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July Existing Home Sales: Momentum Continues To Build

- Existing home sales rose to an annualized rate of 5.150 million units in July from a revised sales pace of 5.030 million units in June.
- Months supply of inventory stands at 5.5 months; the median existing home sale price rose by 4.9 percent on a year-over-year basis.

Existing home sales rose to a 10-month high in July, with an annual sales rate of 5.150 million units after June's sales rate was revised slightly down to 5.030 million units (originally 5.040 million units). Inventories of existing homes for sale rose further in July, and an ongoing easing of inventory constraints is not only helping facilitate sales but also taking some of the steam out of house price appreciation. The median sales price rose 4.9 percent, year-over-year, in July and over the past six months the average rate of price appreciation has slowed to roughly half the average rate that had prevailed over the prior 16 months.

July did mark the ninth consecutive month in which existing home sales were down on a year-over-year basis. As we have been pointing out over the duration, however, the decline on a year-ago basis reflects the fading influence of distress sales. In July, distress sales accounted for just 9 percent of all existing home sales, the lowest figure on record since NAR began tracking this metric. Nondistress sales have been steadily rising even as the influence of distress sales fades, so the mix of sales is better even if the year-ago comparisons are unflattering. Short sales accounted for three percent of sales in July with foreclosures accounting for six percent.

July also marked the ninth consecutive month in which inventories of existing homes for sale rose on an over-the-year basis. Note the inventory data are presented on a not seasonally adjusted basis, and typically rise in July but the 3.5 percent month-to-month increase this July is larger than those seen in recent years and the months supply metric stands at 5.5 months, higher than has been the case for some time but still below levels that would prevail in a "normal" housing market. Still, the bottom line is inventory constraints have steadily become less of a drag on sales and this should continue to be the case going forward,

Regionally, sales rose in the Midwest, South, and West regions in July and were unchanged in the Northeast. On an over-the-year basis, sales are marginally higher in the South region but down in the three remaining regions. The West is perhaps where we see the biggest impact of fading inventories of distressed properties, and inventories remain tight but less so than has been the case. This is reflected in house price appreciation, with the West leading the way with a 6.2 percent year-over-year increase in the median sales price. But, as in the other three regions, the pace of price appreciation in the West has slowed of late.

Existing home sales continue to show momentum but one soft spot remains first-time-buyers. In July, first-time buyers accounted for 29 percent of existing home sales, above June and May but still well below the normal share. Though mortgage lending standards have begun to ease, they remain stringent for those in the lower ranges of the credit score spectrum, which could capture a higher share of younger prospective first-time buyers, and thus could remain a drag on sales. But, the pace of job growth has improved and will likely pick up further over coming months, which should lead to firmer income growth which, along with still favorable mortgage rates, will facilitate further gains in existing home sales. As such, the momentum seen in existing home sales over recent months should be sustained in the months ahead. One thing that will be interesting to watch is whether the lack of a meaningful increase in the supply of new homes will help prop up price appreciation of existing homes. As noted above, the pace of price gains has slowed but this has been a function of rising inventories and distress sales having less pull on the median price. But, with demand clearly firming, we could see at least a transitory spell of faster median home price appreciation.

