ECONOMIC UPDATE

REGIONS

May 20, 2016

April Existing Home Sales: Steady Uptrend In Sales, But For How Long?

- Existing home sales rose to an annualized rate of 5.450 million units in April from March's (revised) sales rate of 5.360 million units.
- Months supply of inventory stands at 4.7 months; the median existing home sale price rose by 6.3 percent on a year-over-year basis.

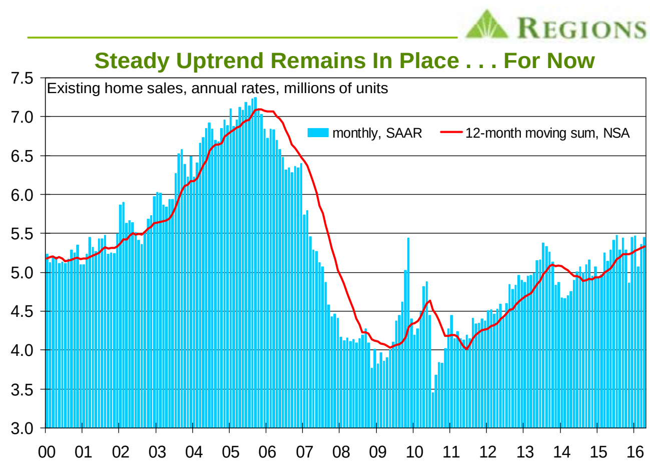
Total existing home sales rose to an annual rate of 5.450 million units in April, slightly above our forecast of 5.410 million and the consensus estimate of 5.390 million units. While the spring sales season got off to a good start in April, lack of inventory is still acting as a weight on sales while at the same time contributing to accelerating price appreciation. The median existing home sales price was up 6.3 percent, year-on-year, in April, but despite what remain highly favorable mortgage interest rates the faster pace of price appreciation is becoming a concern in terms of affordability.

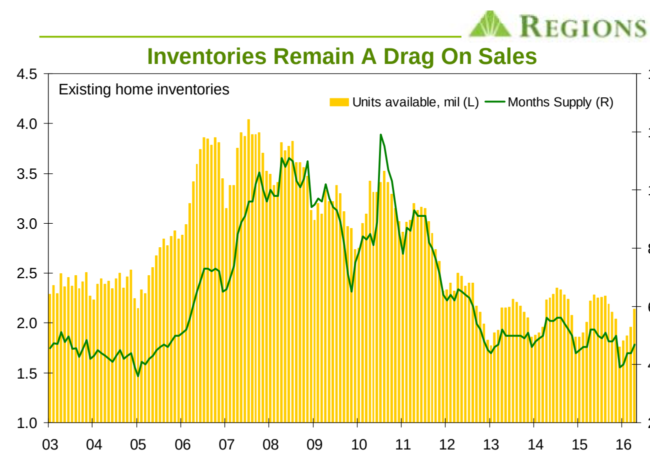
As we routinely note, we are far more interested in the not seasonally adjusted data than in the seasonally adjusted annualized headline sales numbers. In April, there were 471,000 sales on a not seasonally adjusted basis (our call was 464,000), and this leaves the 12-month moving sum – which we see as the relevant gauge of the underlying trend rate of sales – at 5.332 million units, the highest since September 2007. Not seasonally adjusted sales were up in all four broad regions in April, but the gains in the South and West regions were smaller than normal for the month, which resulted in declines in sales on a seasonally adjusted annualized basis in these two regions while sales in the Midwest and Northeast regions rose.

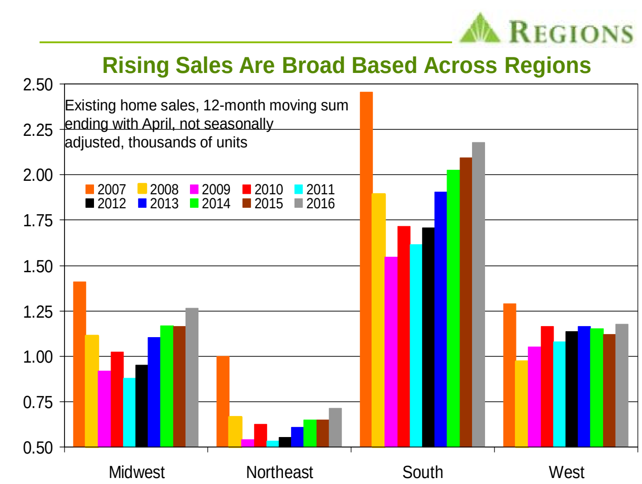
Distress sales, i.e., foreclosures and short sales, accounted for seven percent of all sales in April. While this is down considerably from the height, or, should we say, depths, of the housing market downturn, it is still roughly double the share of sales that would be accounted for by distress in normal market conditions. On an over-the-year basis, total existing home sales were up 6.0 percent in April, with distress sales down 25.8 percent and non-distress sales up 9.6 percent. First-time buyers accounted for 32 percent of all sales in April, up a bit from the past two months but still considerably below normal. This is perhaps where the lack of inventory is being felt most acutely, with sales on the lower end of the price range lagging badly in the South and West regions while sales of lower priced homes are lagging sales of higher priced homes in each of the four broad regions.

We have noted our concern that a lack of inventory may take some of the bounce out of the spring sales season. At first glance this concern may seem unwarranted, as listings rose 9.2 percent in April. But, a closer look at the data show this to be a smaller than normal increase for the month of April (the NAR inventory data are not seasonally adjusted). Even more telling is that on a year-over-year basis listings were down 3.6 percent in April, marking the 11th consecutive month in which inventories of existing homes for sale have been down year-over-year. This is illustrated in our middle chart, in which the seasonal pattern in inventories is readily apparent. The seasonal spike in inventories will be smaller this year than was the case in 2015, barring unusually large increases in May and June before inventories embark on their normal seasonal decline in late-summer. While we do not put much stock in the median sales price, as it is skewed by the mix of sales in any given month, the various repeat sales price indexes (we follow the CoreLogic HPI data most closely) lend credence to the argument that lean inventories are propping up house price appreciation. While it can be argued that rapid price appreciation is checking growth in demand, as it curtails affordability, we would also argue that rapid price appreciation may also be holding back supply, as some prospective sellers could be holding out for even higher prices down the road.

Whether new homes or existing homes, we maintain a constructive view of the demand side of the market. Ongoing job and income growth, stepped-up household formation, and still favorable mortgage rates are supporting demand. But, we have been and remain concerned that inventory constraints will choke off growth in sales. This, not the demand side, is our main concern for the housing market at present.







Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com