

A few Thoughts on Home Sales Data

Are the youth content with renting? Is supply forcing prices out of the grasp of low and mid income buyers? Is credit too tight? New and existing home sales in September rose just .8% to around 334k. No doubt there is a lack of demand, but where does it come from? I think the weakness in housing is one of the greater macroeconomic stories as of recent. I don't believe its purely a supply or demand problem but instead a mortgage market equilibrium has been hit, just at a level that doesn't satisfy banks and policy makers. One optimistic observation on national home sales can be observed in the Zillow graph to the right which does show higher lows in home sales during the soft season. Furthermore, delinquencies continue to decline which should allow time for home price appreciation and thus equity appreciation (or recouping) which expands wealth and will motivate greater transience.

Blame the Millennials

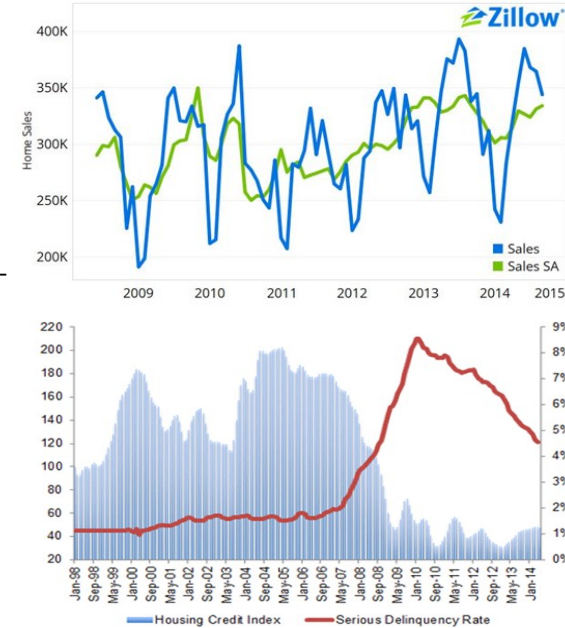
Mortgage applications are weak year over year and month over month. The mortgage application index for purchasing a home was down 4.1% YoY. This tells us, at very least, that demand hasn't come to the market. Its unlikely that rates are what is thwarting demand. Rates are at near all time lows. I would argue that homebuilders are still hesitant to introduce new supply to the market which keeps prices out of the hands of consumers. This is coupled by a demand problem for housing in general (as opposed to renting) by millennials who haven't the savings or inclination to settle. Millennials, more so than many other generations, are much more mobile which reduces the incentives to take on the fee costs involved in buying a home given their anticipated time frame for remaining in that home. Furthermore, student debt continues to take up large portions of monthly income which disallows savings as well as reduces the available stock of income for a mortgage payment. Lacking risk taking behavior and investment motivated decision making around home investment, there is no good reason that millennials will enter the market at any time soon (given current or higher home prices).

The home sales from repeat buyers and move up buyers are closer to 70% of the total market. The first time home buyer is only making up the other 30%. A decade ago, the first time home buyer made up around 1/2 of the mortgage market. This group is more susceptible to rates. Given that mortgage rates are low, the Fed's rate targeted policies will have a muted affect on demand for the first time homebuyer (although this should spark refi booms and upgrades for existing home owners).

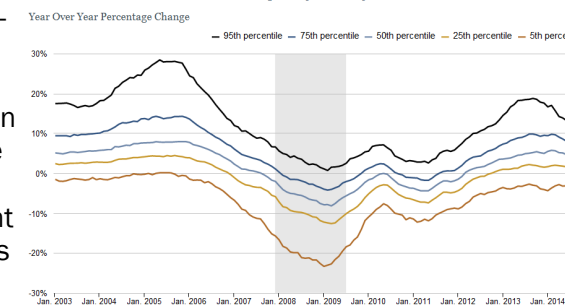
Is it worth the Credit (Legal) Risk?

The FHFA signaled that they may help the banks loosen lending standards (down payments as low as three percent for some borrowers) and the GSEs are considering loosening their standards as well. Banks are worried about issuing credit to poor quality borrowers and having the credit losses plus legal fees dumped on them several years later. Thus, credit constrains are likely one of the primary factors keeping home sales suppressed. Janet Yellen's recent discussions on problems in inequality were heard loud and clear—as home equity is one of the largest components of household wealth—GSEs will likely create an easier credit environment. As 3% equity can become zero or negative very quickly, this is the sort of policy that banks are hesitant to embrace without explicit guarantees that they will not be held accountable down the line. We have the challenge now of weighing the social benefit of increased credit flow to low and mid-low income households against the heightened risk that those high credit risk borrowers will find themselves underwater if there is even a slight pullback in HPI.

National Home Sales



Distribution of Home Price Changes by County



	Prior	Prior Revised	Consensus	Consensus Range	Actual
New Home Sales - Level - SAAR	504 K	466 K	460 K	445 K to 495 K	467 K
	Prior	Prior Revised	Consensus	Consensus Range	Actual
Existing Home Sales - Level - SAAR	5.05 M	5.05 M	5.10 M	5.00 M to 5.20 M	5.17 M
Existing Home Sales - M/M Change	-1.8 %	-1.8 %			2.4 %
Existing Home Sales - Yr/Yr Change	-5.3 %				-1.7 %