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## February Existing Home Sales: Springing Into The Spring Sales Season

- Existing home sales rose to an annualized rate of 5.510 million units in February from January's sales rate of 4.930 million units
- Months supply of inventory stands at 3.5 months; the median existing home sale price rose by 3.6 percent on a year-over-year basis

Existing home sales jumped to an annualized rate of 5.510 million units in February, besting our above-consensus forecast of 5.460 million units. February's sales rate is the best since March 2018 and marks an 11.8 percent increase from January's sales rate. Where you see the real strength in February existing home sales, however, is in the raw data which, as our long-time readers are by now well aware, is the data we pay the most attention to. On a not seasonally adjusted basis, there were 312,000 existing home sales in February, shy of our forecast of 322,000 sales but nonetheless up 9.5 percent from January. This is the second largest February increase in the life of the data and is almost double the average February increase of 4.9 percent. Keep in mind that existing home sales are booked at closing, so the jump in closings in February reflects sales contracts signed from mid-December through January, a period in which mortgage interest rates were retreating from the highs reached in November 2018. Inventories of existing homes for sale rose in February though, at 1.630 million units, listings fell short of our forecast of 1.660 million units. Still, February's jump in sales is a nice, well, springboard into the spring sales season, and while supply constraints will remain a drag on sales, that drag figures to be less severe this year than has been the case in recent years.

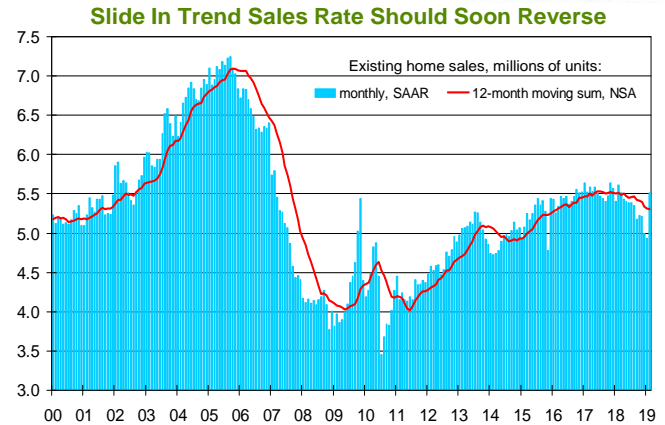
The increase in not seasonally adjusted sales was tipped by a spike in pending home sales – the NAR's gauge of signed sales contracts – in January. The 312,000 sales in February leave the running 12-month total of not seasonally adjusted existing home sales, which we see as the most reliable gauge of underlying sales trends, at 5.308 million units. As seen in our top chart, however, the solid increase in sales in February was enough to slow, but not stop, the slide in the trend rate of sales, which is a testament to how weak sales were over the final months of 2018 when affordability constraints took a big bite out of demand. That weakness carried in to January, but, again, that reflects the basis on which existing home sales are reported, as January closings reflected sales contracts signed over the final several weeks of 2018. That said, with lower mortgage interest rates and rising inventories, we think the trend rate of sales will turn higher during the upcoming spring sales season. Unadjusted sales fell in the Northeast region in February and rose in the other three broad regions, with a 17.1 percent increase in the South.

Listings of existing homes for sale rose by 2.5 percent in February which, as noted above, fell short of our forecast. The NAR inventory data are not seasonally adjusted, and while February's increase was smaller than normal for the month – on average, listings have risen by 4.6 percent in the month of February over the life of the data – this comes off of a larger than normal increase in January. More importantly, February's increase leaves listings up on an over-the-year basis for a seventh consecutive month after a run of 37 consecutive months with listings down year-on-year. We have for some time stressed how extraordinarily low inventories of existing homes for sale have been, and, no, this is not a function of sellers bypassing the traditional MLS route. We do, however, expect 2019 to end a run of four consecutive years in which the seasonal top in inventories was lower than that of the prior year. So, while the market will by no means be flush with existing homes for sale, prospective buyers will have more options this year than has been the case in the recent past, and there will be less upward pressure on prices than has been the case. Still, given some of the choppiness in the economic data and some unease over the growth outlook, it could be that just as affordability constraints are easing, eroding confidence poses a threat to sales. That said, we do look for further increases in sales over coming months and first-time buyers, who accounted for 32 percent of all sales in February, could be the prime beneficiaries of lower mortgage rates and less robust price appreciation.

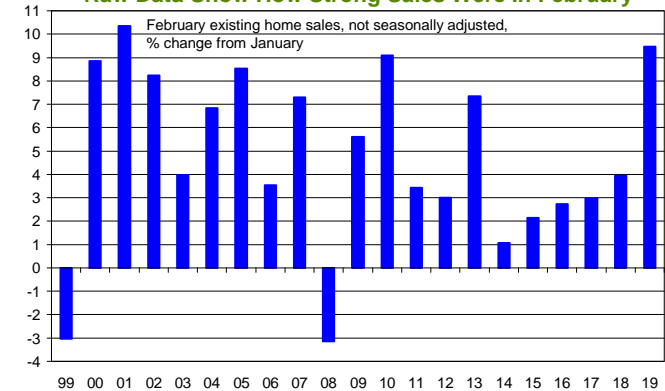
While we have no doubt that some of February's jump in existing homes sales reflects pent-up demand built up when affordability took a considerable hit in Q4 2018, we see further upside room for home sales. To be sure, supply issues will remain a drag on sales, but that drag will be less severe this year than has been the case in the recent past.



### Slide In Trend Sales Rate Should Soon Reverse




### Raw Data Show How Strong Sales Were In February




### Will 2019 See Relief On The Inventory Front?

