

ECONOMIC UPDATE



REGIONS

August 23, 2019

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July New Home Sales: Big Miss In July More Than Offset By Bigger Revision In June

- New home sales fell to an annual rate of 635,000 units in July from June's (revised) sales rate of 728,000 units
- Months supply of inventory stands at 6.4 months; the median new home sale price was down by 4.5 percent year-on-year

New home sales fell to an annualized rate of 635,000 units in July, below our forecast of 657,000 units. At least for now. We add that caveat in light of what can most politely be described as a ridiculously large revision to the initial estimate of June sales – June sales are now reported as 728,000 units, just a smidge higher than the initial estimate of 646,000 units. The months supply metric stands at 6.4 percent, and the median new home sales price is down 4.5 percent year-on-year. Still, the mix of sales has been tilted more in favor of higher priced homes over the past few months, likely reflecting low mortgage rates easing affordability constraints. Sales of units on which construction had not yet started continue to account for an elevated share of total new home sales, leaving builders with larger backlogs and which to some extent helps reconcile what have been middling single family starts numbers despite more positive builder reports on sales. It is, as the revision to the June data aptly illustrates, never wise to draw too many conclusions from any one month's report on new home sales. But, as our top chart shows, after having been dragged down by the affordability shock in late-2018, the trend pace of sales has been grinding higher over the past several months. While we do see further upside room for new home sales, we see little capacity for the pace of growth of new home sales to improve.

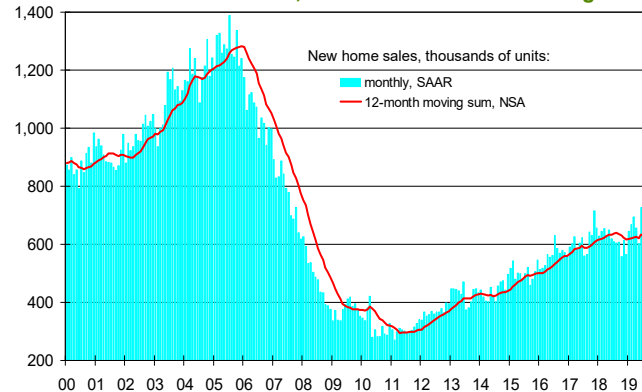
On a not seasonally adjusted basis, there were 53,000 new home sales in July, falling short of our forecast of 57,000 sales. At the same time, however, unadjusted June sales were revised up to 66,000 units from the initial estimate of 57,000 units. That puts June sales as the second highest monthly total (behind only the 68,000 sales this March) since mid-2007. While we won't bank on it, neither will we be surprised if the preliminary estimate of July new home sales is revised higher over coming months, again on the basis of reports from builders on the strength of orders. On a year-to-date basis through July, new home sales are up 4.01 percent for the U.S. as a whole, though there are marked differences across the four broad Census regions. Year-to-date sales in the West region are up 9.43 percent while sales in the South region are up 7.21 percent; conversely, year-to-date sales in the Northeast region are down 19.05 percent and sales in the Midwest region are down 12.24 percent. As we've noted before, however, construction activity across parts of the Midwest has been held down by severe flooding in parts of that region, which accounts for some of the decline in new home sales. Low mortgage rates are not as impactful, in terms of improving affordability, in the Northeast region, given higher sales prices which to some extent reflect constraints on buildable lots. Together, the South and West regions have accounted for just over 85 percent of all new home sales in 2019.

Homes priced above \$300,000 accounted for 56.9 percent of all new home sales in July, a further reversal of what had been a steady but slow shift in the mix of sales towards homes priced below \$300,000. That shift was consistent with builders more actively targeting first-time buyers by building smaller, more affordable homes. It could be that the sharp decline in mortgage interest rates has sparked another wave of demand for higher priced homes, hence the reversal in the shift in the sale mix. As our bottom chart shows, new homes continue to come at a material premium over existing homes, even if this premium is smaller than had been the case. Part of the narrowing of the new home premium, however, reflects supply constraints in the existing homes segment of the market, which has been sustaining price appreciation at a faster pace than would be seen in a more balanced market. To the extent builders do focus on the lower price points, the new home premium should narrow further, but it seems unlikely that the premium will fall back to its long-term average any time soon.

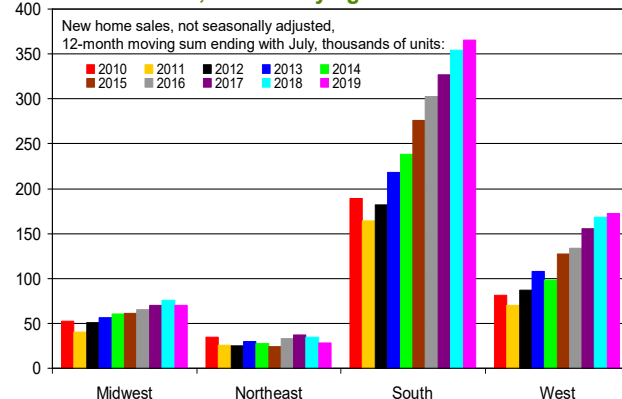
That the new home sales data are highly volatile and prone to large revision makes it difficult to get a good read on where we go from here. Even with the sizable upward revision to the June data, the recent data on new home sales don't square with reports by builders of rising orders. While we put more stock in the latter, we have to forecast the former, but when all is said, done, and revised, we think it is clear that low mortgage rates are supporting the housing market.



After Late-2018 Reset, Trend Sales Rate Grinds Higher



South, West Carrying New Home Sales



New Home "Premium" Still Large, But Shrinking

