ECONOMIC UPDATE
REGIONS
April 25, 2023

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March New Home Sales: Motivated Buyers Meet Motivated Sellers

- New home sales rose to an annualized rate of 683, 000 units in March from February's (revised) rate of 623,000 units
- On a not seasonally adjusted basis, there were 66,000 new home sales in March
- At March's sales rate, inventories of new homes for sale were equivalent to 7.6 months of sales
- Spec inventories fell further in March but are still up 6.6 percent year-on-year
- At $449,800 the median new home sales price is up 3.2 percent from March 2022

Total new home sales rose to an annualized rate of 683,000 units in March, a bit closer to our forecast of 708,000 units than to the consensus forecast of 630,000 units. On a not seasonally adjusted basis, there were 66,000 new home sales in March, a touch lower than our forecast of 69,000 units. New home sales are booked at the signing of the sales contract, and given the trajectory of mortgage interest rates during March – rising sharply through the first part of the month before backing off – many had expected a weak new home sales print. At the same time, however, the unadjusted data on March single family housing permits and starts showed notably strong increases from February, increases that were largely hidden in the seasonally adjusted data. Given that our forecasts of unadjusted new home sales rely heavily on the unadjusted data on residential construction, which led us to expect a strong March new home sales print. That expectation was reinforced by many builders reporting strong growth in orders in March.

So, while our forecast proved a bit too ambitious, March was nonetheless a strong month for new home sales. To that point, not seasonally adjusted sales were up 15.8 percent from February, only smaller than the typical March increase in the years prior to the pandemic. While the level of unadjusted sales was roughly in line with our forecast, the geographical mix was not. There were 6,000 sales in the Northeast region, a figure which, should it survive revision, would be unmatched since June 2007. At the same time, the 16,000 sales in the West region mark that region's highest monthly total in a year. In contrast, sales in the Midwest and South regions came in a bit below our forecasts.

The bigger point, however, is that new home sales were this strong despite higher mortgage rates. One reason is that builders, having seen spec inventories rise to uncomfortable levels, have been increasingly aggressive with incentives, including buying down mortgage interest rates for prospective buyers. At the same time, new home prices have been coming a bit back down to earth, in part reflecting incentives as builders have seen at least some relief on the cost front. Another key driver of new home sales is that, as we've been documenting for some time now, inventories of existing homes for sale are so extraordinarily lean that more and more prospective buyers have been flocking to the market for new homes. So, motivated buyers meeting motivated sellers tends to facilitate sales – go figure.

As expected, spec inventories of new homes for sale (units either under construction or already completed) fell further in March, to some extent a reflection of builders being more aggressive with incentives. At the same time, however, units which had not yet been started accounted for a much larger share of new home sales in March, 25.8 percent, than had been the case over the prior several months. This will add to the backlog of unfilled orders facing many builders, a backlog that had been coming down over the prior several months. That builders have been contending with such large backlogs, including units which have been permitted but not yet started, is one reason construction employment has held up despite sales withering under the weight of higher mortgage interest rates. That these backlogs remain so extensive suggests construction payrolls will hold up for some time to come.

Our main premise in our analysis and forecasts of home sales, both new and existing, is that there remains a considerable degree of pent-up demand for home purchases. This is in large measure a reflection of how chronically undersupplied the market has been for over a decade. We thought that this untapped demand would mitigate the extent to which house prices would decline as sales retreated, and further thought that buyers would react to any improvements in affordability, whether brought on by lower mortgage rates or lower prices. On the new home sales front, that can reflect builders being more aggressive with incentives. While we by no means ever suggested a flood of buyers coming rushing back into the market, we did expect to see gradual increases in sales. It's too soon to know whether, or to what extent, conditions will play out as we expected, but the strength of the not seasonally adjusted March data on new and existing home sales is a point in our favor.

It does figure that, as spec inventories are further pared down and mortgage interest rates settle, or drift lower, builders may feel less compelled to offer incentives or will at least begin to pare down the scope of those incentives. And, it goes without saying that the new home sales data are more than a bit flighty and prone to sizable revision. That said, while higher mortgage interest rates have had a strong adverse impact on demand for home purchases, the market remains meaningfully undersupplied. In thinking about the course of home sales in the months ahead, it will help to remember that both can be true.

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