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May New Home Sales: Slowly But Steadily, New Home Sales Climb Higher

- > New home sales rose to an annual rate of 689,000 units in May from April's revised sales rate of 646,000 units.
- > Months supply of inventory stands at 5.2 months; the median new home sale price fell by 3.3 percent on a year-over-year basis.

New home sales rose to an annualized rate of 689,000 units in May, topping our above-consensus forecast of 674,000 units, from April's sales rate of 646,000 units. Prior estimates of sales over the February-April period were revised lower – April's sales rate was initially put at 662,000 units. Though not nearly to the extent seen in the market for existing homes, new home inventories remain lean and the May data do nothing to alter that conclusion. While the demand side of the market remains healthy, supply constraints mean that the rate at which new home sales can rise is somewhat limited and, as such, we expect the slow but steady increase in new home sales seen over the past few years to prevail over coming quarters. The risks to our call, however, seem tilted to the downside, as further increases in mortgage interest rates would further infringe on affordability, which is already a challenge in the market for new homes.

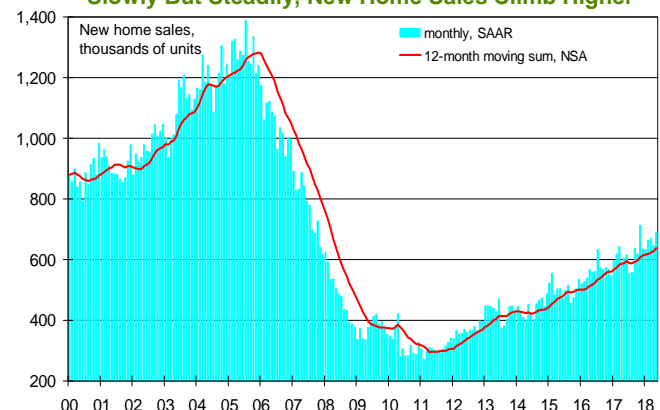
As we routinely note, the not seasonally adjusted data are the most reliable lens through which to see the underlying trends in the data on residential construction and sales. In May, the not seasonally adjusted data show 65,000 new home sales, matching our forecast (though sales in the South were a touch stronger and sales in the West a touch weaker than our forecast anticipated), and matching this March as the best month for new home sales since July 2007. This puts the running 12-month total of new home sales (again, not seasonally adjusted), which we see as the most reliable gauge of the underlying trend in sales, at 637,000 units, the highest total since May 2008. As our middle chart shows, the trend rate of sales has been flat for some time now in the Midwest and Northeast regions while steadily rising, albeit slowly, in the South and West regions. The 38,000 new home sales in the South region in May are the most in any month in that region since June 2007, and leave the running 12-month total for the South at a decade-high 349,000 units.

What we refer to as the inventory of "physical" new homes for sale, or, the number of homes for sale that are either complete or under construction, held at 237,000 units in May, but this number has actually fallen over the past six months and remains substantially below historical norms. This, at least to us, is the most clear sign that the new homes market remains undersupplied. Another trend in the data we have been pointing to for some time is the share of new home sales accounted for by units on which construction had not yet started; in May, such units accounted for one-third of all new home sales. On the whole, the inventory data and the data on sales by stage of construction are consistent with our premise that builders are increasingly pressed to keep pace with demand. There isn't anything inherently wrong with this, but it nonetheless tells us that even with sales at a relatively low level on a historical basis, builders are having trouble keeping pace. This suggests limited room for further growth in sales even as single family starts remain strong over coming months as builders work to clear order backlogs.

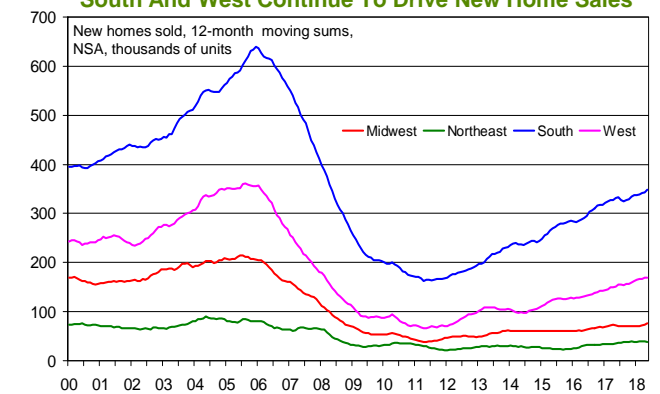
In addition to being constrained by shortages of labor and buildable lots, builders are contending with significantly higher materials costs, most notably lumber, and are seeing labor costs rise at an accelerating pace. This makes it increasingly difficult for builders to cater to buyers, particularly prospective first-time buyers who are being shut out of the market for existing homes, at lower price points. Another trend we've been tracking is the elevated share of new home sales accounted for by homes priced at or above \$300,000, which for 15 consecutive months have accounted for over half of all new home sales. While notably limited inventories have been fueling robust price appreciation in the market for existing homes, the gap between new home and existing home (median) prices remains significantly elevated, and it's hard to see this gap narrowing much over coming months. And, oddly enough, higher mortgage rates may extend this trend towards sales of pricier new homes as mortgage rates are not a pressing constraint in the upper ends of the new homes market. What we could end up seeing over coming quarters are fewer new home sales accompanied by an even higher concentration of sales in the upper price ranges. As has been the case for some time now, there is still nothing normal about the housing market.



Slowly But Steadily, New Home Sales Climb Higher




South And West Continue To Drive New Home Sales




New Home "Premium" Remains Significantly Elevated

