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## September New Home Sales: South Region Pushes Sales Higher

- > New home sales rose to an annual rate of 667,000 units in September from August's revised sales rate of 561,000 units.
- > Months supply of inventory stands at 5.0 months; the median new home sale price rose by 1.6 percent on a year-over-year basis.

New home sales rose to an annual rate of 667,000 units in September, the highest monthly sales rate since October 2007 and easily smashing our forecast of 548,000 units, which was in line with the consensus forecast. Of course, as we noted in our weekly *Economic Preview*, we had virtually no confidence in our forecast given the high degree of uncertainty around the pace of housing market activity in the South region in the wake of Hurricanes Harvey and Irma. At least we got that part right – sales in the South region were much stronger than our forecast anticipated, and sales of units on which construction had not yet started accounted for an even greater share of sales than had been the case in prior months. We also noted in our *Preview* that once the distortions in the data tied to the hurricanes had come and gone, the market for new homes would look pretty much the same as it had prior to the storms, and there is nothing in the September data that changes our view.

As we routinely note, we have little use for the seasonally adjusted annualized data and instead focus on trends in the not seasonally adjusted data. In September, the unadjusted data show 52,000 new home sales, easily topping our forecast of 42,000. Again, though, we had anticipated a very slow month in the South region and our forecast fell short of the 31,000 sales in that region, meaning that even though our forecasts for unadjusted sales in the Midwest, Northeast, and West regions were pretty much on the mark, we missed badly on our forecast for total sales. Again, though, the jump in sales in the South likely reflects some payback for sales that were delayed in August by Harvey and some replacement activity in both Florida and Texas. While any such activity will work its way out of the data, what is more telling is how flat sales in the other three main Census regions have been, as seen in our middle chart. While this is nothing new in the Midwest and Northeast, it is new, and therefore news, in the West, which accounts for over one-quarter of all new home sales. We suspect shortages of lots and what are in many markets are becoming prohibitive entitlement costs which in turn are reflected in sales prices are taking a toll on sales in the West region. As the hurricanes have impacted the data for the South region, it is likely the data for the West region in the months ahead will be impacted by the devastating fires in California.

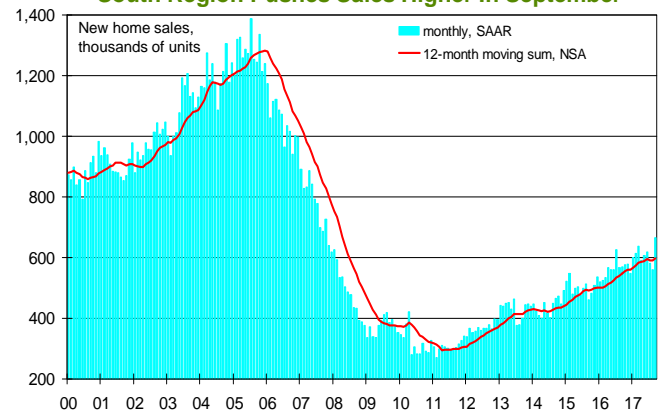
The listless growth in sales was one of the underlying trends we noted in our weekly *Preview*, the other two being the elevated share of sales accounted for by sales of units on which construction had not yet started and the elevated share of sales accounted for by higher priced homes. Both are notably present in the September data. Sales of units on which construction had not yet started accounted for over 34 percent of all new home sales in September, the highest share in over a year. While there is no geographic detail in the data for this metric, it is very possible that some of those who had homes destroyed by the hurricanes were quick to sign a sales contract with builders, many of whom are already contending with mounting unfilled orders (recall that new home sales are booked at the signing of the sales contract, which can occur at any phase of construction). We have noted that this rising backlog of unfilled orders will help ensure a fairly high rate of single family housing starts over coming months.

As for the price distribution of new home sales, in September 56.86 percent of all sales were of homes priced at or above \$300,000, and this share has been over 50 percent for the past two years, as seen in our bottom chart. To some extent this reflects builders passing on higher costs, whether for lots, labor, materials, or development fees, along to buyers, and low mortgage rates have helped keep payments manageable in the face of higher sales prices. One implication is that prospective first-time buyers are to a large extent priced out of the market; another implication is the housing market is increasingly vulnerable to any material, sustained increase in mortgage interest rates.

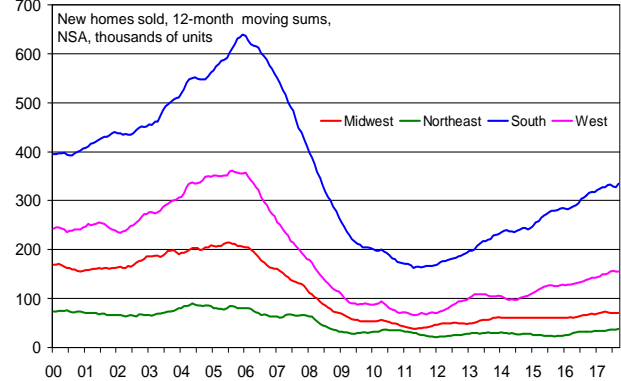
Still, amidst solid job and income growth, our concerns with the housing market remain on the supply side, not the demand side of the market. We don't see this changing any time soon, even if the data are more noisy than usual over the next few months.



### South Region Pushes Sales Higher In September




### As Go The South And West, So Go New Home Sales




### Higher Price Ranges Still Driving Sales

