Comerica Economic Alert

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January Existing Home Sales, Fed Minutes

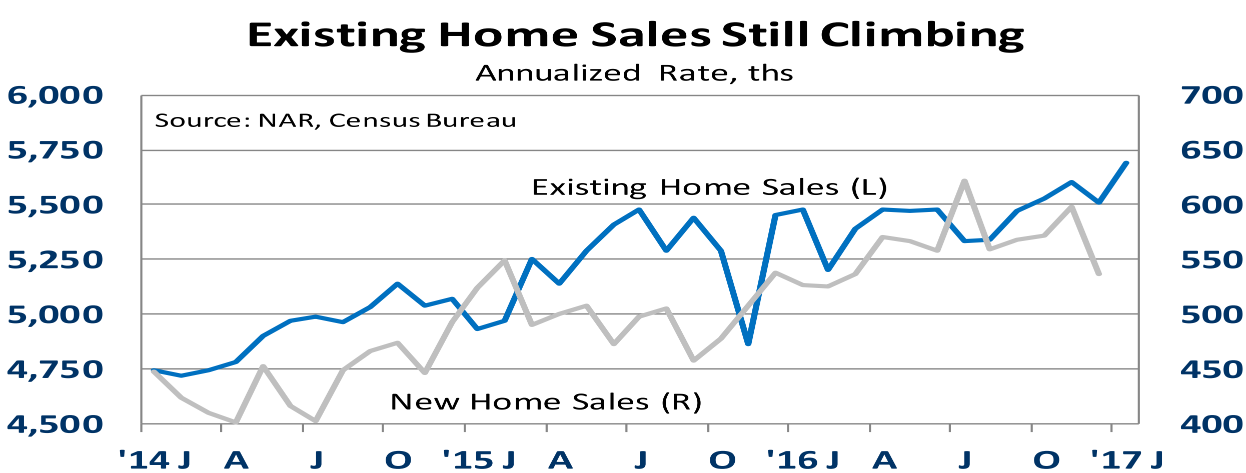
Sales Bounce Back After December Dip

- Existing Home Sales increased by 3.3 percent in January to a 5,690,000 unit annual rate.
- Fed minutes show concern about communication strategy.

Existing home sales bounced back in January, gaining 3.3 percent, to a 5,690,000 unit rate. This is the fastest sales rate since February 2007. The January jump comes on the heels of a December slump, when existing home sales fell by an upwardly revised 1.6 percent. Weaker-than-expected December sales caught our attention because they were coincident with the increase in the short-term interest rates engineered by the Federal Reserve in December, and so they suggested some interest rate sensitivity in the housing market. This could still be an issue due to expected interest rate hikes later this year, and ongoing upward pressure on house prices, which together will put downward pressure on housing affordability. Housing affordability has declined from peak 2012 levels, but remains well above the historical average. The problem is that many of today's first-time home buyers are not used to the historical average, and so a loss of affordability, even from a high level, can be a headwind for some buyers. Still, the January data suggests that housing markets remain resilient and very tight. The months' supply of existing homes for sale has dwindled to 3.6 months' worth over December and January, which ties the all-time low for that metric, set in January 2005. According to the National Association of Realtors, the median sale price of an existing home was up 7.1 percent in January over the previous 12 months. Today's positive existing home sales data for January suggests upside potential for the new home sales data for January, which will be released this Friday.

The Federal Reserve released the minutes of the January 31/February 1 Federal Open Market Committee meeting. The minutes show concern by committee members over appropriate communications strategy as they prepare to raise the fed funds rate again this year. The minutes confirm the consensus view for ongoing gradual rate hikes this year and next. Further, some committee members stressed that a "gradual pace" means more than one or two rate hikes this year. We expect three rate hikes this year. The next rate hike could come as early as March 15, but financial markets are still discounting that possibility. So if the Fed does want to move in March they will need to communicate that soon in order to avoid a market disruption. We think that May 3 is the most likely date for the next fed funds rate hike, but June 14 is also in play. Interestingly, the minutes also show concern about the likelihood of a more expansionary fiscal policy from the Trump Administration, as well as the risk of a stronger dollar.

Market Reaction: U.S. equity markets dipped on the release of the Fed minutes. The 10-year Treasury bond yield fell to 2.42 percent. NYMEX crude oil is down to $53.58/barrel. Natural gas futures are down to $2.72/mmbtu.



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