

U.S. Flash

Existing Home Sales Fall Below Expectations

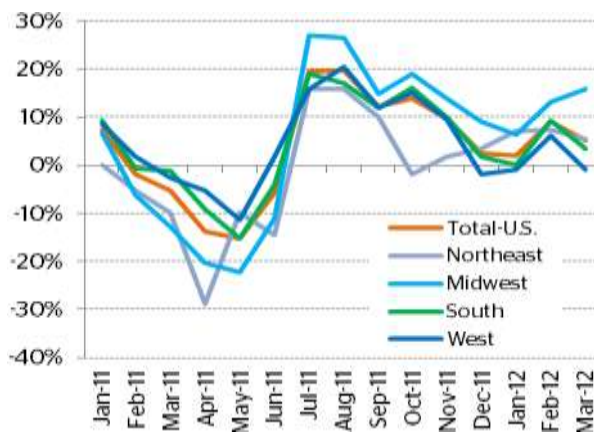
The National Association of Realtors reported today that March existing home sales registered 4.48 million units at a seasonally adjusted annual rate, below our forecast of 4.59 million units. The report follows on the heels of Tuesday's disappointing housing starts number (653K actual versus 700K forecast), and suggests slowing activity in the housing sector. As we wrote in our [2012 Housing Outlook](#) in March, however, we believe that the floor in both housing sales and starts was reached last year, and thus the recent data do not yet present cause for concern. Indeed, March's existing home sales and housing starts were up 5.2% and 10.3%, respectively over the prior year, and the paces of first quarter sales and starts are up 5.2% and 18.8%, respectively over 1Q11.

Although the year-over-year rate of existing home sales has displayed a moderating trend since mid-2011, we expect it to accelerate and average an annual 6.9% increase over 2011. This increase equates to an annual rate of 4.6 million units versus the 4.3 million units sold in 2011. Low interest rates and favorable prices relative to household incomes have kept home affordability at an all time high. The regional existing home sales data are holding up well in nearly all regions except the West region, which was responsible for 75% of the decline in total existing home sales over February. March's sales put the year-over-year change in the West region into negative territory again after a surge in February. Falling home sales in this region are certainly related to California's nearly 11% unemployment rate and its slow pace of employment growth which has been near 0% for two consecutive months. Strong sales in the Midwest and in the South are linked to continued job creation in the energy sector – particularly in North Dakota and Texas.

On a positive note for potential sellers, the year-over-year change in the national median home price turned positive in March, and this rate strengthened significantly in the South and Midwest. The decline eased in the Northeast. This result is consistent with our outlook that headline home prices will be slightly negative on a year-over-year basis for 2012 due to the high percentage of distressed sales; however, slight price appreciation or at least price stabilization is occurring in the non-distressed housing market.

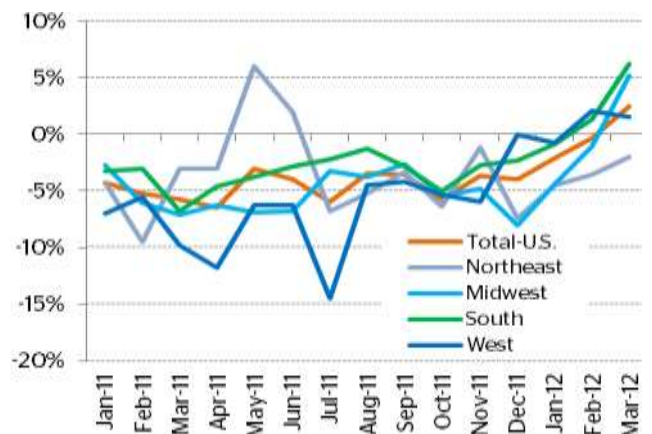
Bottom Line: Although existing home sales and housing starts have disappointed markets to the downside this week, the results are not far outside expectations and they do not suggest a substantial falloff in sales as we saw in mid-2011. Furthermore, as sign of a further stabilization of sales, February's pending home sales, which translate into sales through April, were up nearly 14% nationwide and down approximately 2% in the West region. The market will now look to new home sales for further signs of strength or weakness in the housing market next week. We expect new home sales to be slightly lower than February's rate, but up around 2% on the year.

Chart 1
Existing Home Sales (SAAR), YoY % Change



Source: National Association of Realtors / Haver Analytics, BBVA Research
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Chart 2
Median Home Sales Price (NSA), YoY % Change



Source: National Association of Realtors / Haver Analytics, BBVA Research

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