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February Existing Home Sales: February's Bounce In Headline Sales Won't Last

- › Existing home sales rose to an annualized rate of 4.580 million units in February from January's sales rate of 4.000 million units
- › Months supply of inventory stands at 2.6 months; the median existing home sale price fell by 0.2 percent on a year-over-year basis

Total existing home sales rose to an annualized rate of 4.580 million units in February, ahead of our forecast of 4.480 million units and further ahead of the consensus forecast of 4.200 million units. On a not seasonally adjusted basis, there were 271,000 existing homes sold in February, topping our forecast of 265,000 sales, reflecting a 17.3 percent increase from January. Inventories of existing homes for sale were unchanged in February, meaning that with the jump in sales inventories were equivalent to only 2.6 months of sales, well below the ratio of 5.5-to-6.0 months that would be consistent with a balanced market. Contrary to our forecast of a meager increase, the median existing home sales price fell by 0.2 percent on an over-the-year basis, the first such decline since February 2012. Note that the median sales price is sensitive to the mix of sales across price ranges, and with sales in the higher price ranges having taken a much worse pounding from higher mortgage interest rates than have sales in the lower price ranges, the median price has been pushed lower, both sequentially and now on an over-the-year basis. Despite the jump in February, unadjusted sales are still down 23.0 percent year-on-year, while the twelve-month moving sum of not seasonally sales fell even further in February, a testament to how badly sales have sagged under the weight of higher mortgage interest rates.

Perhaps of even more relevance is that the March data are likely to show a pronounced decline in sales. Recall that existing home sales are booked at closing, so February closings largely reflected sales contracts signed from late-December through January, a period when mortgage interest rates were still falling after having peaked at over seven percent last October. As we noted in our weekly *Economic Preview*, not seasonally adjusted pending home sales, a measure of signed sales contracts, were stronger in January than is typical for the month, which to us pointed to a strong February sales number. But, with mortgage rates having reversed course and risen throughout February, that sets the stage for sales to fade in March. Moreover, on a not seasonally adjusted basis, in any given year March tends to be the strongest month for existing home sales, meaning that the seasonal adjustment factor used to derive the headline sales number will be exceptionally tough, so any weakness in unadjusted sales will be greatly magnified in the seasonally adjusted headline sales number.

While we do not expect the bounce in sales in the February data to be sustained, it does at least comport with a point we've been making since mortgage interest rates began rising last year. We've argued that, given how chronically undersupplied the market has been over the past several years, there remains a considerable degree of pent-up demand for home purchases, and we've further argued that some of that demand would be drawn out by any improvements in affordability, whether they are driven by lower prices or by lower mortgage rates. We saw that with the January data on new home sales (new home sales are booked at contract signing) and the February data on existing home sales. Our middle chart goes right to our point, as the 17.3 percent increase in unadjusted sales is the largest February increase in the life of the current data series. While by no means did we expect a frenzied rush of buyers coming into the market, we did nonetheless expect to see a bounce in sales. But, with mortgage rates having turned higher, the question will be whether there has been enough "progress" on the pricing front to sustain the recent bounce in sales. We suspect not, at least not yet, but we'll know better a month from now.

We've also argues that the market remains meaningfully undersupplied, which many have a hard time reconciling with the steep decline in sales. To be sure, higher mortgage rates will make a certain segment of homeowners unwilling to move as they will not want to trade up to a higher mortgage rate. That, however, does not address why inventories have been so low for so long. Inventories were unchanged in February, contrary to typical seasonal patterns, as February is usually the month in which inventories begin rising ahead of the spring sales season. That there was no such February bounce this year is another dark omen for March sales. Even with higher mortgage interest rates, it could be that steeper declines in prices in the higher price ranges will facilitate more turnover, but that won't be sufficient to resolve the supply-demand imbalance that has plagued the market for the past several years.

