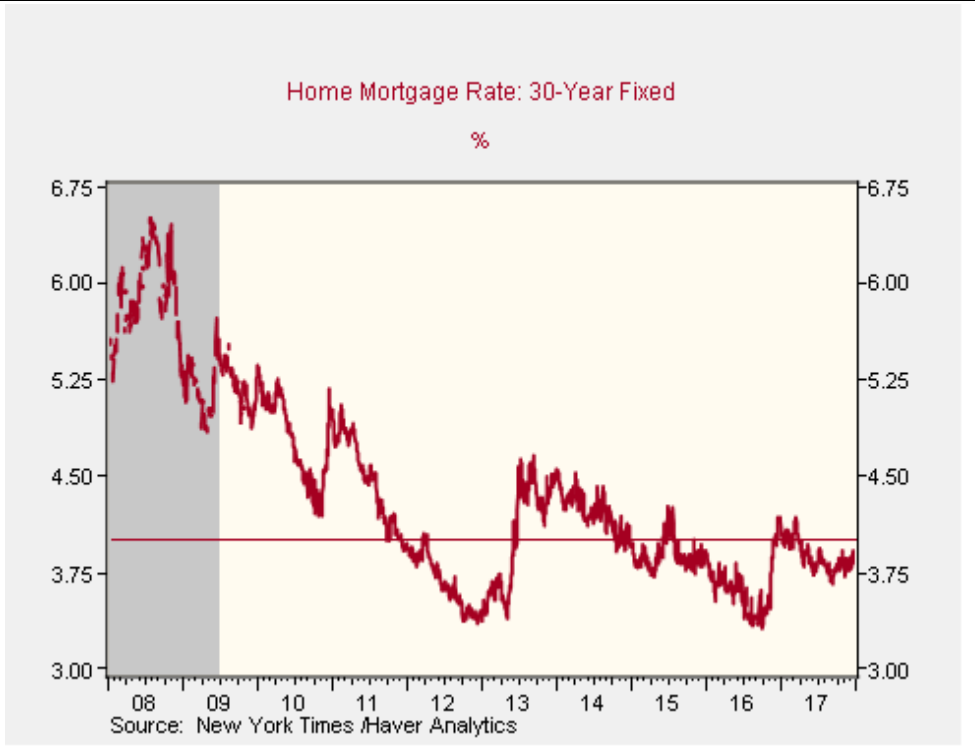
Source: Monthly data. Source: National Association of Realtors and Haver Analytics

Chart 2: Share of Consumers Saying Jobs Plentiful Minus Jobs Hard to Get



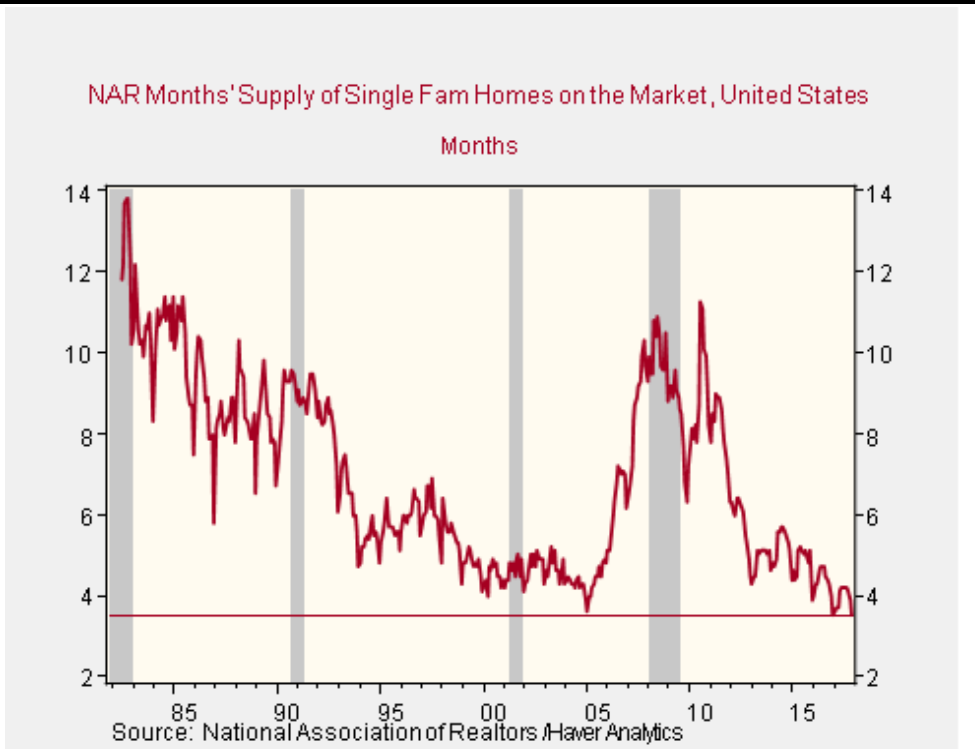
Source: Monthly data. Source: The Conference Board and Haver Analytics

Chart 3: Mortgage Rate: 30-Year Fixed



Source: Daily data. Source: New York Times and Haver Analytics

Chart 4: Months' Supply of Single-Family Homes on the Market



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

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