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July Existing Home Sales: Still A Long Way From Market Balance

- Existing home sales rose to an annualized rate of 3.95 million units in July from June's (revised) sales rate of 3.90 million units
- Months supply of inventory stands at 4.0 months; the median existing home sale price rose by 4.2 percent year-on-year

Total existing home sales rose to an annual rate of 3.95 million units in July, between our forecast of 3.97 million units and the consensus forecast of 3.93 million units but ending a run of four straight declines in the annualized sales rate. Not seasonally adjusted sales came in at 389,000 units, just shy of our forecast of 391,000 units but up 3.5 percent from June and up 4.6 percent year-on-year. Those increases, however, have to be put into context, as there were two more sales days this July than last July; adjusted for this differential, sales were down 4.9 percent year-on-year. Recall that existing home sales are booked at closing, so July closings would mostly reflect sales contracts signed from late-May through June, or, within the three-month stretch of mortgage interest rates hovering right at seven percent, which clearly weighed on sales of both existing and new homes over that stretch. At the same time, it could be that rising inventories of existing homes for sale are ridding many prospective buyers of at least some of the sense of urgency they may have been feeling for some time now, no longer feeling compelled to jump on any listing that checks at least most of the boxes they need checked. Moreover, it could also be that many prospective buyers are waiting on further declines in mortgage interest rates before committing to a purchase, particularly if rising inventories lead them to perceive less risk (of losing out) in waiting for lower mortgage rates. If so, sales of existing homes may be less responsive to lower mortgage interest rates, at least initially, than many are anticipating, particularly as builders sitting on elevated spec inventories are being more aggressive in offering incentives in order to facilitate sales. So, while it is reasonable to expect existing home sales to begin drifting higher, the pace at which they do so will likely be fairly slow.

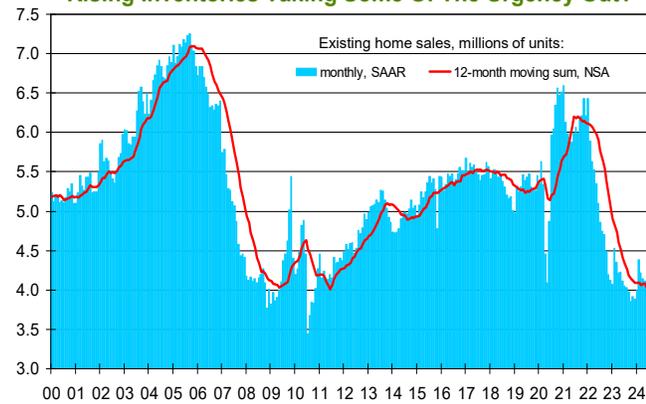
As noted above, the not seasonally adjusted data show sales of 389,000 units in July. This leaves the running twelve-month total of not seasonally adjusted sales, which we see as the most meaningful gauge of the trend sales rate, at 4.038 million units which, as illustrated in our top chart, leaves the trend sales rate bumping along at a notably low level. On a year-to-date basis through July, unadjusted sales are down 2.0 percent nationally, with sales down 2.8 percent in the South region, down 2.6 percent in the Northeast, and down 1.8 percent in the Midwest, while sales in the West are flat year-on-year.

Though sales came pretty much in line with our expectations, the increase in inventories of existing homes for sale was smaller than our forecast anticipated. Inventories rose by just 0.8 percent in July, leaving them up 19.8 percent year-on-year. While it is true that July has historically marked the winding down of the typical seasonal increase in inventories that begins in the spring, we had expected the run of upward momentum in inventories seen over recent months to have been extended this July, which doesn't seem to have been the case. At the July sales rate, inventories were equivalent to four months of sales, down slightly from June and still easily below the 5.5-6.0 months that would be consistent with a balanced market. To that point, our middle chart shows that, though increasing, 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.

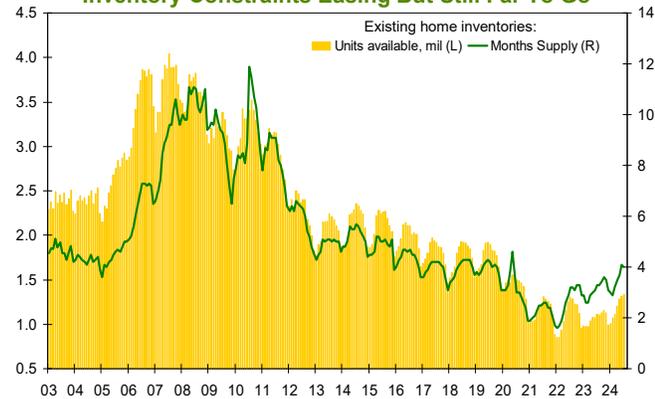
Median days on market prior to a home going under contract inched up to twenty-four days in July from twenty-two days in June. We are now in the time of the year in which the days on market metric tends to rise, but if we are correct in thinking that rising inventories may be ridding prospective buyers of their sense of urgency, it could be that days on market rises more in coming months than would be implied by normal seasonal patterns. It is also worth noting that, lower mortgage interest rates notwithstanding, continued price appreciation still poses affordability challenges for many prospective buyers. While increasing numbers of sellers are having to cut asking prices, that's not the same as saying they're taking a loss on the sale of their home, but rather that they are realizing smaller gains than they had planned on. It remains to be seen whether, or at least when, inventories will rise to a degree sufficient to act as a more powerful brake on the pace of house price appreciation.



Rising Inventories Taking Some Of The Urgency Out?




Inventory Constraints Easing But Still Far To Go




Rising Inventories Help Push Time On Market Out

