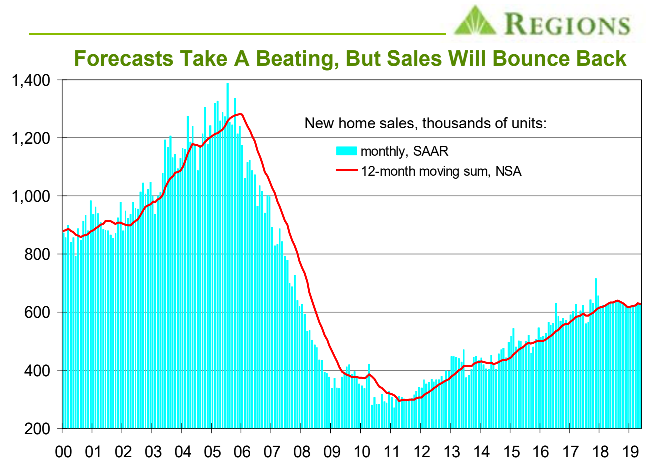
ECONOMIC UPDATE
REGIONS
June 25, 2019

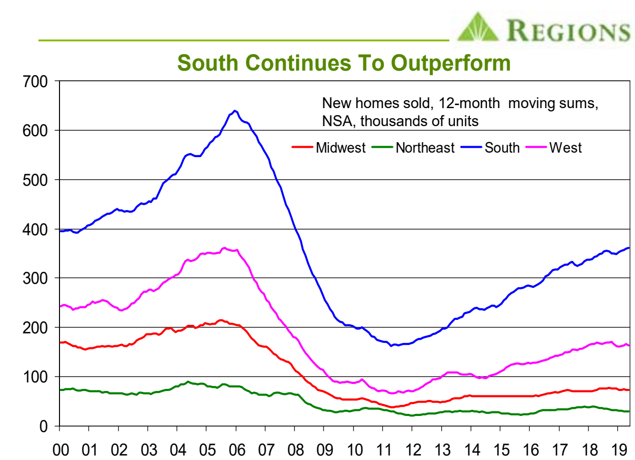
May New Home Sales: Forecasts Take A Beating, But Sales Will Bounce Back

- New home sales fell to an annual rate of 626,000 units in May from April's (revised) sales rate of 679,000 units
- Months supply of inventory stands at 6.4 months; the median new home sale price fell by 2.7 percent year-on-year

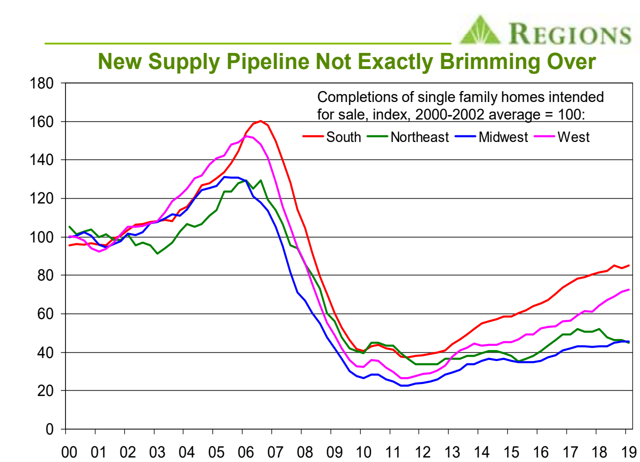
New home sales fell to an annualized rate of 626,000 units in May, below our forecast of 704,000 units, below the consensus forecast of 684,000 units, and even below the forecast of 640,000 units that was the lowest forecast in the survey. Sure, the forecasts took a beating, but that's just how it goes sometimes. More tellingly, not seasonally adjusted sales came in at 60,000 units, well below our forecast of 69,000 units, which shows that the miss on the headline (i.e., seasonally adjusted and annualized) sales number reflects more than just a faulty seasonal adjustment factor distorting the signal being sent by the raw data. New home sales are booked at the signing of the sales contract, making them more of a "real time" marker of how changes in mortgage interest rates are impacting home sales than is the case with existing home sales, which are booked at closing. As such, the weak May print on new home sales is surprising given that mortgage interest rates edged lower during the month. It could be that what was a high degree of turbulence in the financial markets during May dampened consumer confidence and caused some would-be buyers to hit the pause button. Or, it could be the May data simply reflect the usual high degree of volatility in the new home sales data, but this is by no means ground to dismiss the May data out of hand. So, while we remain constructive on the housing market, the report on May new home sales serves as a challenge to our view.



At 60,000 units, not seasonally adjusted sales in May are down 3.2 percent year-on-year, the first such decline since December. As of May, the running 12-month total of not seasonally adjusted sales stood at 628,000 units, down from April's total of 630,000 units, the first decline in this metric, which we see as the most reliable gauge of the underlying sales trend, since December. In other words, just as it seemed new home sales had left the marked weakening seen in late-2018 behind, May happened. We've been consistent in our view that, while growth would by no means be robust, there was further upside room for new home sales, and we looked for the running 12-month total of not seasonally adjusted sales to top what up until now is the cycle high of 640,000 units (seen in August 2018).



Our premise has been that with mortgage interest rates remaining low, if not falling further, builder and buyer confidence would be the keys to continued moderate growth in new home sales. Despite the considerable turmoil in the financial markets during May, the Conference Board reported that consumer confidence increased, but it helps to keep in mind that the cut-off point for the Conference Board's survey is mid-month. This makes today's release of the report on June consumer confidence even more interesting – the Conference Board reports consumer confidence fell to its lowest level since September 2017, but their June survey effectively covers the period from mid-May to mid-June, which captures not only the turbulence in the financial markets but also the release of the surprisingly weak May employment report. Our point is that mortgage interest rates are not the only driver of demand for new home sales, with consumer confidence and labor market conditions also playing key roles, which can easily help account for the pullback in new home sales in May, lower mortgage interest rates notwithstanding.



Still, it is worth noting that on a year-to-date basis through May, new home sales are up 3.78 percent nationally, with sales in the South up 7.45 percent and sales in the West up 1.28 percent. These two regions account for over 80 percent of total new home sales, and gains in the South and West regions are offsetting year-to-date declines of 5.41 percent in the Midwest and 13.33 percent in the Northeast. The mix of sales did tilt back toward the lower price points in May, with homes priced below $300,000 accounting for 48 percent of total sales, up from for 39 percent in April. It also helps to remember that there is an ongoing issue on the supply side of the market, as illustrated in our bottom chart. Shortages of lots and labor are cited as the primary culprits, but restrictions on development and burdensome entitlement fees are also key factors behind what remains a chronic lack of inventory. This is the key reason why, despite seeing the demand side of the market as healthy – which has not changed – we've never expected more than modest growth in new home sales.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com