ECONOMIC UPDATE

REGIONS

June 23, 2016

May Home Sales: Supply Side Poses Challenges Amidst Solid Demand Growth

- New home sales fell to an annualized rate of 551,000 units in May from a revised rate of 586,000 units in April.
- Existing home sales rose to an annualized rate of 5.530 million units in May from April's (revised) sales rate of 5.430 million units.
- Year-over-year, the median new home sale price rose by 1.0 percent, while the median existing home sale price rose by 4.7 percent.

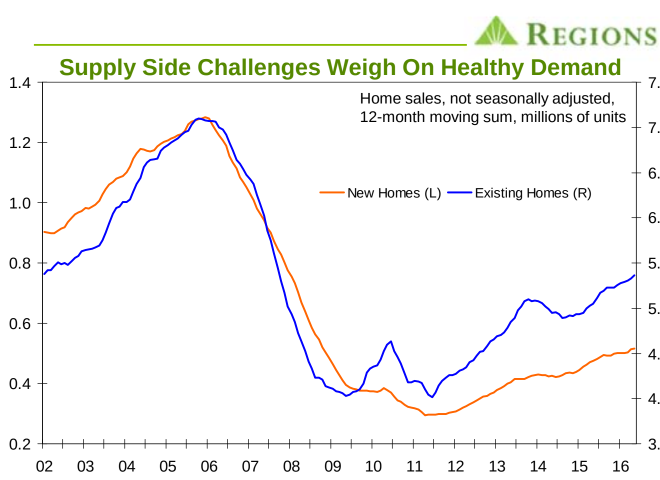
New Home Sales: New home sales fell to an annual rate of 551.000 units in May, while prior estimates for the February-April period were revised lower. Neither the decline in sales in May nor the revisions to prior estimates of sales were unexpected. As with the entire body of data on residential construction and sales, our focus is on the trends in the unadjusted data. In May, there were 51,000 new homes sold on an unadjusted basis, shy of our 56,000 unit forecast but still the best May since 2007. This leaves the 12-month moving sum of new home sales at 517,000, the highest since October 2008. After five months of this trend rate having flattened out at 500,000 sales, the past two months have seen a bit of a break to the upside, though at the slow pace that has been, and we think will remain, the norm in the market for new homes.

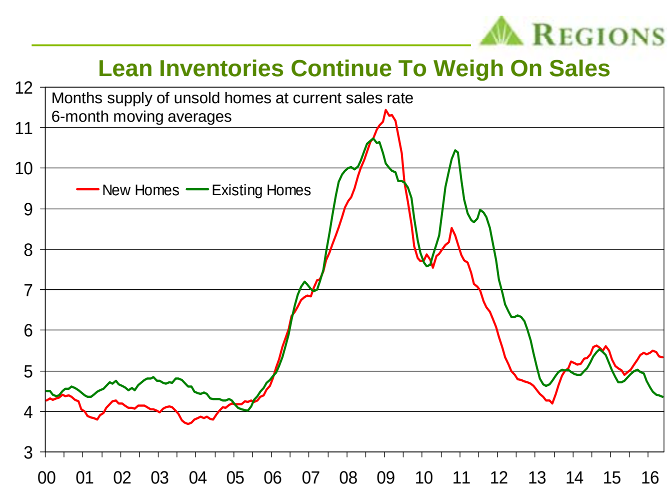
Homes on which construction had not yet started accounted for 35 percent of all sales in May. As we've noted, this number has been elevated for some time now, reflecting the supply side challenges that continue to confront builders. Inventories of "physical" new homes for sale, i.e., either completed or under construction, actually fell in May and remain considerably below longer-term norms. Another trend we've been pointing to for some time is the concentration of sales in the higher price points – in May 50 percent of all sales were of homes priced at or above $300,000, and this figure has been elevated for some time now. In addition to shortages of labor and materials, builders continue to face an entitlement process that is lengthy and, in many markets, notably costlier than has been the case in the past. This is one reason we do not look for much acceleration in the rate of single family housing starts over coming quarters.

Existing Home Sales: Existing home sales rose to an annualized rate of 5.530 million units in May, right in line with expectations. On a not seasonally adjusted basis, there were 526,000 existing home sales in May, in line with our forecast of 523,000, which leaves the 12-month moving sum at 5.362 million units, the highest since September 2007. Unadjusted sales were up smartly in each of the four broad geographic regions in May. Distress sales accounted for just 6 percent of total existing home sales, down from 10 percent in May 2015. Our estimate of the split between distress/non-distress puts distress sales down by 38 percent year-on-year, while at roughly 5.2 million units (annualized) non-distress sales were up 9.2 percent, with total sales up 4.5 percent.

Inventories, however, continue to weigh on sales. While listings were up 1.4 percent in May, this is a smaller gain for the month than is normal (the NAR inventory data are not seasonally adjusted), and listings were down 5.7 percent year-on-year, the 12th consecutive month in which this has been the case. Homes sold in May were on the market for 32 days (the median), the shortest span since the NAR began tracking this metric in 2011. Inventory constraints are being felt most acutely in the lower price points, which is one reason first-time buyers continue to account for an atypically low share of all sales – 30 percent in May, whereas normal would be around 40 percent. One implication of lean inventories is accelerating price appreciation. While the median existing home sales price was up 4.7 percent, year-on-year, in May, the repeat sales price indexes are a more reliable gauge of pricing trends, and all are showing a considerably faster pace of price appreciation. Thus, even with mortgage rates remaining exceptionally low, we are fast approaching the point (in some markets we've already passed it) where affordability becomes a concern. For some time we've noted that faster price appreciation should at some point begin to draw out more supply, and this could be happening on the upper end of the market. We think, however, that the impact of single family REITs, many of which took advantage of discounted distressed properties, is accountable for a considerable portion of the supply shortfall in the lower price points.

As has been the case for some time, we remain constructive on the demand side of the housing market but concerned on the supply side. The reports on May home sales did nothing to change our view.





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