ECONOMIC PREVIEW

REGIONS

Week of June 20, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 26-27 FOMC meeting):* Target Range Mid-point: 2.125 to 2.375 percent Median Target Range Mid-point: 2.375 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	In a light week for data releases, the housing market is front and center, which seems fitting in light of the spike in mortgage interest rates. While some are advancing a narrative of higher mortgage rates crushing the housing market, it's worth keeping in mind that, though having fallen, underlying demand hasn't evaporated, while the market has been chronically undersupplied for more than a decade. So, rather than crushing the market, it could be that higher mortgage interest rates will make what has been a totally frenzied market look more normal, which wouldn't be a bad thing.
May Existing Home Sales Tuesday, 6/21 Range: 5.200 to 5.920 million units Median: 5.400 million units SAAR	Apr = 5.610 million units SAAR	Down to an annualized rate of 5.290 million units. On a not seasonally adjusted basis, we look for sales of 481,000 units. While this would leave unadjusted sales up 3.7 percent from April, it would be well below the typical May increase (an average increase of 10.2 percent over 2000-2021), meaning that the seasonally adjusted sales number would be made to look weaker. Our forecast of unadjusted sales would leave them down 8.9 percent year-on-year, but there was one more sales day this May than last, so after adjusting for sales days our forecast would reflect a year-on-year decline of 13.2 percent. Recall that existing home sales are booked at closing, and May closings largely reflect contracts signed from late-March through April, meaning that the May data on existing home sales won't reflect the full extent of the increase in mortgage interest rates seen through May. Though to a lesser degree than other sources, the NAR data show sizable increases in inventories in March and April, and we look for that to have continued in May. Our forecast would leave listings down 4.1 percent year-on-year, which would be the smallest such decline since September 2019. Thus far, rising inventories have been snapped up quickly, as days on market remain notably low, while a higher share of cash buyers has blunted the impact of the increases in mortgage rates seen thus far. As such, we look for another double-digit year-on-year increase in the median existing home sales price. If our forecasts are on or close to the mark, the decline in the headline sales number will exaggerate the weakness in existing home sales in May and, as always, we'll be far more interested in the not seasonally adjusted data. Still, coming months will more fully reflect the effects of higher mortgage interest rates; we expect to see erosion in sales, and price pressures will ease as listings sit on the market for longer periods of time.
Q1 Current Account Balance Thursday, 6/23 Range: -$290.0 to -$264.0 billion Median: -$275.0 billion	Q4 2021 = -$217.9 billion	Widening to -$267.9 billion, reflecting a significantly wider trade deficit.
May New Home Sales Friday, 6/24 Range: 530,000 to 703,000 units Median: 590,000 units SAAR	Apr = 591,000 units SAAR	Up to an annualized rate of 667,000 units. As we noted at the time of its release, we believe the reported decline in new home sales in April to be implausibly large. The not seasonally adjusted data showed a 22.1 percent decline in new home sales in April, which is not only the largest April decline on record but also the eighth largest monthly decline on record in data going back to 1963. Sure, we get that higher mortgage rates are bad for sales, but we just we don't buy that sales fell by that magnitude. Aside from the inherently volatile nature of the data on new home sales, the April figures were badly out of line with other market indicators and didn't jibe with builder commentary. So, we expect either a meaningful upward revision to the initial estimate of April sales or payback in the May data. For now, though, the initial estimate of April sales is what we have to work with so, on a not seasonally adjusted basis, we look for total sales of 59,000 units in May. This would be an 11.3 percent increase from April but would be at odds with normal seasonal patterns as unadjusted new home sales typically fall in the month of May. In short, we simply don't know what to expect from the May data but do know that it's seldom worth trying to make sense of the new home sales data in any given month. More broadly, we also know that the effects of higher mortgage interest rates are seen in the data on new home sales than in the data on existing home sales, as new home sales are booked at the signing of the sales contract. It is clear that higher mortgage rates have cooled demand, and builders are seeing rising numbers of sales contracts being cancelled, primarily by buyers who had not locked in financing rates prior to signing sales contracts. Slowing demand has led to rising inventories of spec homes, which is acting as a brake on the pace of single family housing starts, and builders are having to be more flexible on pricing. Or, in keeping with our general theme, the market for new homes is starting to look more normal as mortgage rates rise.

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