ECONOMIC UPDATE

REGIONS

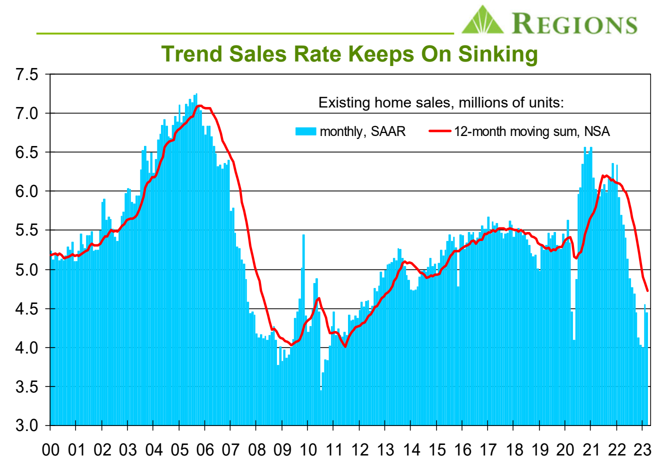
April 20, 2023

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

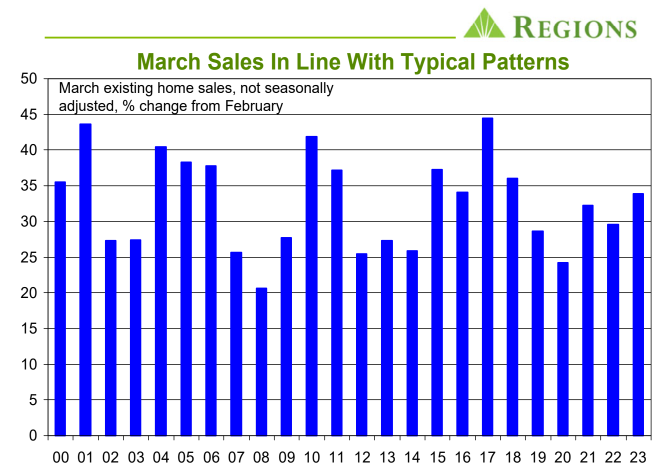
March Existing Home Sales: Lack Of Inventory Still The Bigger Story?

- Existing home sales fell to an annualized rate of 4.440 million units in March from February's (revised) sales rate of 4.550 million units
- Months supply of inventory stands at 2.6 months; the median existing home sale price fell by 0.9 percent on a year-over-year basis

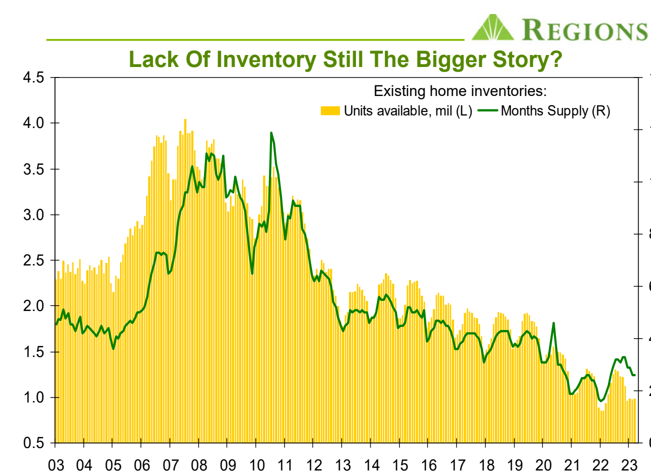
Total existing home sales fell to an annualized rate of 4.440 million units in March, a bit shy of our below-consensus forecast of 4.490 million units, while the initial estimate of February sales was revised nominally lower. On a not seasonally adjusted basis there were 360,000 sales in March, matching our forecast, meaning that our miss on the headline sales number reflects nothing more than the seasonal adjustment factor being a tad smaller than we had anticipated, which of course is totally irrelevant. Perhaps the bigger story in the March data is the paltry increase in inventories of existing homes for sale, which were up by just 1.0 percent in March. Not only is this smaller than the typical March increase, but this comes off a February number that was revised downward. Couple this with a shorter days on market metric and it is reasonable to infer that March sales would have been higher had there been more inventory for prospective buyers to choose from. Sure, that's been the case for, literally, years, but what makes it stand out now is that March closings, the basis on which existing home sales are booked, largely reflect sales contracts signed from late-January through February, a period in which mortgage interest rates were rising. We think this goes to our point about the degree of pent-up demand for home purchases that has built up over the past several years in a market which has been chronically undersupplied. While the median existing home sales price was down 0.9 percent year-on-year, that decline is entirely the result of a 7.5 percent decline in the West region negating over-the-year increases in the three remaining regions. We have argued that the degree of pent-up demand would mitigate the extent to which house prices would decline under the weight of higher mortgage interest rates, and thus far we've seen nothing that would lead us to change that call.



As noted above, the not seasonally adjusted data show sales of 360,000 units in March, up 33.8 percent from February. As seen in our middle chart, this aligns fairly well with typical patterns for the month of March, which in any given year is typically the month with the biggest bounce in unadjusted sales. To be sure, this still leaves sales down 21.1 percent year-on-year, but we nonetheless think it noteworthy that sales this March aligned so nicely with historical patterns given most of the sales that closed in March went under contract during a period in which mortgage rates were rising. At 32.6 percent, the West region logged the largest over-the-year decline in sales, followed by declines of 21.3 percent in the Northeast, 19.3 percent in the South, and 16.1 percent in the Midwest. It bears noting that the West and the Northeast are the regions with the highest sales prices, with prices in the West region tending to run around fifty percent above the national average. That the West region is seeing the sharpest over-the-year declines in prices could reflect sellers having to be more accommodating in order to move homes. Keep in mind, however, that in the West or in any of the other regions, those who have owned their home for an extended length of time are still likely walking away with a sizable gain even if they have to trim their asking price.



To our earlier point, barring a sustained spike in mortgage rates and/or a sharp downturn in the broader economy, we think the degree of pent-up demand will, in conjunction with what remain extraordinarily low inventories, check any decline in prices. The downward revision to the initial estimate of February inventories is worth noting, in that February is typically a month in which inventories rise sharply ahead of the spring selling season. So, not only did this year not see that bounce, but it actually saw a decline in inventories, such that the increase in March merely put inventories back where they were in January. That inventories are up 5.4 percent year-on-year is of little consequence when the level of inventories reflects only 2.6 months worth of supply, far below the 5.5-to-6.0 months consistent with a balanced market. To that point, median days on market prior to going under contract slipped to 29 days in March from 34 days in February. Though well above the median of 17 days last March, 29 days is still far below pre-pandemic norms. Moreover, NAR reports sixty-five percent of homes sold in March were on the market less than a month before going under contract. To be sure, demand isn't what it was prior to mortgage interest rates taking flight last year, but at the same time supply is what it has been, which is not all that much. In terms of facilitating sales, that's a problem, and will remain a problem for some time to come.



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