ECONOMIC UPDATE

REGIONS

April 20, 2022

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March Existing Home Sales: Rising Rates Replacing Lean Inventories As Drag On Sales

- Existing home sales fell to an annualized rate of 5.770 million units in March from February's (revised) sales rate of 5.930 million units
- Months supply of inventory stands at 2.0 months; the median existing home sale price rose by 15.0 percent on a year-over-year basis

Total existing home sales fell to an annualized rate of 5.770 million units in March, above our forecast of 5.720 million units while matching the consensus forecast. At the same time, the initial estimate of sales in February was revised down from 6.020 million units to 5.930 million units. Listings of existing homes for sale jumped to 950,000 units, matching our forecast, which reflects two months of supply at the March sales rate. While this leaves listings down 9.2 percent year-on-year, this is nonetheless the smallest such decline since December 2019. Keep in mind that existing home sales are booked at closing, in contrast to new home sales which are booked upon the signing of the sales contract. As such, the March existing home sales data do not reflect the effects of the recent spike in interest rate, so the combination of strong demand and lean, even if not quite as lean, inventories combined to push the median sales price up to $375,300. This is the highest in the life of the NAR data going back to 1968 and leaves the median sales price up 15.0 percent year-on-year. As the effects of higher mortgage interest rates filter through the existing home sales data, the pace of price appreciation will slow, perhaps sharply, as more pressing affordability constraints curb demand. There seem to be two opposing views as to how this will all play out; one view is that the housing market will collapse under the weight of higher mortgage interest rates, leading to significant declines in sales and prices, and the other view is that, rather than causing the market to collapse, higher mortgage interest rates will instead lead to more "normal" housing market conditions. We see the latter as being more likely than the former.

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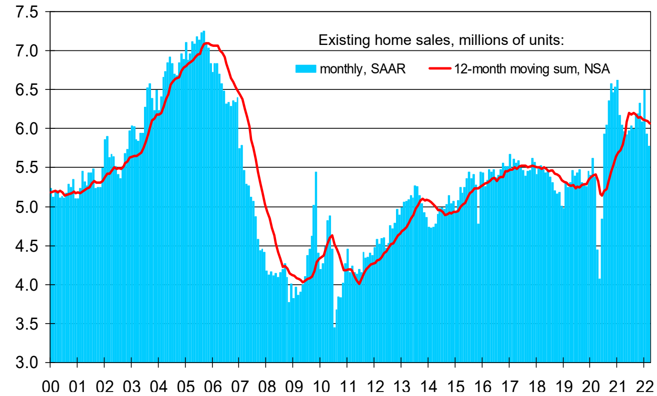
Trend Sales Rate Has Further To Fall



On a not seasonally adjusted basis, there were 456,000 existing homes sold in March, just short of our forecast of 458,000 sales. As of March, the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales trend, stood at 6.064 million units. As seen in our top chart, however, the trend sales rate has been declining over the past several months after having topped out at 6.199 million units last August. This decline has mainly reflected persistently lean inventories but going forward diminished affordability will likely be a bigger driver of further declines in the trend sales rate. There are those who dismiss concerns over the recent increase in mortgage interest rates on the grounds that, while higher, mortgage rates remain low relative to historical rates. While that may indeed be the case, prices are substantially higher now than was the case the last time mortgage rates were at current levels, and we've for some time argued that a given increase in mortgage rates will be more impactful now than in the past due to the cumulative price appreciation of the past several quarters.

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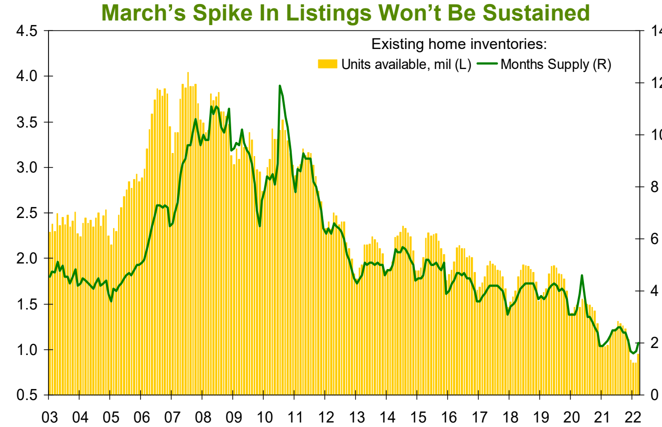
March's Spike In Listings Won't Be Sustained



As noted above, listings of existing homes for sale rose to 950,000 units in March, an 11.8 percent increase from February and much larger than the normal March increase. Recall that the NAR inventory data are not seasonally adjusted, and in a typical year listings begin to rise in February ahead of the spring sales season then continue to push higher through the summer months. Listings did not budge this February, however, so it could be that the sizable increase in March simply reflects payback, or it could be that rapidly rising mortgage interest rates led sellers to rush to get their homes on the market before rates climbed even further. That was a race destined to be lost, in light of how rapidly mortgage rates have risen over the past several weeks. Either way, it could be that the summer build in inventories will be smaller than normal this year should higher mortgage rates act to keep homeowners in their present homes. The flip side of that, however, is that those selling homes they have been in for some time are likely to walk away with a sizable capital gain that can go toward the purchase of their next home, thus holding down loan-to-value ratios and mitigating the impact of higher mortgage rates, while all-cash buyers, who accounted for 28 percent of all March sales, are of course not sensitive to higher interest rates.

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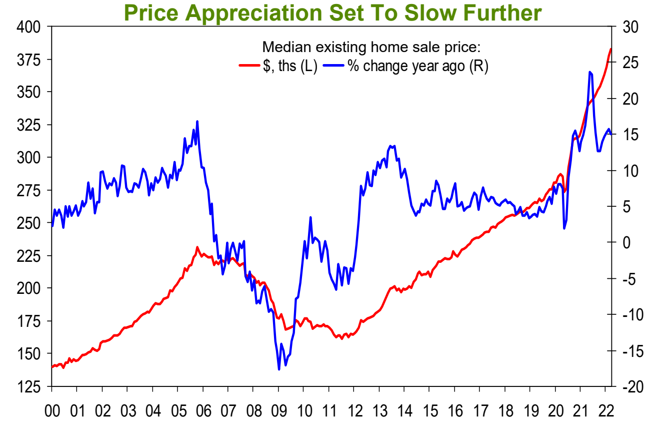
Price Appreciation Set To Slow Further



Eighty-seven percent of existing homes sold in March were on the market less than a month before going under contract and median days on market fell to 17 days, matching the lowest on record. When we envision a more "normal" looking housing market, neither this nor double-digit price appreciation are part of it. That leaves a lot of room between where we are now and the housing market crashing.

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