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April Home Sales: Housing Market Recovery Gathers Pace

- New home sales rose to an annualized rate of 454,000 units in April from 444,000 units in March.
- Existing home sales rose to an annualized rate of 4.970 million units in April from a sales pace of 4.940 million units in March.
- Year-over-year, the median existing home sale price rose by 11.0 percent, while the median new home sale price rose by 14.9 percent.

New Home Sales: April new home sales came in at an annualized rate of 454,000 units, easily topping expectations, though today's release incorporates revisions to the data going back to January 2011. Those revisions were modestly positive in terms of the average monthly sales rate. Home sales fell in the West region in April but rose in the Northeast, Midwest, and South regions.

The median sale price rose by 14.9 percent on a year-over-year basis. In part, this reflects a shift in the mix of new home sales, with homes priced at \$400,000 and above accounting for a higher share of overall sales in April while homes on the lower end of the price scale accounted for a smaller share. In part, though, builders are benefitting from the greater pricing power that stems from tight inventories, but it is worth noting many builders are also contending with higher costs for labor and materials.

While the number of new homes available for sale has risen in recent months, sales have picked up at a faster pace and the months supply metric stands at 4.1 months. Over coming months, the stepped up pace of single family starts seen over the past several months will translate into rising numbers of completion, but it is worth noting here that only about two-thirds of all single family starts represent units intended for sale. So, given the strength in sales, which we expect to persist, overall new home inventories will remain on the lean side for some time to come, suggesting builders will continue to enjoy considerable pricing power. This pricing power will be reinforced as long as inventories of existing homes for sale also remain lean.

Existing Home Sales: Existing home sales rose modestly in April to an annualized rate of 4.970 million units. While that is slightly below our expectations, the details of the April report are stronger than the headline sales number. One point we began making late last year is that we would not be as concerned with the overall sales number as we

would with the mix of homes being sold and the composition of the buyers. Specifically, we looked for a lessening share of distress sales to give way to conventional sales, and for diminishing investor activity to give way to growing numbers of traditional, mortgage reliant buyers.

The April data provide further affirmation of these trends. Distress sales accounted for only 18 percent of all existing home sales, down from 28 percent in April 2012 and the lowest such share since NAR began tracking this metric back in late 2008. With total existing home sales up 9.7 percent from a year ago, the sharp over-the-year decline in distress sales means there was a sizeable increase in conventional sales.

Inventories of existing homes for sale rose by 11.9 percent in April – recall the inventory data reported by the NAR are not seasonally adjusted, and this increase is in line with a normal April increase. But, on a year-over-year basis, inventories are down by 13.6 percent and remain lean. We have been on the lookout for the release of what we believe to be nontrivial pent-up supply, given the recent pace of price appreciation, but do not think this has yet happened to a meaningful degree. One constraint may be what, recent price appreciation notwithstanding, remains a considerable number of homeowners either underwater or not far enough above the surface to be able to sell, which suggests the process of drawing out additional inventories may be more drawn out than would be implied by simply watching price appreciation. It should also be noted the reported increases in median sales prices are inflated by the shifting mix of sales, i.e., the ongoing decline in the share of distress sales. This factor will continue to impact the reported gains in median prices for the next several months.

The fundamental housing demand drivers remain in good shape and will strengthen further over coming months with ongoing labor market improvement. Still, inventories will remain a drag on new and existing home sales over the near term, helping sustain robust price appreciation.

