

ECONOMIC UPDATE



REGIONS

May 23, 2017

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April New Home Sales: "Reality" Falls Between March And April Headlines

- New home sales rose to an annual rate of 569,000 units in April from March's revised sales rate of 642,000 units.
- Months supply of inventory stands at 5.7 months; the median new home sale price fell by 3.8 percent on a year-over-year basis.

There is a timeless classic movie in which the lead character, a dashing young economist, observed that the new home sales report is like a box of chocolates, in that you never know what you're going to get. Okay, maybe he wasn't a dashing young economist and maybe he wasn't talking about the new home sales report, but, whatever. The never knowing what you're going to get part is true of many things in life, including the new home sales report. In April, new home sales fell to an annualized rate of 569,000 units, well below the consensus forecast of 612,000 units and well off of the upwardly revised March sales rate of 642,000 units. Our reaction to the original March estimate (621,000 units) was that it was an unsustainably higher number – as with most of the Q1 data on residential construction and sales, an atypically mild winter and, in the case of home sales, concerns over further increases in mortgage interest rates led to some activity being pulled forward earlier in the year than would otherwise have been the case. As such, we had expected some payback in the April data. Just not quite as much as implied by the headline sales number.

As is typically the case, the seasonally adjusted annualized headline numbers reflect more drama than there really is in the new home sales data. This can be seen in the red line in our top chart, which shows the running 12-month sum of not seasonally adjusted sales, our preferred gauge of the trend sales rate. On an unadjusted basis, there were 54,000 new home sales in April, shy of our forecast of 59,000 units. At the same time, however, unadjusted sales for March were revised from the initial estimate of 58,000 units to 61,000 units, the best month for new home sales since July 2007. This goes to our earlier point of activity being pulled forward at the expense of April sales, and this shuffling of the sales deck is most apparent in the South and West regions, where (not seasonally adjusted) sales jumped in March then settled back in April. Over the past 12 months, there have been 582,000 new homes sold, down 1,000 from March's total but still numbers that were last seen in 2008.

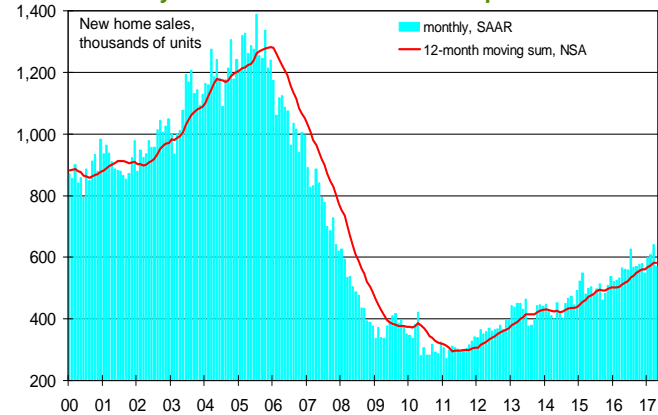
To be sure, the twists and turns in the headline sales numbers notwithstanding, the new homes market looks little different than it has for quite some time, i.e., healthy demand but lingering supply side concerns. As seen in our middle chart, the number of "physical" homes for sale, i.e., sales of units either under construction or already completed, remains well below historical norms and has basically not budged over the past seven months (note our calculation is based on the not seasonally adjusted data). While well off the cyclical trough, we think further increases in physical inventories will come at only a halting pace, meaning limited inventories will continue to weigh on new home sales. This constraint, however, is not as binding in the case of new homes as it is in the case of existing homes, given that new home sales can occur prior construction having been started. Sales of such units accounted for over 35 percent of all new home sales in April, and this share has been notably elevated for some time now. These early sales, however, will help ensure single family housing starts remain firm over coming months as builders work to clear what are growing backlogs.

Another long running trend is that new home sales have been skewed towards the higher ranges of the price distribution, though to a lesser degree in April, when "only" 49.1 percent of all sales were accounted for by units priced at or above \$300,000. This number (also based on not seasonally adjusted sales) can be jumpy from month to month, but over the past six months over 54 percent of all new home sales have been accounted for by these higher priced units. Additionally, the new home "premium," i.e., the differential between the median sales prices of new and existing homes, remains significantly above longer-term norms. Though it hasn't happened yet, should mortgage rates rise by any meaningful degree over coming months, affordability will take a significant hit and this will be more impactful in the market for new homes than existing homes.

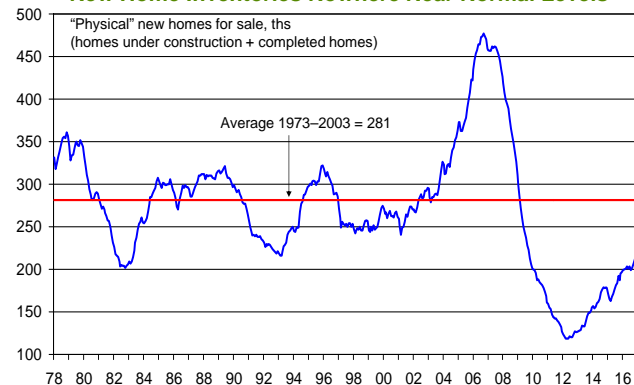
We have for some time been constructive on the demand side of the housing market but less so on the supply side of the market. As such, at this point our best bet remains a slow but steady increase in new home sales in 2017, despite the sharp swings in the headline numbers.



"Reality" Falls Between March And April Headlines



New Home Inventories Nowhere Near Normal Levels



Underlying Sales Rate Rising At A Halting Pace

