

All of a sudden, the stronger than expected June EHS print today has made some think that the drop in sales volume next month will not be as strong as feared. Consensus shift is a good thing, especially when chances are they are wrong. **What the stronger than expected June EHS print today really means is that July sales should fall even greater than I expected.**

The reason June sales were better than expectations is because expectations were too low due to economists who don't understand the micro. They were fooled by the two-month April 30th tax-credit sunset to June 30th closing lag of which lenders and closing agents took full advantage, volume-induced protracted loan funding timelines, and the all-around effort by all lenders and closing agents to get every deal that could close by June 30th, closed. Further, Reid's Sept 30th extension for tax-credit eligible deals in contract by April 30th did not come into play early enough to shift June closings to July through Sept 30th. If it would have been passed in the first half of June as they hoped, it would have pushed back a significant number of June sales making for a stronger July.

#### June Sales Soar MoM / Where Economists got it Wrong

**On an unseasonally adjusted basis June sales actually jumped 7.2% MoM** to 564k from May's 526k, in contrast to the SAAR reported down 5.1% MoM. May's 526k was essentially flat from April meaning unlike leading up to the Nov 30th tax credit sunset, a large percentage of buyers started the process earlier this time around.

Obviously, many economists thought that because existing home sales have always followed pendings by three to six weeks -- and in May pendings plunged -- that in June sales would show a sharp drop reflecting it. Based upon consensus they didn't understand that when you have a sudden surge in new loan or real estate sales business, closing timelines get significantly protracted. With the June 30th hard stop, it turned May and June into a single 'closing period'.

Add in a surge in short sale pendings, which naturally take longer to close -- and because they are such a new phenomenon likely aren't given much weight in modeling yet -- and the surge in pendings into April 30th made for a June-heavy closing month.

#### Reid & NAR Discredited / Unintended Consequences

This rush to close deals on deadline and jump in June sales discredits Reid's and NAR's assertion that 180k tax-credit eligible buyers would miss the window when lobbying for the extension last month. My estimate was half that amount based on first hand knowledge of how hard lenders and closing agents were working to make sure deals that could close by June 30th did close. If deals deal didn't close by June 30th they were than likely short sales on which the buyer and bank could not agree on a price, rather than a legitimate delay. **In this situation, most will never close.**

In fact, **Reid's Sept 30th tax-credit closing extension is going to have some unintended consequences, as I have touched on prior.** If it were passed in early June when it was first announced and not after June 30th sunset, then June EHS would have been much weaker, as those rushing to close could have had some closing breathing room. This also would have softened the July plunge making it appear that underlying fundamental demand was stronger than recent pending and loan applications data suggest.

#### July Negative Surprise

With respect to my expectations, I did not think June would be this strong...I figured on par with May. But because this does not have to do as much with demand as with the back log in the loan and escrow closing agent pipeline, next month should still be very ugly. This strong of a June EHS print and the positive "surprise" may just set up for a negative surprise next month depending upon where consensus goes over the next few weeks.

Until today's report, I was beginning to think that the impending July plunge (reported 3rd week in Aug) was getting fully baked into the cake. But we all thought that the May New Home Sales drop was baked into the cake too...and when the numbers were reported down double digits with a respectable number in front, the market didn't like it very much to say the least.

Best Regards,

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