ECONOMIC UPDATE

REGIONS

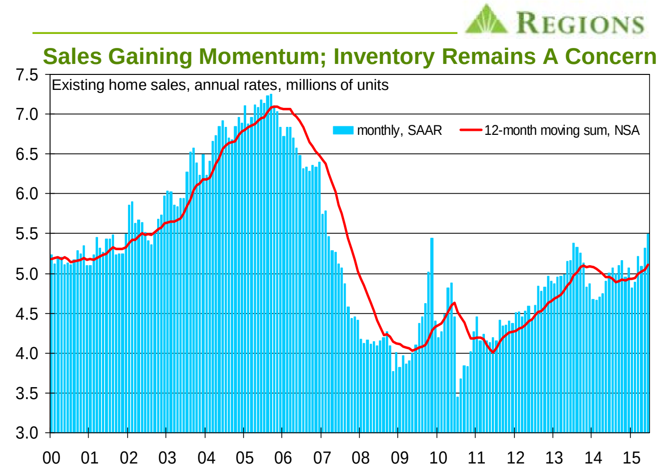
July 22, 2015

This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.

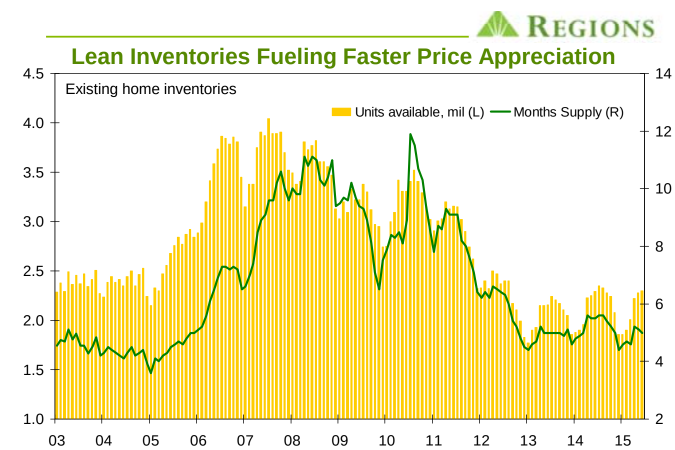
June Existing Home Sales: Sales Gaining Momentum; Inventory Remains A Concern

- Existing home sales rose to an annualized rate of 5.490 million units in June from May's sales rate of 5.320 million units.
- Months supply of inventory stands at 5.0 months; the median existing home sale price rose by 6.5 percent on a year-over-year basis.

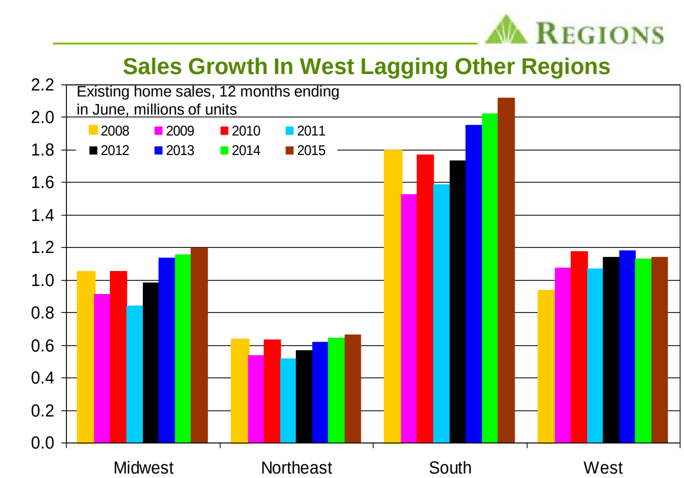
Existing home sales rose to an annualized rate of 5.490 million units in June, the highest monthly sales rate since February 2007, with sales rising in each of the four broad geographic regions. The median existing home sales price rose to $236,400 in June, the highest on record in the life of the NAR data. This is a 6.5 percent year-over-year increase and continues a run of what has been faster price appreciation over the past several months. One factor that may have helped prop up sales in June was the increase seen in mortgage interest rates during May – rates on 30-year fixed rate mortgage loans rose by around 25 basis points during the month. Recall existing home sales are booked at closing, so rising rates in May along with the expectation of even further increases in subsequent months, may have gotten prospective buyers off the fence in May and contracts signed during that month would to a large extent have shown up in closings in June.



While higher rates may have acted as a catalyst for prospective buyers, what has been a faster rate of price appreciation has yet to have a similar impact on the supply side of the market. We have been wondering if the faster pace of price appreciation would begin to draw out more prospective sellers but this does not appear to have been the case in June, and inventories of existing homes for sale remain on the lean side. The NAR inventory data are not seasonally adjusted and June is a month which typically sees little change in inventory which, despite what has been more rapid price appreciation, was the case this year with inventories up only 0.9 percent in June and up only 0.4 percent from June 2014. The months supply metric edged lower in June and now stands at 5.0 months, below what would be seen in a normal market.



One trend we have been noting for some time now is the diminishing share of distress sales. In June, distress sales accounted for just 8 percent of overall sales, down from May and down from June 2014 when distress sales accounted for 11 percent of all sales. Doing some back of the envelope calculations yields a double-digit year-on-year increase in nondistress sales in June and would put the annual sales rate for nondistress sales at over 5 million units. Last year, when the share of distress sales began to drift lower and pulled the headline sales number lower, we began pointing to rising nondistress sales as the more relevant trend, which was one reason we were not fazed by the seemingly soft headline sales numbers. That said, we will note distress inventories, particularly REO inventories, are still elevated even if well off cyclical peaks. It would follow that sturdier price appreciation would also draw more of this inventory on to the market given the prospect of the holders of these properties facing less of a hit on price.



One remaining gap in the market is the ongoing shortfall of first-time buyers. In June, first-time buyers accounted for 30 percent of all existing home sales, whereas a normal share would be 40 to 45 percent. Steady job growth, improving income growth, a prolonged period of rising apartment rents, and at least some thawing of mortgage lending standards would all auger for more first-time buyers entering the market but this is happening at only a glacial pace. This is where concerns over higher mortgage rates and faster price appreciation become germane, as first-time buyers will be the first segment of buyers for which affordability constraints will become binding.

So, while existing home sales are gathering momentum, it is reasonable to wonder whether this momentum can be sustained in light of concerns on both the supply and demand sides of the market. As such, while we expect sales to continue to improve over coming months, the pace of improvement may slow from what we have seen in recent months.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com