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## May New Home Sales: Stronger Than Expected, But Downward Trend Will Continue

- New home sales rose to an annual rate of 696,000 units in May from April's (revised) sales rate of 629.000 units
- Months supply of inventory stands at 7.7 months; the median new home sale price rose by 15.0 percent year-on-year

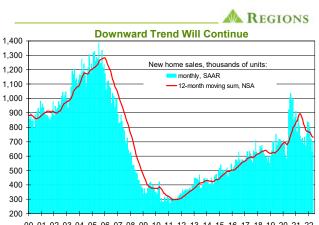
Total new home sales rose to an annualized rate of 696,000 units in May, above what we (667,000 units) and the consensus (590,000) units expected. As we expected would be the case, the initial estimate of April sales was revised meaningfully higher, with the annual sales rate now pegged at 629,000 units, compared to the initial estimate of a sales rate of 591,000 units. We had noted that while we did not question that sales declined in April, it was the reported magnitude of that decline that struck us as more than a bit curious. There were also slight modest revisions to estimates of sales in February and March; on net, the not seasonally adjusted data now show a total of 197,000 new home sales over the February-April period, up from the prior estimate of 180,000 sales. At May's sales rate, current inventories of new homes for sale are equivalent to 7.7 months of sales, with most of the reported growth in inventories of new homes for sale coming in the form of units under construction, as the share of inventories accounted for by completed units continues to bump along just above all-time lows. The median new home sales price rose 15.0 percent year-onyear following two months of better than twenty percent increases, and pricing figures to give further in the months ahead as sales volume retreats in the face of sharply higher mortgage interest rates. This will lead to margin pressures for builders despite some relief on lumber prices but, with the pace of spec starts slowing rapidly, it remains to be seen just how much give there will be on new home prices.

On a not seasonally adjusted basis, there were 63,000 new home sales in May, beating our forecast of 59,000 sales and up 10.5 percent from April, which is considerably larger than the typical May increase. Unadjusted sales fell in the Midwest and Northeast regions, while rising in the South and West regions. As of May, the running 12-month total of not seasonally adjusted sales, which we consider the best gauge of the underlying sales trend, stood at 732,000 units, the lowest such total since July 2020 and 18.0 percent below the recent peak of 893,000 units seen in May 2021.

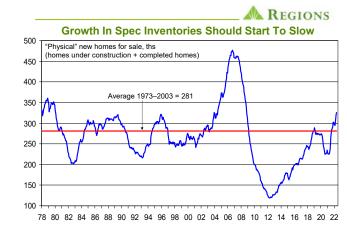
Spec inventories of new homes for sale (units either under construction or completed) rose to 326,000 units in May, the highest monthly total since November 2008. In May, 44.4 percent of all new home sales were in the form of units under construction. As we've frequently discussed, builders shifted tactics in mid-2021, starting units but not releasing them for sale until construction was well underway. This gave builders more control over delivery dates and at the same time shifted price risk to buyers, as it shifted the burden of rising materials costs away from builders. This proved to be an effective strategy, but with demand slowing in response to sharply higher mortgage interest rates, builders are now faced with rising spec inventories. We do not, however, expect spec inventories to approach the heights seen during the prior cycle, and new single family starts have fallen over recent months. Still, while demand has slowed, it has not evaporated, and with builders having yet to see meaningful relief from supply chain constraints, units on which construction has not yet started continue to account for an elevated share of new home sales. Add to this the fact that many builders had already been sitting on growing backlogs of unfilled orders and it suggests that builders will remain busy for quite some time even as current demand slows.

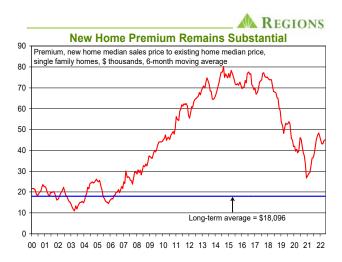
As we noted above, builders may have to give on pricing over coming months, but with input cost pressures remaining intense and demand not having completely given in under the weight of higher mortgage interest rates, the question is how much builders will have to give. It is interesting to note that the new home "premium" (or, the gap between median sales prices on new and existing homes) remains substantial, and the narrowing we've seen over the past several months is more a reflection of the continued rapid growth in median sales prices on existing homes. Even if we do see some softening in sales prices, it could be that the gap between new and existing sales prices won't close much more over coming months.

The impacts of higher mortgage interest rates are seen sooner in new home sales, which are booked at the signing of the sales contract, than in existing homes, which are booked at closing. We do think demand will ease further in coming months, but that will work to bring what has been a chronically undersupplied market into better balance.



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