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## May New Home Sales: Further Upside Room, Just Not At This Pace

- New home sales rose to an annual rate of 763,000 units in May from April's (revised) sales rate of 680,000 units
- Months supply of inventory stands at 6.7 months; the median new home sale price fell by 7.6 percent year-on-year

Total new home sales rose to an annualized rate of 763,000 units in May, in the same subdivision as our forecast of 779,000 units but a few states away from the consensus forecast of 675,000 units. Of more significance is that not seasonally adjusted sales jumped to 73,000 units, slightly above our forecast of 72,000 units, marking the highest monthly sales total since April 2021. In keeping with form, there were downward revisions to sales over the prior three months, but those revisions were smaller in this round than has been the case. Upon the initial release of the April sales data, we noted that we thought sales had bottomed and were likely to rise at a gradual pace over coming months, referring to the not seasonally adjusted data, which are the only numbers here that matter. While May saw a jump in sales rather than a moderate increase, it is the trend sales rate to which we were referring. That trend sales rate has risen in each of the past two months, but is still far below both the pre-pandemic trend rate and the post-pandemic spike, with it being a long journey up to either at this point. That said, conditions are in place for further increases in sales despite mortgage interest rates being significantly higher over the past fifteen months than had been the case. As we've argued from the start of that increase in mortgage rates, there remains a considerable deal of pent-up demand for home purchases, reflecting the degree to which the market has been undersupplied for the past decade-plus. With inventories of existing homes for sale being so extraordinarily low, more of that demand has been funneled to the market for new homes, and builders have been in position to take advantage. In part because spec inventories had risen sharply, to undesirably high levels for many builders thus leaving them more willing to make concessions to facilitate sales. Additionally, those larger builders with internal financing arms have been able to make buyers concessions on mortgage rates. So, while it was never reasonable to expect a surge in demand, it was, and remains, reasonable to think sales can continue to increase at a steady but gradual rate.

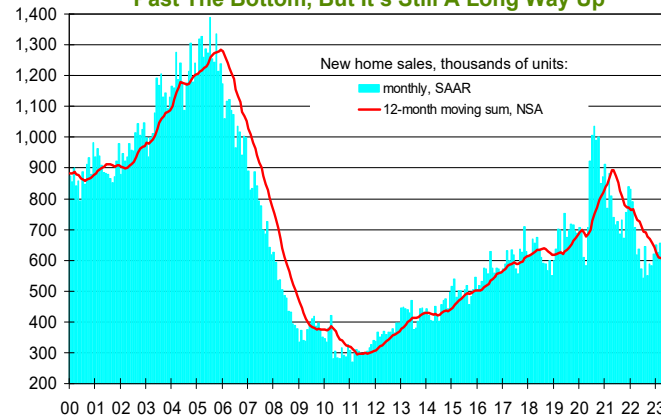
As noted above, on a not seasonally adjusted basis there were 73,000 new home sales in May, with sales unchanged in the Midwest region while rising in the three remaining regions. At 21.7 percent, the increase in unadjusted sales is the second only to May 2020 as the largest May increase on record. On an over-the-year basis, sales were up 25.9 percent in May, the second straight over-the-year increase. As of May, the running twelve-month total of not seasonally adjusted sales, which we consider the best gauge of underlying sales trends, stood at 625,000 units. We continue to think that March marked the bottom of the trend sales rate but, to our earlier point, the trend sales rate peaked at 893,000 units in May 2021. Keep in mind that when the trend sales rate first began to decline, that was because builders were intentionally capping sales as they were simply unable to keep pace with demand. That self-induced decline gave way to a more rapid pace of decline when mortgage interest rates began to shoot higher in 2022. So, off the bottom still leaves a lot of room to move higher.

That accelerated pace of sales declines in 2022 fueled a rapid increase in spec inventories of new homes for sale (units either under construction or already completed), as seen in our bottom chart. With sales having firmed up and the rate of new single family starts for sale having fallen, spec inventories have been on the decline over the past several months, and it is noteworthy that spec inventories fell on an over-the-year basis in May, the first such decline since May 2021. Spec inventories are still for many builders higher than desired, and while this would suggest builders will remain accommodative, that demand is picking up to the extent it means builders can afford to be a bit less accommodative. Along these lines, it is worth noting that completed units have accounted for a significantly higher share of all new home sales over recent months than had been the case in the frenzied sales environment of 2020-2021, when sales of units not yet started were accounting for a rising share of total sales. It is also worth noting that, after having spiked when mortgage interest rates began climbing, cancellation rates have more or less normalized.

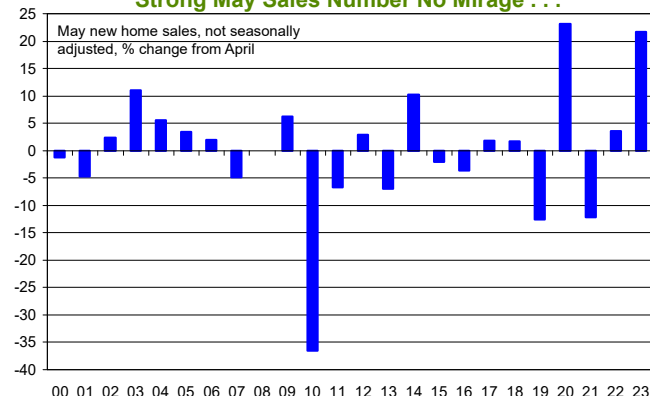
Regardless of whether sales are reported to have risen or fallen, it is always important to temper one's reaction to the new home sales data given how inherently volatile and prone to sizable revision the data are. That said, though the rate of growth seen in May is by no means sustainable, we continue to see further upside room for new home sales in the months ahead.



### Past The Bottom, But It's Still A Long Way Up



### Strong May Sales Number No Mirage . . .



### Spec Inventories Elevated But Moving In The Right Direction

