

ECONOMIC UPDATE



REGIONS

March 26, 2013

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February Home Sales: The Trend Is The Housing Market's Friend . . .

- New home sales fell to an annualized rate of 411,000 units in February, from 431,000 units in January (originally 437,000).
- Existing home sales rose to an annualized rate of 4.980 million units in February, from a sales pace of 4.940 million units in January.
- Year-over-year, the median existing home price rose by 11.6 percent, while the median new home price rose by 2.9 percent.

New Home Sales: As expected, new homes settled back a bit in February, with an annualized sales rate of 411,000 units compared to January's sales rate of 431,000 units (reflecting a slight downward revision). Sales rose in the Midwest region but were lower in the South, West, and Northeast regions. The median new home price rose by 2.9 percent on an over-the-year basis. The slower growth in the median sales price over the past couple months reflects a shift in the mix of sales, with fewer sales of homes priced at or above \$300,000.

Inventories of new homes for sale rose slightly in February but even with this increase the months supply of new homes for sale came in at 4.4 months, and this metric continues to trend lower. Given the upturn in single family housing starts seen since late 2012, it followed that we would eventually see the number of completed homes for sale begin to rise, and we expect this to be the case over coming months. Still, we are a long way from inventories becoming a concern. It is useful to recall that not all newly built homes are intended for sale – only about two-thirds of all single family starts over recent years have been intended for the sales market. Thus far, even as total starts have climbed higher, completions of new homes intended for sale are running behind sales and we expect this to remain the case over coming months.

Other factors that may come into play and help keep a lid on new home inventories are higher costs for materials and labor and what in some markets is a lack of available lots. Builders have begun to express concerns along these lines and these factors could act as a drag on the pace of starts over coming months, while at present builders do not have sufficient pricing power to simply pass rising costs along to buyers.

These factors may slow down but won't derail the recovery in new home sales over the course of 2013. Note that new home sales are booked at contract signing, and thus far in 2013 it appears an improving job market and better income growth are trumping tighter fiscal policy.

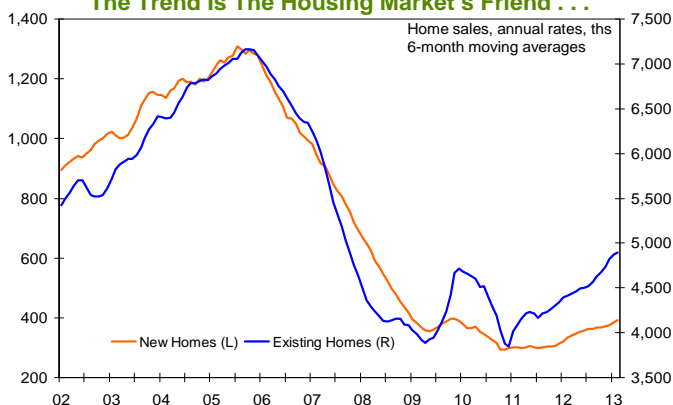
Existing Home Sales: Existing home sales edged slightly upward to an annualized rate of 4.980 million units as higher sales in the South and West regions offset lower sales in the Midwest and Northeast. While inventories of existing homes for sale rose in February, this is in line with the normal seasonal pattern (the NAR's inventory data are not seasonally adjusted), though the 9.6 percent increase during the month is slightly larger than typical. It could be that firmer pricing is beginning to unleash "pent-up supply." Still, on a year-over-year basis, inventories were down by 19.2 percent. Scaled to the current sales rate, there is a 4.7 months supply of homes available for sale, up from January but, as seen in the second chart below, this metric is trending steadily lower.

Distress sales accounted for 25 percent of all sales in February, down considerably from the roughly one-third share seen during early 2012. Note that the smaller share of distress sales is helping boost the over-the-year increase in the median sales price so, while firmer pricing is seen consistently across an array of house price measures, the gain in the median price is somewhat overstating the extent of that firming. Cash sales accounted for 32 percent of all sales during February, up slightly from recent months. We have noted a key marker of the depth of the housing market recovery is the extent to which mortgage reliant borrowers come back to the market and displace investor activity, so in that sense the higher share of sales to investors in February may not seem too encouraging. It is, however, worth recalling that existing home sales are booked at closing, so February's sales will to a large extent reflect contracts signed over the holiday season, when we would expect to see investors more active than "traditional" buyers. This is a metric we will continue to watch closely over coming months.

Recent trends in sales, inventories, and pricing are positive and while we do not yet know the extent to which tighter fiscal policy will disrupt housing market activity, we nonetheless expect further improvement in both new and existing home sales over the remainder of 2013.



The Trend Is The Housing Market's Friend . . .



Inventories Returning To Normal

