ECONOMIC UPDATE

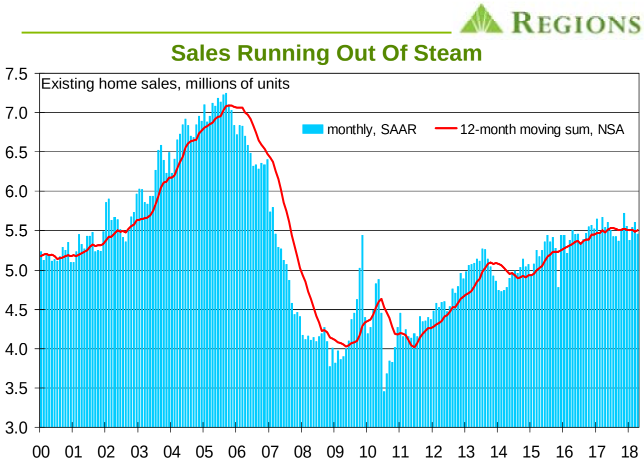
REGIONS

May 24, 2018

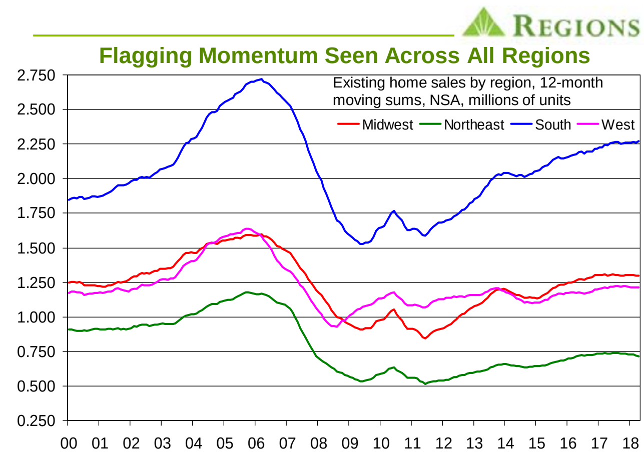
April Existing Home Sales: Sales Running Out Of Steam With Little Supply Side Relief

- Existing home sales fell to an annualized rate of 5.460 million units in April from March's sales rate of 5.600 million units.
- Months supply of inventory stands at 4.0 months; the median existing home sale price rose by 5.3 percent on a year-over-year basis.

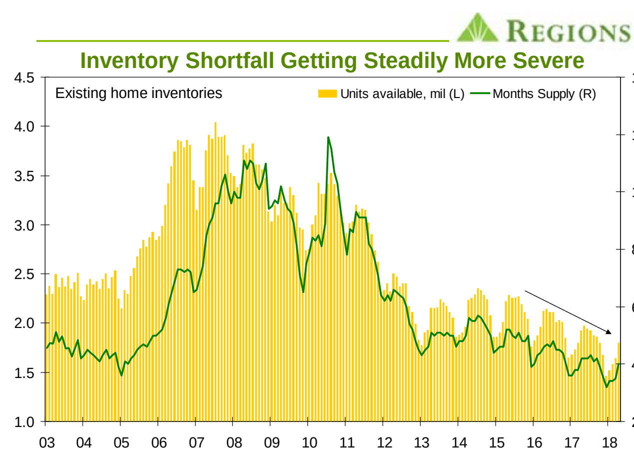
Existing home sales fell to an annualized rate of 5.460 million units in April, slightly below our forecast of 5.480 million and further below the consensus forecast of 5.550 million. Not seasonally adjusted sales came in at 460,000 units, slightly below our forecast of 462,000 units. In keeping with typical seasonal patterns, inventories of existing homes for sale rose in April but yet remain down year-on-year for a 35th consecutive month. With the drop-off in sales, the increase in listings pushed the months supply metric up to 4,0 months, but this nonetheless remains well below the six months supply that would be consistent with a balanced market. The median existing sales price rose by 5.3 percent year-on-year and with the sales mix tilting more towards higher priced homes growth in the median sales price will continue to gather pace. With April sales and inventories pretty much in line with our expectations, there is nothing in today's release that changes what for some time now has been our housing market story, i.e., notably lean inventories remain a material drag on sales and continue to drive robust house price appreciation. While we're not at this point quite yet, continued robust price appreciation combined with higher mortgage rates will at some point take a toll on affordability and further restrict sales.



At 460,000 units, not seasonally adjusted sales were up 2.9 percent year-on-year, but this is more a reflection of a higher sales day count this year than last. More tellingly, on a year-to-date basis through April, unadjusted sales are down 0.65 percent. As we routinely note, we consider the running 12-month total of not seasonally adjusted sales to be the most reliable gauge of the trend rate of sales. As of April, the running 12-month total stands at 5.501 million units, below what at present is the cycle high of 5.529 million units seen last summer. The question going forward is whether sales in 2018 will make another run at that 5.529 million mark. Our view is that persistently lean inventories, already elevated prices, and higher mortgage rates make it more likely that 5.529 million total will turn out to be the peak for this cycle. The loss of momentum in existing home sales is seen in each of the four broad regions; the South is the only region in which the 12-month sum of unadjusted sales is still above the totals seen last summer, but only marginally so.



Our view for some time has been that the constraints on home sales, new and existing, have come from the supply side of the market, not the demand side. We see little in the inventory data to suggest this will change any time soon. To be sure, listings rose solidly in April, but this is simply in keeping with normal seasonal patterns (the NAR inventory data are not seasonally adjusted) in which listings begin to rise in February and build through early summer before turning lower as the peak sales season ends. But, even with April's increase, listings stand 6.25 percent below their year-ago level, and as we show in our bottom chart, 2018 is shaping up to be the fourth consecutive year in which the seasonal top in listings is lower than that of the prior year.



The median number of days on market for sales that closed in April was 26 days, well below normal. Lean inventories are supporting robust house price appreciation, though this is better seen in the various repeat home sales price indexes than in the median sales price. The biggest inventory shortfall is in homes on the lower side of the price scale, much to the detriment of prospective first-time buyers, who accounted for one-third of all sales in April though this is well off historical norms. While many think this pool to be an attractive target for builders of new homes, the reality is that higher materials costs, higher labor costs, regulatory constraints, and shortages of buildable lots limit the degree to which builders can build to lower price points. In April, sales of homes priced between $750,000 and $1 million were up by 16.8 percent year-on-year, with sales of homes priced over $1 million up 26.7 percent while sales of homes priced at or below $250,000 were down.

Our premise has for some time been that the issues in the housing market lie on the supply side of the market, not the demand side. We've yet to see anything to cause us to change our view, but higher mortgage interest rates will at some point curb demand.

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