

Real Estate Analysis

Existing Home Sales Disappoint in February

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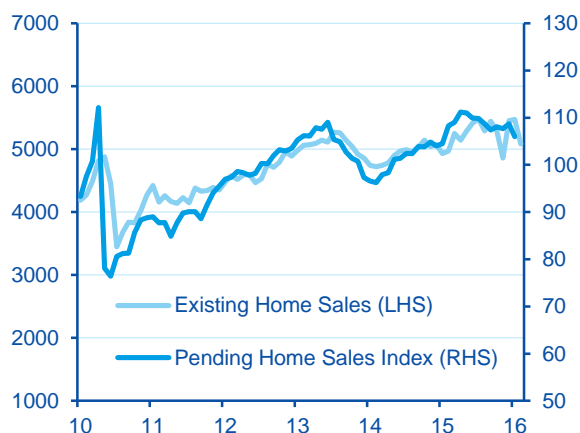
- Existing home sales fell to 5.08M from 5.47M in January, but are still 2.2% higher YoY
- While transitory factors contributed, a slowdown in the trend of home sales is also evident
- We expect home sales to recover and grow around 3.5% YoY in 2016

Existing home sales in February declined more than expected to 5.08M SAAR from 5.47M in January (Chart 1). While the decline was expected because the pending home sales index in January fell 2.5% MoM, the actual drop in sales was significantly larger than expected (the consensus was 5.31M). Sales last month were still 2.2% higher than in February 2015, with home sales higher in all regions except in the Midwest, where they were flat.

On a MoM basis, home sales declined in all regions, but mostly in the Northeast (-17.1%) and Midwest (-13.9%). The South experienced the smallest decline (-1.8%). The large East Coast storm at the end of January likely contributed to the lack of contract signings in January and subsequent closings in February in that part of the country. The series of arctic blasts that impacted parts of the Midwest in January might have also contributed in a similar manner.

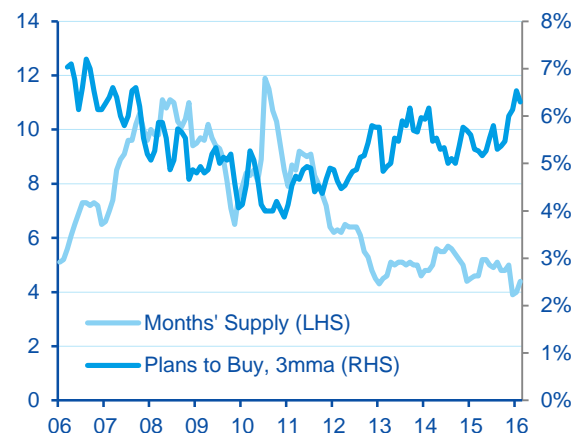
However, in addition to these transitory factors, a slowdown in the trend of home sales is now evident, as can be seen from Chart 1. The fact that the slowdown is happening in all regions also supports this conclusion. The likely reason is relatively tight inventory (Chart 2), which now stands at 4.4 months' sales (6 months' sales is thought to represent a relatively balanced market). The anxiety about the health of the economy that was recorded in February could have also contributed (Chart 2). NAR's latest quarterly HOME survey also found fewer respondents believing that the economy is improving, and a smaller share of renters saying that now is a good time to buy a home.

Chart 1
Existing Home Sales and Pending Home Sales Index (Million and Index)



Source: NAR & BBVA Research

Chart 2
Months' Supply and Plans to Buy in the Next 6 Months (Months and Percent)

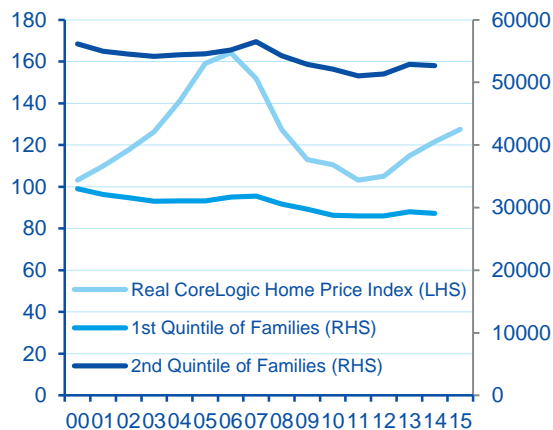


Source: NAR, Conference Board & BBVA Research

Another important factor contributing to the slowdown in sales is likely the high rate of home price growth, which has been outpacing wages for some time, especially for lower earners (Chart 3). This likely contributed to February's 2.2% YoY decline in the sales of homes worth up to \$100K. On the other hand, housing affordability is still high due to low interest rates, while the labor market has been performing very well in the first two months of the year (Chart 4).

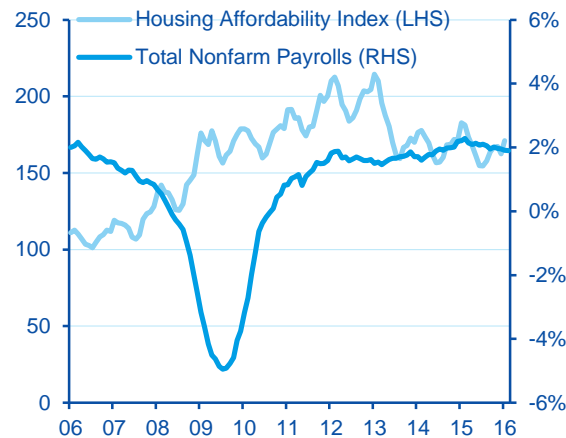
Despite the slowdown in existing home sales, we expect the housing market to perform well in 2016 with existing home sales increasing around 3.5% compared to 2015 (existing home sales in 2015 increased 6.3% from 2014). Home sales in 2016 will be supported by gains in employment and real income, ongoing improvement in lending conditions, and above average affordability. We expect that home prices will continue increasing, albeit at a lower rate than last year, which will be positive for the overall health of the market.

Chart 3
Real Home Prices and Upper Real Income Limits for First Two Quintiles of Families (Index and \$)



Source: CoreLogic, BLS, Census Bureau & BBVA Research

Chart 4
Housing Affordability and Employment (Index and %YoY)



Source: NAR, BLS & BBVA Research

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