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### August Home Sales: No, Housing Is Not “Dragging The Economy Down”

- › New home sales rose to an annualized rate of 629,000 units in August from a revised rate of 608,000 units in July
- › Existing home sales held at an annualized rate of 5.340 million units in August, unchanged from July’s sales rate
- › Year-over-year, the median new home sale price rose by 1.9 percent, while the median existing home sale price rose by 4.6 percent

**New Home Sales:** New home sales rose to an annual rate of 629,000 units in August from July’s sales rate of 608,000 units, falling short of our forecast of 641,000 units. Not seasonally adjusted sales came in at 50,000 units in August, just off of our forecast of 51,000 units. Sales in the Midwest, South, and West regions each matched our forecasts but the 3,000 sales in the Northeast region fell shy of our forecast of 4,000 sales. As of August, the running 12-month sum of not seasonally adjusted new home sales stood at 643,000 units, the highest such total since April 2008. The months supply of new homes for sale stood at 6.1 months as of August, down slightly from 6.2 months in July.

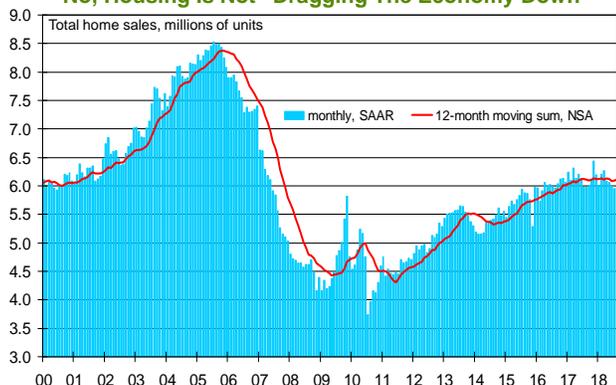
Other than sales on a not seasonally adjusted basis, the other main beneath the headlines metrics we emphasize in the new home sales data are trends in the sales mix by price and the share of sales accounted for by units on which construction had not yet started. As to the former, homes priced at or below \$300,000 accounted for 44.9 percent of total new home sales in August. What is relevant is that this share has been rising over the past several months, barring a dip in July. Why this is relevant is that new home sales had for some time been heavily weighted towards higher-priced homes but recent months have seen a shift in the sales mix, one which we think will persist. Many of the large national builders have been making efforts to move down the price scale, including targeting prospective first-time buyers who have become increasingly priced out of the market for existing homes. While this shift may not have a huge impact on the overall number of new home sales, it does make new homes more accessible to a larger swath of prospective buyers and, in so doing, puts firmer legs under new home sales. Sales of units on which construction had not yet started accounted for over 30 percent of all new home sales in August, a share that has been notably elevated for some time, and which goes to a point we have frequently made, i.e., builders are pressed to keep pace with demand even with what on the surface looks to be an uninspired pace of new home sales. This is likely to remain the case for some time to come.

**Existing Home Sales:** Existing home sales held at an annualized sales rate of 5.340 million units in August. Ahead of the report we had noted the two most important numbers to watch for would be inventories and not seasonally sales. Not seasonally adjusted, there were 539,000 units sold in August, just below our forecast of 541,000 units and up 3.1 percent from the 523,000 sales in July. As of August, the running 12-month sum of not seasonally adjusted sales, which we see as the most reliable gauge of underlying sales trends, at 5.465 million units, higher than in June and July. Listings of existing homes for sale were unchanged at 1.920 million units in August, but what is noteworthy here is that this left listings up 2.67 percent year-on-year, the first year-on-year increase in listings since May 2015. To be sure, despite having risen over the past few months, inventories of existing homes for sale remain notably lean, which continues to act as a drag on sales. Months supply remained at 4.3 months in August, and the median number of days an existing home was on the market was just 29 days in August.

We have commented on a number of occasions over recent weeks on the ominous tone of much of the reporting on residential construction and sales, to the point that some headlines have proclaimed that housing is starting to “drag the economy down.” One piece of “evidence” of this is that total home sales have fallen below the 6.0 million unit pace over the past few months which, so we’re told, is a “key psychological benchmark.” We’re going to have to go with “arbitrary benchmark of no actual significance” on this one. While sales reported on a seasonally adjusted and annualized basis have fallen below the 6.0 million mark, what is relevant to us is that the running 12-month total of home sales reported on a not seasonally adjusted basis stood at 6.108 million units as of August and has been notably stable over the past 20 months, averaging 6.102 million units, notable given increases in prices and mortgage rates over this time. We have seen nothing to cause us to change our long-held view that the main issues in the housing market remain on the supply side, not the demand side, of the market.



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**Lean Inventories Continue To Weigh On Sales**

