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CONOMIC UPDATE A REGIONS

December New Home Sales: Sales Trending Slowly, But Steadily, Higher As 2015 Ends

- > New home sales <u>rose</u> to an annual rate of 544,000 units in December from November's (revised) sales pace of 491,000 units.
- > Months supply of inventory stands at 5.2 months; the median new home sale price <u>fell</u> by 4.3 percent on a year-over-year basis.

New home sales rose to an annualized rate of 554,000 units in December, easily ahead of the consensus estimate of 500,000 units and our forecast of 507,000 units. Prior estimates for the September-November period were revised higher to show an average annualized sales rate of 477,000 units, up from the prior estimates of 467,000 units. As we routinely note in our discussion of the new home sales data, the series is highly volatile and prone to significant revision, and given the margin of error around the monthly survey Census is 90 percent confident new home sales were between 455,328 and 632,672 units on an annualized basis. Glad we could clear that up for you.

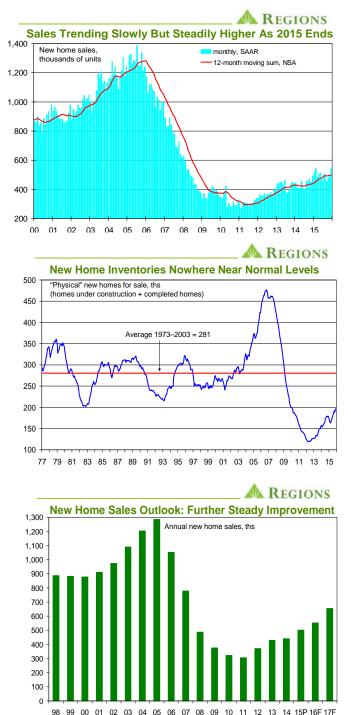
Indeed, one factor behind December's headline sales number is what proved to be a very friendly seasonal adjustment factor, which for 2015 was larger than has typically been the case for the month of December. Our preferred means of quieting the noise in the data reported on a seasonally adjusted annualized basis is to instead focus on the raw, i.e., not seasonally adjusted, basis. To us, the 12-month moving sum of raw sales, as seen in the red line in the top chart, is the much better indicator of the underlying trend in new home sales. On this basis, there were 499,000 new home sales in the 12 months ending in December 2015, which represents the highest yearly figure for new home sales since 2007. The 38,000 new home sales in December 2015 (again, not seasonally adjusted or annualized) marks the best December since 2007.

Nowhere is the impact of favorable seasonal adjustment more apparent than the Midwest region. On a seasonally adjusted annualized basis, Census reports 75,000 new home sales in the Midwest, up from 57,000 in November and the highest annualized sales rate in the region since 2007. Looking at the raw data, however, shows a more sedate 5,000 new home sales in the Midwest in December, up from 4,000 in November. The West region logged a modest increase in not seasonally adjusted sales in December which, as in the Midwest, translated into a much larger gain in sales on a seasonally adjusted annualized basis. In contrast, the Northeast and South regions saw no change in not seasonally adjusted sales which translated into trivial gains in seasonally adjusted annualized sales. For 2015 as a whole, the South and West regions accounted for the increase in total new home sales, with sales in the Northeast down from 2014 and flat in the Midwest.

Lean inventories remain a constraint on new home sales, as is also the case with existing homes. The difference, however, is the lack of physical inventory is not as binding a constraint on new home sales as on existing home sales. New home sales are booked at contract signing, which can occur after a new home has been completed, while it is under construction, or before construction has started. The data show sales of new homes on which construction has not yet started have accounted for a greater share of total new home sales over the past several months, and this was again the case in December when such units accounted for 32 percent of total new home sales.

Another trend we've noted for some time now is the share of new home sales accounted for by homes priced at or above \$300,000, which for most of 2015 hovered right around 50 percent. In December, however, this share fell to 45.9 percent, the lowest of 2015. Though it is too soon to pronounce a reversal of this trend, we will note DR Horton reported great success in sales of homes in the \$120,000-\$150,000 price range in 2015 as part of a program aimed at entry level buyers. We've noted before this could prove fruitful ground for builders --- sure, on higher end sales they make up for in margin what they are missing on in volume, but our concern has all along been even the high end of the market runs out of room eventually. This will be an interesting element to watch in 2016.

Beneath all the noisy and volatile headline numbers, the underlying trend shows further steady improvement in new home sales in 2015. We expect more of the same in 2016, and while our forecast is again below consensus, that's worked out well for us in recent years.



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