ECONOMIC UPDATE

REGIONS

July 23, 2018

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June Existing Home Sales: Sales Drift Lower, But Is There Relief In Sight?

- Existing home sales fell to an annualized rate of 5.380 million units in June from May's (revised) sales rate of 5.410 million units.
- Months supply of inventory stands at 4.3 months; the median existing home sale price rose by 5.2 percent on a year-over-year basis.

Existing home sales fell to an annualized rate of 5.380 million units in June from May's sales rate of 5.410 million units (a slight downward revision to the initial estimate of 5.430 million units). June's sales rate is slightly ahead of our forecast of 5.360 million units but well beneath the consensus forecast of 5.450 million units, and June is the third consecutive month in which the headline sales number has declined. If there is one sliver of tentative, preliminary, and too-soon-to-get-your-hopes-up good news in the June data, it is that inventories jumped to 1.950 million units, a 4.3 percent increase from an upwardly revised count of 1.870 million units in May. This leaves inventories up 0.52 percent year-on-year, and if that doesn't sound like that big of a deal what makes it so is that June ends a run of 36 consecutive months in which inventories had declined on an over-the-year basis. Still, as much as we'd like to waive our "one month does not make a trend" rule, alas, that is, at least for us, as iron clad of a rule as there is, so it still stands, but this will certainly bear watching in the months ahead. As it is, at 4.3 months, the months supply metric remains well below the 6.0 months that would indicate a balanced market. The median existing home sales price is up 5.2 percent year-on-year, and sales continue to skew towards the high end of the price distribution. The jump in listings in June does not alter our view that lean inventories continue to act as a material drag on sales. And, 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.

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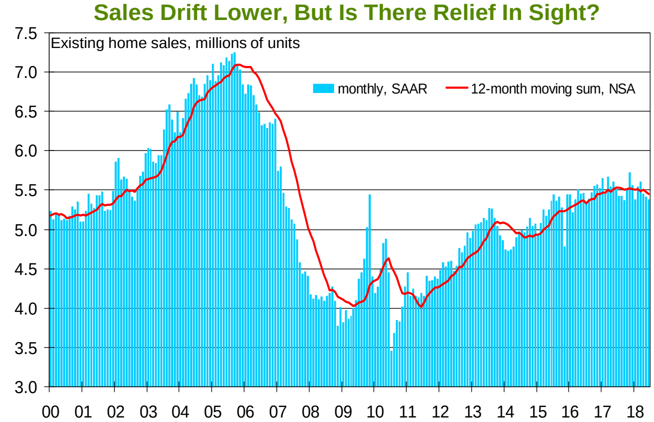
Sales Drift Lower, But Is There Relief In Sight?



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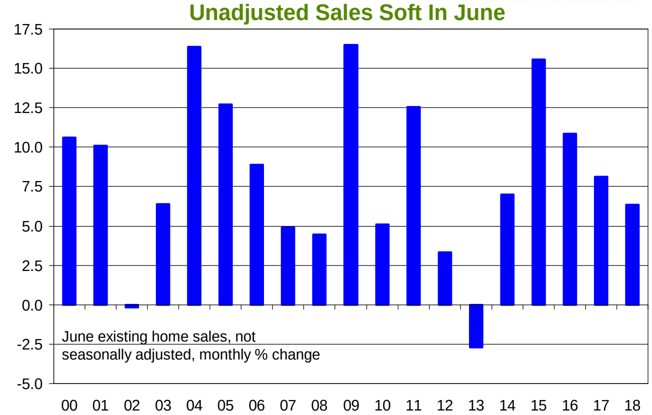
Unadjusted Sales Soft In June



On a not seasonally adjusted basis, June saw existing home sales of 570,000 units, below our forecast of 582,000 units. This reflects a 6.5 percent increase over May sales, but as our middle chart shows this is the smallest May-to-June percentage increase in sales since the decline seen in 2013. More significantly, as of June the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales rate, slipped to 5.451 million units, the lowest such total since November 2016. This loss of momentum in sales is broad based, as seen in our bottom chart. While the turn in the running 12-month total of unadjusted sales is a recent development in the South region, the 12-month total stands at its lowest since September 2016 in the Midwest, since February 2016 in the Northeast, and since December 2016 in the West. That the downturn in the trend rate of sales has been so geographically dispersed is, along with our view that there will be little meaningful and sustained relief on the inventory front, what has led us to openly question whether we have already seen the cyclical peak in existing home sales. Our answer in the wake of the May report was "yes" and the only thing that would cause us to change that answer is the increase in inventories seen in June being sustained over coming months.

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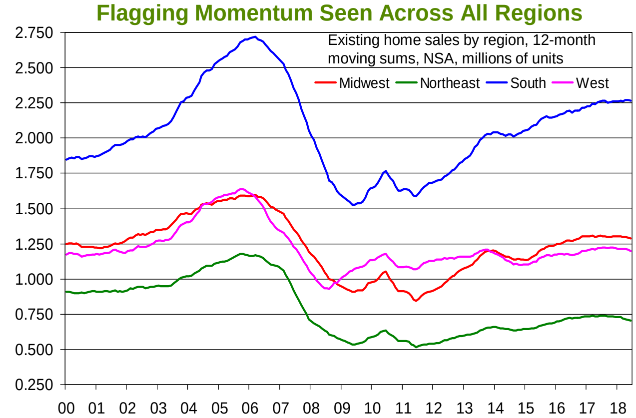
Flagging Momentum Seen Across All Regions



Even with that increase in listings in June, 2018 is still on course to be the fourth consecutive year in which the seasonal peak in listings is lower than that of the previous year. Persistently lean inventories have fueled robust house price appreciation, better seen in the various repeat sales price indexes (we prefer the CoreLogic HPI) than the NAR's median sales price. Either way, competition for listings is intense, with the median time on market for homes closed in June at just 26 days. 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 31 percent of all sales in June, well off historical norms. First-time buyers are most vulnerable to the combination of limited inventories, robust price appreciation, and higher mortgage rates. It is worth noting that distress sales accounted for three percent of total existing home sales in June, finally back in line with the pre-crisis norm.

Our premise has for some time been that the issues in the housing market lie on the supply side of the market. Admittedly, the jump in listings in June has our attention, but we think it much too soon to draw any conclusions as to whether the shortage of listings is truly abating and, in turn, as to whether the downward drift in the sales trend is set to reverse.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com