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April New Home Sales: The Trend Is Once Again Our Friend . . . For Now Anyway

- > New home sales fell to an annual rate of 673,000 units in April from March's (revised) sales rate of 723,000 units
- > Months supply of inventory stands at 5.9 months; the median new home sale price rose by 8.8 percent year-on-year

New home sales fell to an annualized rate of 673,000 units in April, a bit better than the sales rate of 669,000 units our forecast anticipated, while prior estimates of sales over the December-March period were revised higher. At 66,000 units, not seasonally adjusted sales (a/k/a the number of new homes actually sold) were marginally above our forecast of 64,000 units. Given that March was the strongest month since July 2007, it was natural to ask what new home sales would do for an encore in April. It seemed that there was bound to be some payback in April, and while this proved to be the case, April was still a solid month for new home sales. More significantly, new home sales are once again trending higher, having shaken off the weakness seen in late-2018, and year-to-date sales are up 6.6 percent.

As of April, the running 12-month total of not seasonally adjusted sales stood at 632,000 units. While this remains below last fall's cycle high of 640,000 units, April marks the fourth consecutive month in which the 12-month total of unadjusted sales rose. This pattern is consistent with the premise we laid out earlier this year, which is that while the weakness seen in sales in late-2018 would continue to weigh on the trending data over much of 2019, we would nonetheless see sequential improvement in monthly sales (payback for such a strong March notwithstanding) as lower mortgage interest rates drew out pent-up demand. To be sure, while by no means did we expect robust growth in new home sales, we were adamant in our view that there was still upside room for home sales. That is what we are seeing in the new home sales data, and though we are also seeing it in the existing home sales data, that new home sales are recorded at the signing of the sales contract while new home sales are recorded at closing means new home sales are a better "real time" indicator of trends in home sales. Still, mortgage rates are not the only driver of home sales, and it is important to keep this in mind as mortgage rates fall further. After all, it is worsening market sentiment, driven by fears of a bad outcome of trade disputes, that is pushing mortgage interest rates lower, and if this is eventually reflected in diminished consumer confidence and a deterioration in labor market conditions, that won't end well for the housing market.

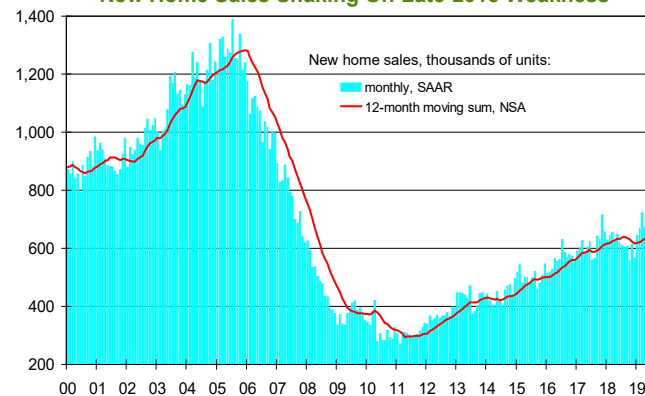
Unadjusted sales in the Midwest, Northeast, and South regions matched our forecast, while sales in the West region were slightly stronger than our forecast. As our middle chart shows, the trend sales rate in the South and West regions has turned higher after stumbling a bit as 2018 came to a close. Keep in mind that these two regions account for over 80 percent of all new home sales. Also keep in mind that the body of data on residential construction (permits, starts, completions, sales) for the Midwest region remain impacted by severe flooding in that region, so there should be at least some catching up at some point down the road.

Sales of units on which construction had not yet started accounted for one-third of all new home sales in April, which is a notably high share. Inventories of what we refer to as "physical" new homes for sale, i.e., units which are either complete or in some stage of construction, fell for a third straight month in April and remain well below historical norms. This suggests to us that builders remain somewhat constrained in their ability to keep up with orders, but at the same time this means single family housing starts should continue to trend higher over coming months as builders work to clear order backlogs.

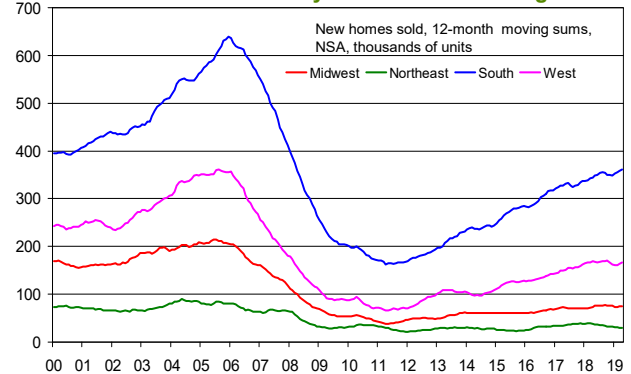
One element of the April data that surprises us is the mix of sales across price ranges. In April, units priced above \$300,000 accounted for 60.6 percent of all new home sales, the highest share in almost a year and counter to the recent trend. Still, with builders looking to broaden the base of new home sales by catering more to first-time buyers, we think April's price mix to be an outlier and we'll note that the sales mix by price data are highly volatile from month to month, which is why we show the six-month moving average in our bottom chart. If we are correct on this point, then, sure, unit margins will be slimmer, but higher sales volumes will compensate for this. The shifting sales mix across price ranges is one factor in our view that there is more upside room for new home sales, with our broader point being that the demand side of the housing market remains quite healthy, at least for now.



New Home Sales Shaking Off Late-2018 Weakness



South And West Carry New Home Sales Higher



Look For Shift In Price Mix To Continue

