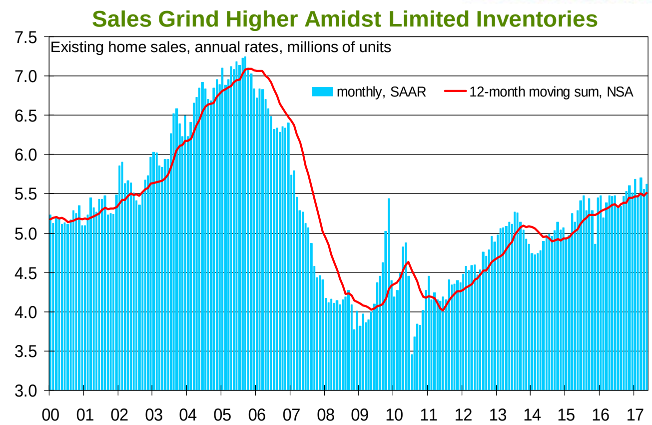
ECONOMIC UPDATE
REGIONS
June 21, 2017

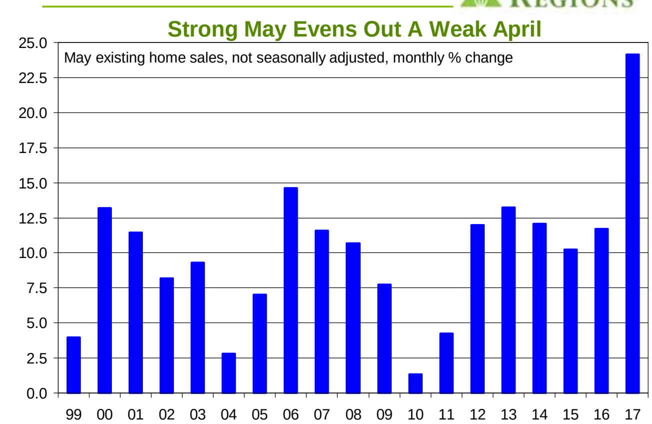
May Existing Home Sales: Strong May Evens Out A Weak April

- Existing home sales rose to an annualized rate of 5.620 million units in May from April's (revised) sales rate of 5.560 million units.
- Months supply of inventory stands at 4.2 months; the median existing home sale price rose by 5.8 percent on a year-over-year basis.

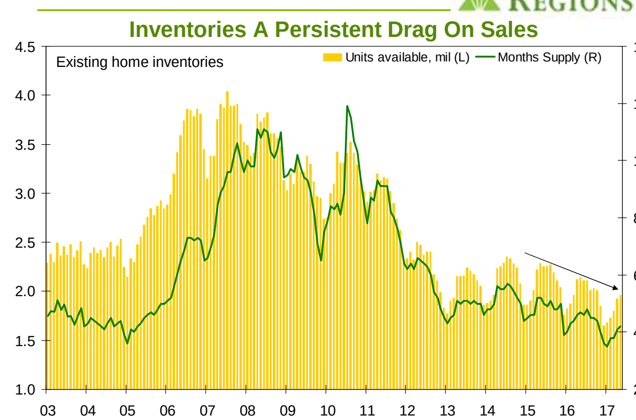
Sales of existing homes rose an annual rate of 5.620 million units in May, topping the consensus forecast as well as our own forecast. While the headline numbers change from month to month, the underlying narrative of the housing market remains pretty much the same. The demand side of the market is just fine, but the supply side of the market is where the issues are. This is apparent by the months supply metric at 4.2 months, well below the 6.0 months consistent with a balanced market. These lean inventories continue to drive heady price appreciation, with the May median sales price rising to $252,800, the highest in the history of the NAR data, a 5.8 percent increase year-on-year. We don't look for much relief on the supply side of the market any time soon, which will limit growth in sales while supporting robust price appreciation.



In our weekly Economic Preview, we noted that we expected the not seasonally adjusted data to show sales to bouncing back in May after a notably weak April. Unadjusted sales fell between March and April, the first decline in unadjusted sales in the month of April in the life of the data. There was an abnormally low number of selling days in April and this year's late Easter also had an impact. Our forecast for 529,000 sales on a not seasonally adjusted basis in May reflected a 17.8 percent increase over April sales. As it turned out, May sales were even stronger than we had anticipated, with 555,000 sales, and the 24.2 percent increase was the largest May increase on record, as seen in our middle chart. But, as is typically the case when you have such large swings in back-to-back months, the "truth" in existing home sales lies between the April and May data. In any event, May's spike in sales leaves the running 12-month total of not seasonally adjusted sales at 5.511 million units, the highest such total since August 2007. As illustrated by the red line in our top chart, this reflects the ongoing steady grind higher for existing home sales. On a year-to-date basis through May, unadjusted sales are up 2.9 percent nationally, reflecting a 0.2 percent decline in the Midwest, and increases of 1.2 percent in the Northeast, 4.5 percent in the South, and 4.2 percent in the West.



May is a month in which listings of existing homes for sale tend to fluctuate only slightly, not moving much in either direction (the NAR inventory data are not seasonally adjusted). This May, listings were up 2.1 percent from April, a bit large for the month of May but, as with sales, the May data reflect an evening out of listings as this April saw a much smaller increase than is typical for the month. Either way, the months supply metric remains notably low, and May marks the 24th consecutive month in which listings are down year-on-year, with inventories down 8.4 percent from May 2016. The seasonal patterns inherent in the inventory data can be seen in our bottom chart, but the seasonal top in inventories will be lower this year than last, which in turn was lower than the seasonal top in 2015.



As we have discussed in prior months, one factor behind persistently lean inventories is the dwindling number of distress properties coming back on market. In May, distress sales accounted for 5.0 percent of total sales, still a bit above the roughly 3.0 percent share that would be seen in a normal market, but nonetheless down considerably from the cyclical highs. To our point that the demand side of the market remains quite healthy, the median days on market for existing homes sold in May was just 27 days, down from 45 days in February and 52 days in December 2016. One implication of the robust rate of price appreciation, better seen in repeat sales indices rather than the median sales price, is that first-time buyers continue to be priced out of many markets. In May, first-time buyers accounted for one-third of all existing home sales, up from cycle lows but still well below the 40 percent share that would be seen in a normal market. Well, at least to the extent that term still has meaning.

We believe demand remains healthy but worry that rapid price appreciation may take a toll, particularly if mortgage rates move up appreciably. For now, though, it is lean inventories that make us question how much more upside there is for existing home sales.

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