ECONOMIC UPDATE

REGIONS

December 23, 2019

November New Home Sales: Positive Momentum Heading Into 2020

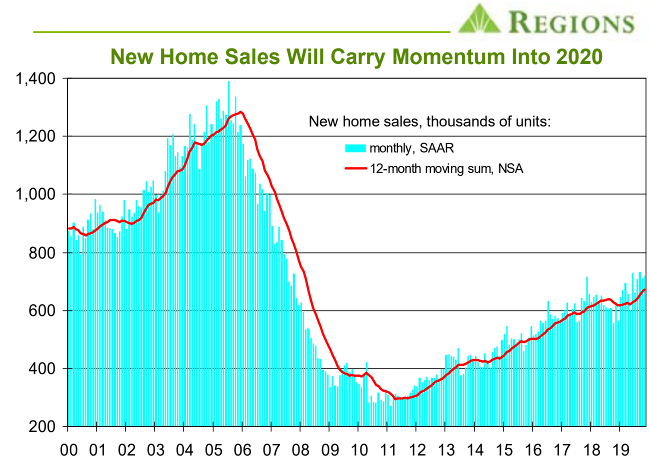
- New home sales rose to an annual rate of 719,000 units in November from October's (revised) sales rate of 710,000 units
- Months supply of inventory stands at 5.4 months; the median new home sale price rose by 7.2 percent year-on-year

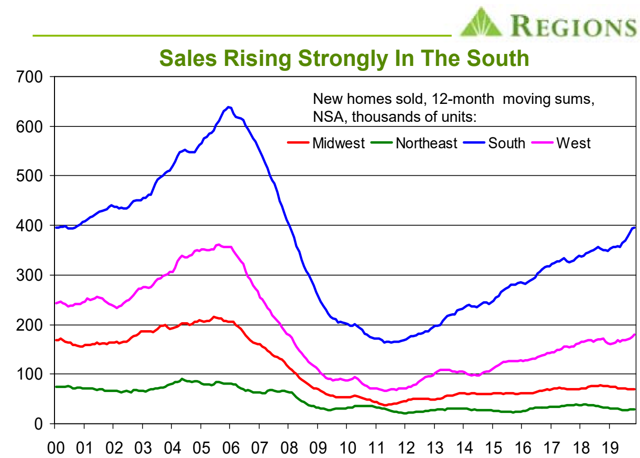
New home sales rose to an annualized rate of 719,000 units in November, below the 735,000 units the consensus expected and further below our forecast of 743,000 units. Prior estimates of sales over the August-October period were revised down, breaking the pattern seen over the past few months. Even so, new home sales have averaged 720,000 units on a seasonally adjusted annualized basis over the past three months, the best three-month period since 2007, and new home sales will carry some nice positive momentum into 2020. This is a far cry from how the new homes market looked, let alone felt, a year ago at this time, as the affordability shock knocked new home sales badly off course. That sales have rebounded as strongly as they have over the course of 2019 reflects still-solid demand side conditions coupled with materially lower mortgage interest rates. As we've frequently noted, we think new home sales would have been even stronger this year were it not for supply constraints that continue to dampen new single family construction. On that same note, we see further upside room for new home sales in 2020, but supply side constraints will still serve as a cap on the extent to which new single family construction and sales will increase in 2020.

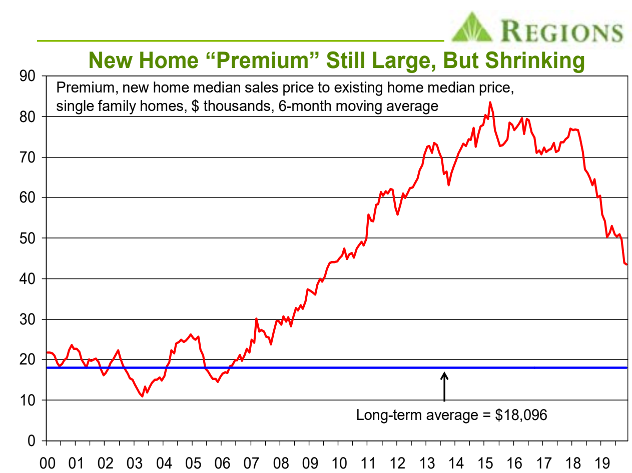
On a not seasonally adjusted basis, there were 52,000 new homes sold in November, falling just short of our forecast of 54,000 sales which, as we noted in our weekly *Economic Preview*, seemed a bit ambitious to us. November new home sales were up 18.2 percent on an over-the-year basis; keep in mind that the over-the-year comparisons for December and January sales will be extremely easy given that extent to which sales dropped off as a result of the affordability shock of late-2018 that carried into early-2019. As we routinely note, we think the running 12-month total of not seasonally adjusted sales is the best gauge of the trend rate of sales and, as of November, the running 12-month sum stood at 673,000 units, the highest such total since March 2008, when the trend sales rate was beating a hasty retreat from the unsustainable highs set prior to the 2007-09 recession. Unadjusted sales are up 9.67 percent on a year-to-date basis through November, though the performance across the four broad Census regions is decidedly mixed. Year-to-date sales are up 14.46 percent in the South region and 11.76 percent in the West region, but sales are down 8.33 percent in the Midwest region and 10.00 percent in the Northeast region – the South and West regions combine for roughly 85 percent of all new home sales.

Though not nearly to the same degree as is the case in the market for existing homes, lean inventories continue to weigh on new home sales. What we refer to as "physical" new homes for sales, i.e., units that have either been completed or are in some phase of construction, fell to 269,000 units in November, down from what thus far is the cycle high of 289,000 units in February, and down 3.9 percent year-on-year – the largest over-the-year contraction in this series in seven years. Note that new home sales are booked at the signing of the sales contract and, as such, can be booked prior to construction having been started. Homes in this bucket have accounted for an elevated share of total new home sales over recent years, which is an indication of how pressed builders are to meet demand, as can also be seen in the contraction in physical new homes for sale (note that some refer to this as "spec" inventory). This is a point we've been stressing for some time now – builders are contending with shortages of buildable lots, more stringent and/or more costly entitlement processes in many markets, and labor shortages. We've noted that lean inventories mean that existing home sales have gotten less mileage from lower mortgage interest rates than otherwise would have been the case, and the same is true, for different reasons, in the market for new homes.

Lean inventories are sustaining pricing power on the part of builders/sellers. That the new home "premium," or, the gap between the median sales price of new and existing home sales, has narrowed sharply reflects the extent to which the median sales price on existing homes has continued to rise strongly while growth in the median sales price on new homes has softened. At least until November, which saw the largest over-the-year increase in the median new home sales price since July 2017. To the extent builders are unable to step up the pace of construction, that will sustain pricing power but will also, as with existing home sales, make new home sales vulnerable to even moderately higher mortgage interest rates.







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