

ECONOMIC UPDATE



REGIONS

April 23, 2013

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March Home Sales: Home Sales Continue To Recover, But At An Uneven Pace

- New home sales rose to an annualized rate of 417,000 units in March from 411,000 units in February.
- Existing home sales fell to an annualized rate of 4.920 million units in March from a sales pace of 4.950 million units in February.
- Year-over-year, the median existing home price rose by 11.8 percent, while the median new home price rose by 3.0 percent.

New Home Sales: New home sales rose to an annualized rate of 417,000 units in March, up from February's sales rate of 411,000 units. Inventories of new homes remain tight, with the months supply metric remaining at 4.4 months in March. While February's sales rate is as previously reported, January's sales rate was revised higher to an annualized rate of 445,000 units from the prior estimate of 431,000 units. Sales in March rose in the Northeast and South regions while falling in the Midwest and West regions.

While the number of completed new homes for sale is off of the historical lows seen over recent months, inventories nonetheless remain lean. We are, however, starting to see the increase in single family starts that began during 2012's third quarter translate into completions, a trend which should accelerate over coming months. Still, with many builders reporting issues with the availability of lots and the pricing of materials and labor, it could be that supply does not increase as rapidly as we have been expecting. It is worth noting that these issues have weighed on the NAHB's monthly survey of homebuilder sentiment, but that survey is weighted towards smaller builders who may feel the effects of these constraints more acutely than do larger builders.

It is also worth noting that only about two-thirds of all single family starts represent units intended for sale, so any given increase in the rate of starts ultimately translates into a smaller number of completed units for sale than implied by the headline. While this ratio tends to rise in a sustained market upturn, the likes of which we believe we are now seeing, it is likely that the rate at which completed units intended for sale come on to the market will struggle to match the pace of sales over the next few months, which will enhance builders' pricing power.

Existing Home Sales: Contrary to expectations for a modest increase, sales of existing homes fell slightly during March to an annualized rate of 4.92 million units, compared to February's sales pace of 4.95 million

units. In March, sales were up in the Midwest, lower in the South and West, and unchanged in the Northeast.

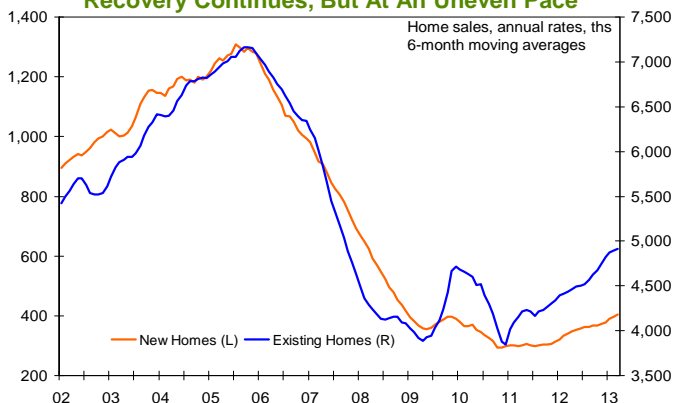
Inventories of homes for sale rose in March, but the 1.6 percent increase still leaves inventories down 16.8 percent from a year ago. The monthly sales rate and level of inventory combine to yield a 4.7 months supply of inventory, below the 6 months seen as normal by the NAR. Within the inventory of homes for sale there is now a stark dichotomy, with ample inventories of higher priced homes and much leaner inventories of homes on the lower end of the price scale. To a large extent this is a function of distress inventories having been pared down so significantly – distress sales accounted for 21 percent of all sales in March, the lowest share since the NAR began collecting this data in October 2008.

The changing mix of sales is driving the double-digit gains in median existing home prices seen in five of the past six months. This is most notable in the West, which has logged six consecutive months of over-the-year median price increases in excess of 20 percent. We have maintained there is some degree of pent-up supply that would be drawn out by sustained price appreciation. If this is indeed the case, we should soon see evidence in the data over coming months. But, here it is the level of prices, not the rate of price appreciation, that matters and we don't believe the level of prices is high enough in many markets to draw out a meaningful portion of this pent-up supply. On the demand side, we continue to watch for a transition of buyers away from investors to traditional mortgage dependent buyers as a sign the housing market recovery is sustainable. In March, first-time buyers accounted for 30 percent of sales but the inventory dichotomy noted above could cap any upside movement in this share seen over coming months.

In our view, the fundamental housing demand drivers remain in good shape but inventories are acting as a drag on both new and existing home sales. We expect this drag to mitigate over the remainder of 2013.



Recovery Continues, But At An Uneven Pace



Lack Of Inventory Constraining Sales?

