

## US FEB. EXIST. HOME SALES LIKELY BOOSTED BY RUSH TO LOCK IN MORTGAGE RATES

*\*U.S. existing home sales increased by 160k to an annualized 5.54mn in February, likely boosted by the rush to lock in mortgage rates in advance of further increases in mortgage rates (30yr fixed mortgage rate up -50 basis points since the start of the year)*

*\*Despite the solid gains, existing home sales are likely to register a decline in Q1 after the post-hurricane replacement demand boosted Q4 sales, and as harsh and protracted winter weather conditions have delayed some activity (Chart 1)*

*\*Residential investment growth is expected to moderate in Q1 following its robust 13% annualized rise in Q4 2017, but we expect a solid spring season to involve strong demand and construction to meet sizable backlogs*

The very tight supply of for-sale homes will further constrain existing home sales in 2018 after sales increased at their slowest pace in two years in 2017. We expect new residential construction to account for a growing share of housing activity in coming years to replenish the depleted housing inventory (Chart 2). But anecdotal surveys indicate that scarce supply of lots and labor, tight regulation, and higher input costs will weigh on new construction and that demand will continue to outpace supply (Chart 3).

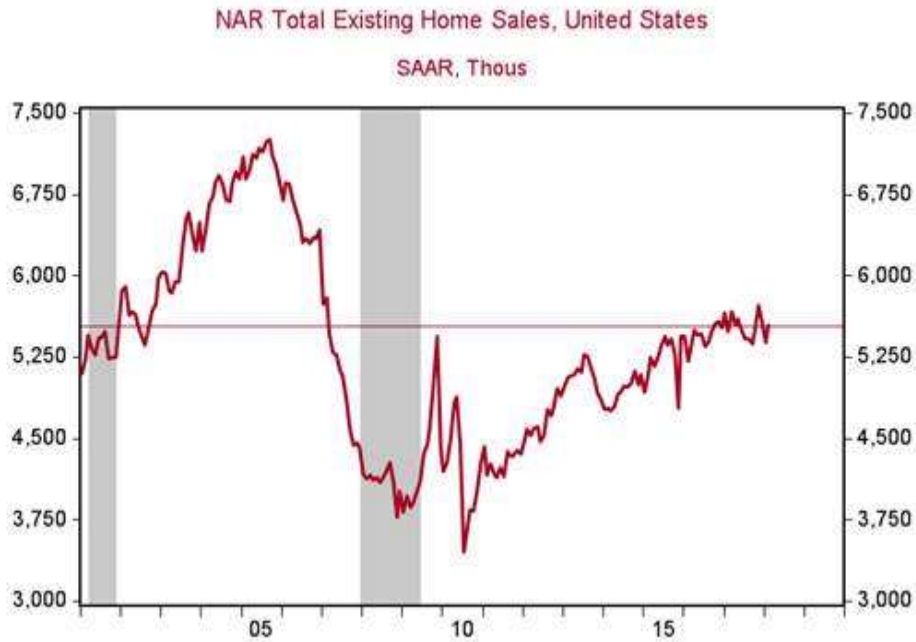
Home price appreciation has re-accelerated (up 5.9% yr/yr in February compared to 4.9% in October), reflecting the tight supply of homes. This reduces affordability for potential buyers but increases the wealth of existing homeowners. Note the divergence in prices for new and existing single-family homes in this recovery. Builders are constructing more high-end homes in order to maintain margins, to the detriment of the large group of potential first-time home buyers with lower incomes and wealth (Chart 4).

The March University of Michigan consumer sentiment survey showed that views on home buying conditions have improved as interest rates have risen (Chart 5). Homebuyers are rushing to lock in mortgage interest rates and this will likely cause some volatility in **homes sales in coming quarters (similar to the 2013 “Taper Tantrum”)**. **The U Mich consumer survey revealed that the share of consumers viewing home selling conditions as good increased to the highest percent in the history of the series and should lift supply of for-sale homes and alleviate some of the chronic short supply (Chart 6).**

We expect robust demand for housing in the near to medium term as millennials transition to renting or to buying from renting. Economic conditions are improving, healthier labor markets have encouraged previously sidelined persons to seek jobs, and wage growth is improving. But supply constraints for builders and buyers will likely prevent the housing market from reaching full potential anytime soon and the housing sector — still in its early stages of recovery — will continue on its slow and choppy upward trend.

22 March 2018

Chart 1: US Existing Home Sales



Source: National Association of Realtors/Haver Analytics

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

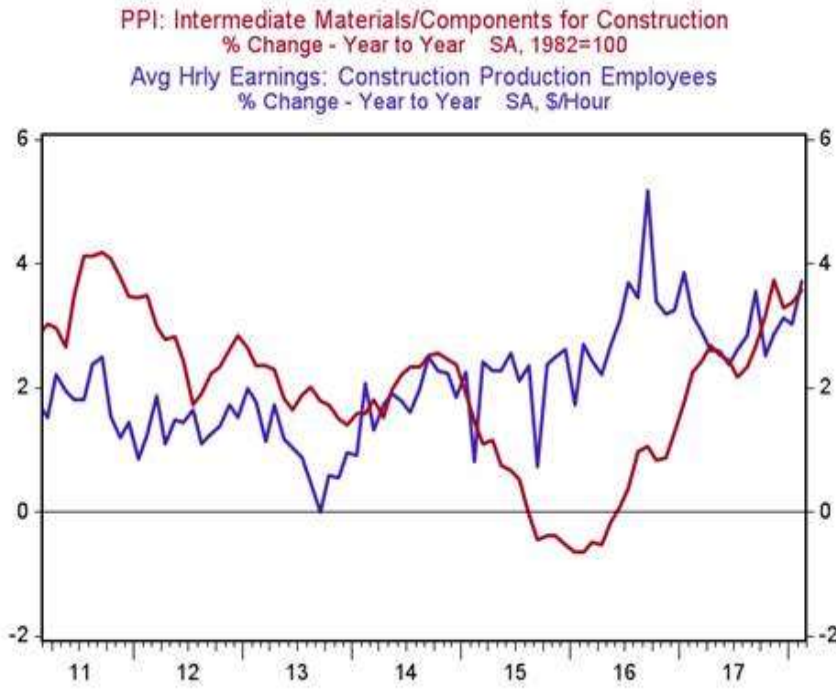
Chart 2: Months' Supply of Single-Family Homes on the Market



Source: National Association of Realtors/Haver Analytics

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

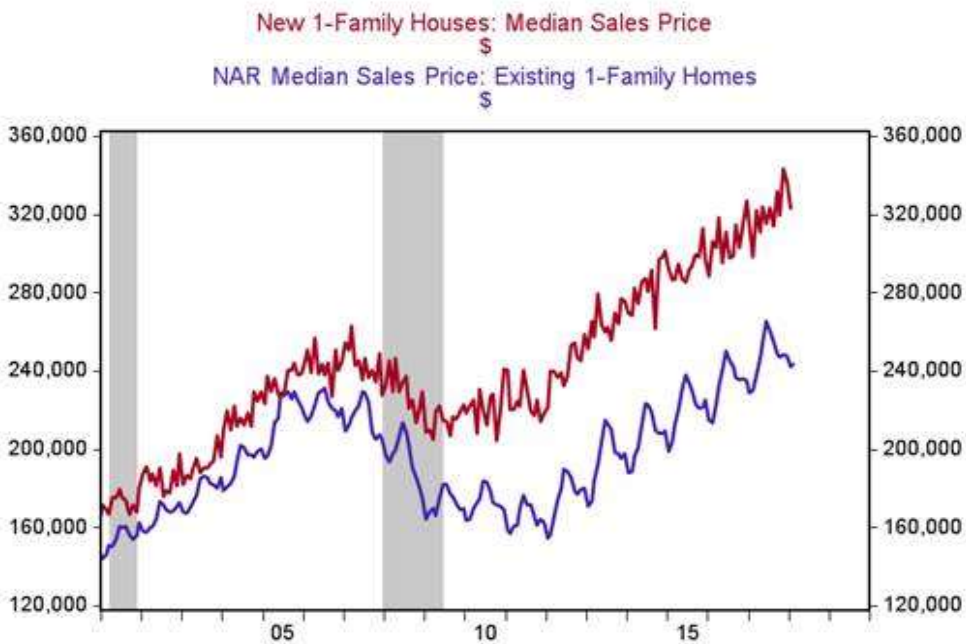
Chart 3: Producer Price Index for Intermediate Materials for Construction and Average Hourly Earnings for Construction Employees (year-over-year, %)



Source: Bureau of Labor Statistics/Haver Analytics

Source: Monthly data. Source: Bureau of Labor Statistics and Haver Analytics

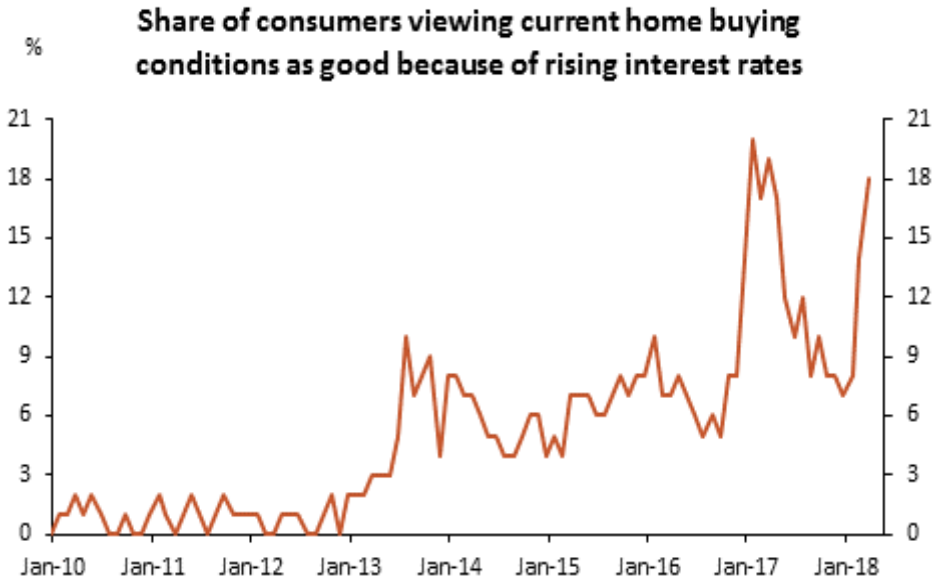
Chart 4: Median Sales Price for New and Existing Single-Family Homes



Sources: Census Bureau, National Association of Realtors/Haver Analytics

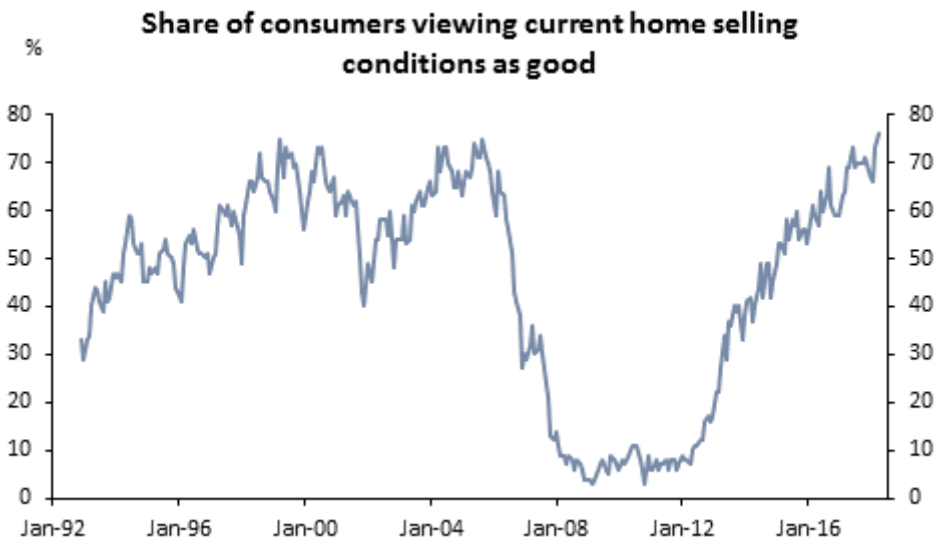
Source: Monthly data. Source: Census Bureau, National Association of Realtors and Haver Analytics

Chart 5: Share of consumers who think it is a good time to buy a home because of rising interest rates



Source: Monthly data. Source: University of Michigan, Bloomberg and Berenberg Capital Markets

Chart 6: Share of consumers viewing current home selling conditions as good



Source: Monthly data. Source: University of Michigan, Bloomberg and Berenberg Capital Markets

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