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## May Existing Home Sales: Another “Better Than The Headline Number” Report

- Existing home sales fell to an annualized rate of 4.11 million units in May from April’s sales rate of 4.14 million units
- Months supply of inventory stands at 3.7 months; the median existing home sale price rose by 5.8 percent year-on-year

Total existing home sales fell to an annual rate of 4.11 million units in May, slightly ahead of the consensus forecast of 4.09 million units but lagging our forecast of 4.22 million units. The not seasonally adjusted data show sales of 404,000 units, pretty much in line with our forecast of 403,000 units and up 12.2 percent from April. This was also the case with the April data – our forecast of unadjusted sales was off by 1,000 units, not much of a miss given the base, but our forecast of the headline sales number was well off the mark for no other reason than the seasonal factor employed by NAR to turn the not seasonally adjusted sales number into the seasonally adjusted and annualized number being smaller than we anticipated. So, we’ll repeat here what we said a month ago when we raised this point, which is the seasonal factor being smaller than we anticipated would have to take on increased importance to rise to the level of triviality. What we think to be more relevant is that unadjusted sales, which, by the way, is how many existing homes were actually sold, have behaved in line with our expectations over recent months. May marks a fourth straight month with a double-digit increase in unadjusted sales, and while rising sales over this span are in line with typical seasonal patterns, the magnitude of the increases seen over the past four months is noteworthy given where mortgage interest rates have been. Rising inventories of existing homes for sale have been a support; inventories rose to 1.28 million units in May, just above our forecast of 1.27 million units, leaving them up 18.5 percent year-on-year. Time on market remains notably low, particularly given the combination of elevated mortgage rates and a shift in the sales mix that reflects increased sales at the higher ranges of the price distribution. All that having been said, the market remains considerably out of balance despite rising inventories; at May’s sales rate, it would take 3.7 months to absorb the current level of inventory, well below the 5.5-to-6.0 months typically associated with the market being in balance. Moreover, though the trend sales rate has finally stabilized after a long and steep decline, that lack of balance combined with affordability constraints will limit the degree of upside in sales. In other words, whether the trend sales rate remains range-bound or turns higher will largely be a function of the paths of inventories and mortgage interest rates over coming months.

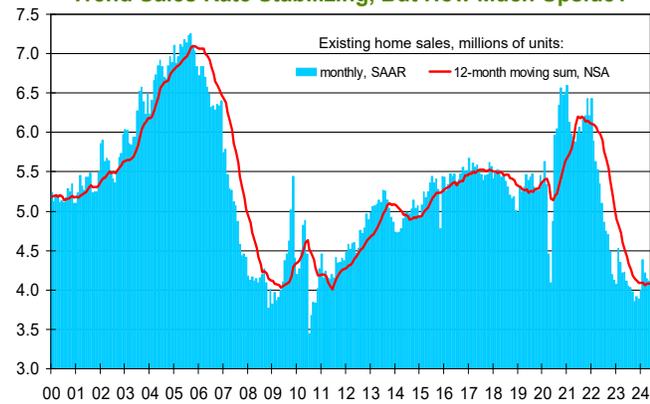
As noted above, the not seasonally adjusted data show sales of 404,000 units in May, up 12.2 percent from April. Though not coming close to matching last May’s increase, this is nonetheless larger than the typical May increase, both before and after the pandemic. This leaves the running twelve-month total of not seasonally adjusted sales, which we see as the most meaningful gauge of the trend sales rate, at 4.077 million units, or, right about where it’s been over the past six months. On a year-to-date basis through May, unadjusted sales are down 0.6 percent nationally, with sales down 1.4 percent in the South region and down 2.9 percent in the Northeast, while sales in the Midwest are up 0.8 percent and sales in the West are up 1.0 percent.

Our bottom chart goes to our earlier point about rising inventories still leaving the market far short of being balanced. The absolute level of inventories remains notably low, meaning that at least some of the rebound in the months supply metric reflects the low level of sales. We continue to expect inventories to rise further in the months ahead, but do not expect them to rise to the level that would equate with market balance. If we’re correct, that will continue to work to the advantage of builders as increased shares of prospective buyers will be funneled to the market for new homes. Builders have taken on some risk in the form of rising spec inventories, in part in anticipation of some relief on the mortgage interest rate front. Still, it is useful to note that any such relief would likely trigger a response on the supply side of the market for existing homes, even if that would more resemble a trickle than a flood.

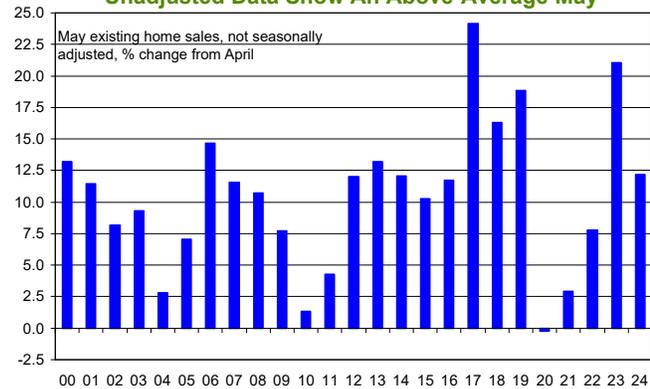
Median days on market prior to a home going under contract fell to twenty-four days in May and remains below pre-pandemic norms, indicative of underlying demand. NAR reports that the median sales price rose to \$419,300 in May, up 5.8 percent year-on-year and the highest on record, which makes the shorter time on market figures even more noteworthy but at the same time points to a divide between those who want to and those who can purchase a home.



### Trend Sales Rate Stabilizing, But How Much Upside?



### Unadjusted Data Show An Above-Average May



### Inventory Constraints Easing But Still Far To Go

