ECONOMIC UPDATE

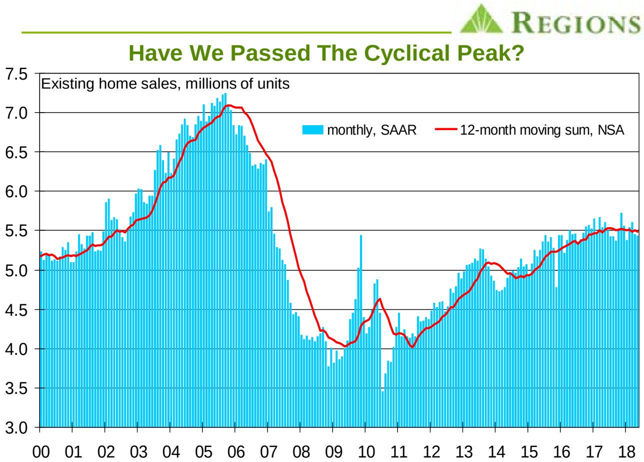
REGIONS

June 20, 2018

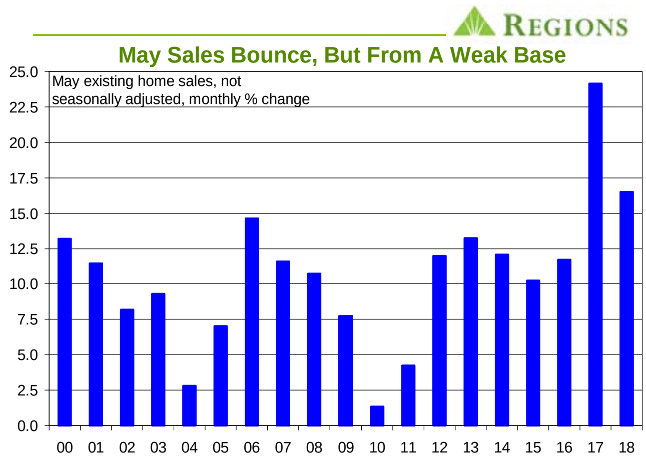
May Existing Home Sales: Has The Cyclical Peak Come And Gone?

- Existing home sales fell to an annualized rate of 5.430 million units in May from April's (revised) sales rate of 5.450 million units.
- Months supply of inventory stands at 4.1 months; the median existing home sale price rose by 4.9 percent on a year-over-year basis.

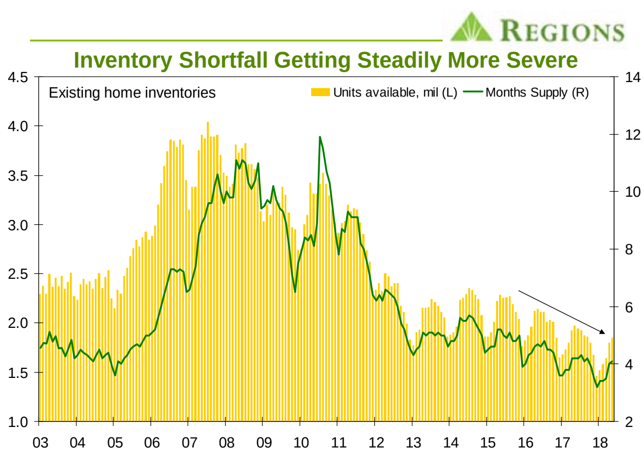
Existing home sales fell to an annualized rate of 5.430 million units in May from April's sales rate of 5.450 million units (a slight downward revision to the initial estimate of 5.460 million units). While we are no strangers to missing on forecasts, our forecast of May existing home sales – 5.620 million units – isn't even, well, in the same zip code as the actual sales number. As has been the case for some time now, limited inventory was a drag on sales in May; listings rose to 1.850 million units in May, which fell short of our forecast of 1.870 million units. This puts the months supply metric at 4.1 months, well below the 6.0 months that would indicate a balanced market. The median existing home sales price is up 4.9 percent year-on-year, but this masks an ongoing shift in sales across price ranges, with sales increasingly skewed towards the high end of the price distribution. Even had our forecast been close to the mark, our view of underlying conditions in the housing market, i.e., notably lean inventories acting as a material drag on sales and driving robust house price appreciation, would not have changed. And, while we're not at this point quite yet, continued robust price appreciation combined with higher mortgage rates will at some point take a toll on affordability and further restrict sales.



It is reasonable to ask how we can reconcile our seemingly sunny forecast for existing home sales in May with our seemingly dim overall outlook for existing home sales. The two are not really at odds, given that we build our forecast of top-line sales from the ground up, i.e., we start with a forecast of not seasonally adjusted sales in each of the four broad regions then work our way up to the headline (i.e., seasonally adjusted annualized) sales number. We were simply looking for a stronger seasonal boost in sales in May, as implied by our forecast for 553,000 not seasonally adjusted sales, which was easily above actual unadjusted sales of 536,000 units. Still, unadjusted sales rose by 16.5 percent between April and May which, as our middle chart shows, is the second largest May increase in the life of the current series (which goes back to 1999). The problem of course is that sales have been so weak that even the sizeable bounce in unadjusted sales in May leaves us with not only a weak headline sales number but also leaves the running 12-month sum of unadjusted sales on a downward slope (as shown by the red line in our top chart). As of May, the running 12-month total, which we see as the most reliable gauge of underlying sales trends, stood at 5.482 million units, the lowest total since April 2017. Given that we see little reason to expect meaningful relief on the inventory front over coming quarters, we think it reasonable to conclude that we have passed the cyclical peak for existing home sales. This loss of momentum in sales is broad based, with the 12-month total of unadjusted sales having fallen in the South region in May while having previously turned lower in the Midwest, Northeast, and West regions.



Don't be misled by the increase in listings over recent months shown in our bottom chart. The NAR inventory data are not seasonally adjusted and we are in the time of the year in which listings trend higher, corresponding to the peak sales season. That said, 2018 is on course to be the fourth consecutive year in which the seasonal peak in listings is lower than that of the previous year. To that point, while listings rose by 2.8 percent between April and May, this nonetheless leaves listings down year-on-year for a 36th consecutive month. Persistently lean inventories have fueled robust house price appreciation, better seen in the various repeat sales price indexes (we prefer the CoreLogic HPI) than the NAR's median sales price. Either way, competition for listings is intense, with the median time on market for homes closed in May at just 26 days. The biggest inventory shortfall is in homes on the lower side of the price scale, much to the detriment of prospective first-time buyers, who accounted for 31 percent of all sales in May, well off historical norms.



Our premise has for some time been that the issues in the housing market lie on the supply side of the market. While thus far we've seen nothing to cause us to change our view, higher mortgage interest rates on top of robust price appreciation will at some point curb demand. This makes it reasonable to think that we've passed the cyclical peak in sales.

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