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July New Home Sales: The West Sinks New Home Sales In July

- > New home sales fell to an annual rate of 571,000 units in July from June's revised sales rate of 630,000 units.
- > Months supply of inventory stands at 5.8 months; the median new home sale price rose by 6.3 percent on a year-over-year basis.

While the sun may sink slowly in the west, new home sales fall at a much more rapid pace. At least they did in July. New home sales fell to an annualized rate of 571,000 units in July, below the consensus forecast of 610,000 units and further still below our forecast of 644,000 units. Prior estimates of sales in April, May, and June were revised higher. Sales of higher priced homes continue to drive new home sales, and the median new home sales price was up 6.3 percent year-on-year. The months supply metric rose to 5.8 months which reflects the drop in sales more than anything as the new homes market remains beset by supply constraints amidst demand that, the July headline number notwithstanding, remains solid.

On a not seasonally adjusted basis, there were 49,000 new homes sold in July, lagging our forecast of 58,000 sales. While our forecasts for the Midwest and Northeast regions were on the mark, the 28,000 sales South came in a bit shy of our forecast of 31,000, but it was the West region that dragged down overall sales. There were but 12,000 new home sales in the West region in July, below our forecast of 18,000, and below the pace that had prevailed over recent months. The July data on single family housing permits presaged the weakness in new home sales, as the permit data are incorporated into the estimates of new home sales, even though single family starts in the West were in line with recent trends. As always when a data point comes in much weaker/stronger than the recent run rate, coming months will tell whether the July data for the West reflect one-off noise, will be revised away, or mark the start of a longer-term shift in the pace of activity. The decline in sales in the West is of course more pronounced in the seasonally adjusted annualized data, with sales falling from an annual rate of 183,000 units in June to 144,000 in July.

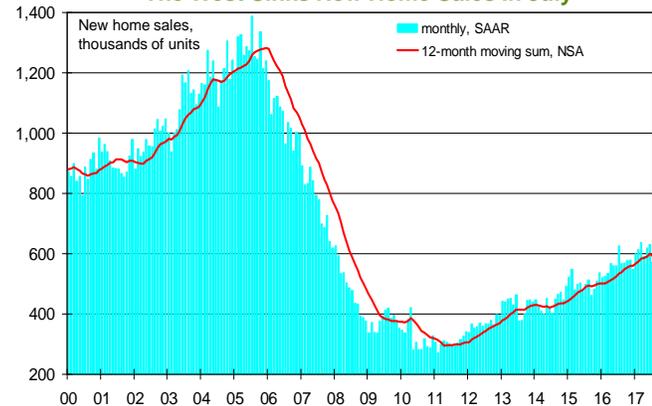
All in all, particularly given the upward revisions to estimates for the prior three months, the new homes market doesn't look all that much different after the July data. The running 12-month total of new home sales, our preferred gauge of underlying sales trends, slipped to 594,000 units in July from June's total of 599,000 units, which is the highest such total since June 2008. Inventories of what we refer to as "physical" new homes for sale, i.e., units either under construction or fully completed, rose modestly in July but remain significantly below historical norms. As we often note, however, lean inventories are not as binding a constraint on new home sales as they are on existing home sales. This simply reflects the fact that new home sales can be booked at any stage in the process, i.e., sales contracts can be signed before construction begins, during construction, and after the unit has been completed. As we have been noting for some time, the share of sales accounted for by units on which construction had not yet been started has been notably high, and in July such units accounted for 34.7 percent of all new home sales. Accounting for these early sales helps reconcile strong sales numbers with the by now familiar refrain of shortages of labor and materials acting as constraints on sales, and these early sales will help ensure single family housing starts remain firm over coming months as builders work to clear growing backlogs.

To the extent builders cannot build greater numbers of new homes, in terms of generating sales revenue they can compensate by building higher priced homes, and this is a trend that has for some time now been firmly entrenched in the market for new homes. For over two years now, more than half of all new home sales have been accounted for by units priced at or above \$300,000, and in July such units accounted for 54 percent of total new home sales. To some extent this reflects builders passing on higher costs, whether for lots, labor, materials, or development fees, on to buyers, and low mortgage rates have helped keep payments manageable in the face of higher sales prices. One implication is that prospective first-time buyers are to a large extent priced out of the market; another implication is the housing market is increasingly vulnerable to any material increase in mortgage interest rates.

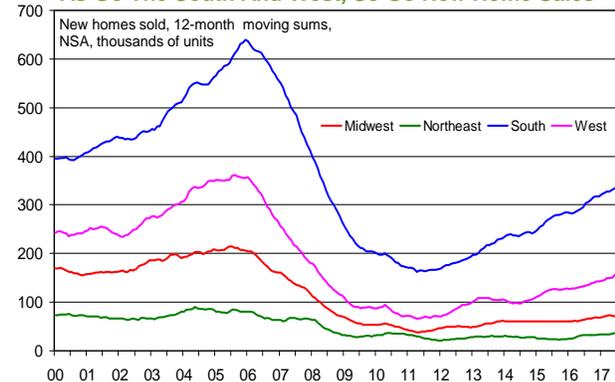
Still, given that mortgage interest rates continue to hover around 4.0 percent amidst solid job and income growth, our concerns with the housing market remain on the supply side, not the demand side of the market. We don't see this changing any time soon.



The West Sinks New Home Sales In July



As Go The South And West, So Go New Home Sales



Builders Remain Pressed To Keep Up With Demand

