ECONOMIC UPDATE
REGIONS
July 25, 2018

June New Home Sales: Soft June Leaves Sales Trend Inching Higher

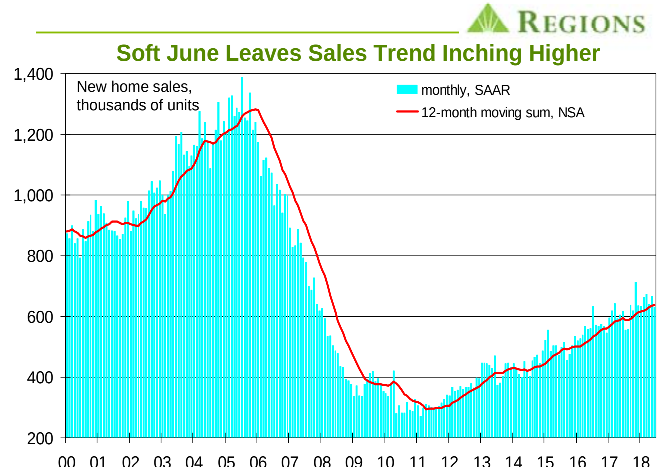
- New home sales fell to an annual rate of 631,000 units in June from May's revised sales rate of 666,000 units
- Months supply of inventory stands at 5.3 months; the median new home sale price fell by 4.2 percent year-on-year

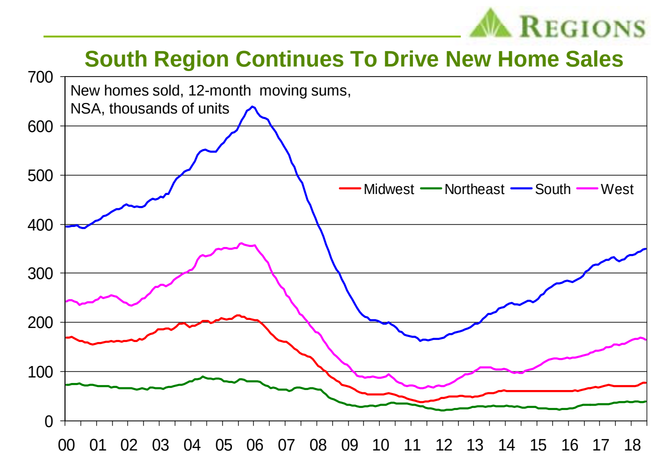
New home sales fell to an annualized rate of 631,000 units in June, far below what we (692,000) and the consensus (670,000) expected, and prior estimates for sales over the March-May period were revised lower. The median new home sales price fell 4.2 percent year-on-year, and the months supply metric stands at 5.3 months. The new home sales data are inherently volatile from one month to the next and the initial estimate for any given month is prone to sizeable revision. That said, the initial read on June sales is disappointingly soft and, along with the downward revisions to prior months, means residential investment will provide less support for Q2 real GDP growth than our forecast had anticipated. What we don't yet know is the extent to which persistently lean inventories are behind the run of soft new home sales over recent months or whether this is more a function of higher mortgage rates and higher new home sales prices teaming up to take the legs out from under demand. Our sense is that it is more the former than the latter, but the answer will become more apparent over coming months.

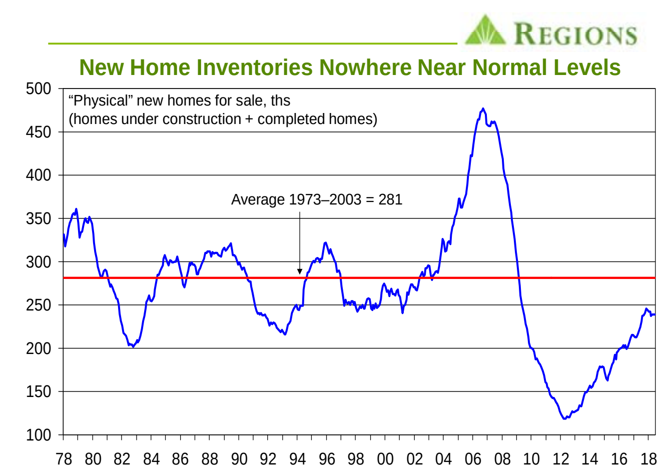
As we routinely note, the not seasonally adjusted data are the most reliable lens through which to see the underlying trends in the data on residential construction and sales. Still, the raw data for June are just as disappointing as the headline sales number. Not seasonally adjusted new home sales came in at 57,000 units in June, below our forecast of 63,000 units, with sales rising in the Northeast region but falling in the other three regions. As of June, the running 12-month total of not seasonally adjusted sales stands at 637,000 units, less than where our forecast anticipated it would be but still the highest such total since May 2008. Still, new home sales continue to trend higher, even if at a modest pace, which is in stark contrast to existing home sales. As we noted in our analysis if the June data, the trend rate of existing home sales has been falling and as of June stood at its lowest point since November 2016, which in our view is a reflection of persistently lean inventories. While we see little meaningful relief on the inventory front in the market for existing homes, we do expect further increases in new single family home starts and sales, though these increases will likely come at an uneven pace, reflecting supply side, not demand side, constraints.

What we refer to as the inventory of "physical" new homes for sale, or, the number of homes for sale that are either complete or under construction, held at 239,000 units in June, the third consecutive month at this level, down from what so far has been the cycle high of 246,000 units last November and still substantially below historical norms, as seen in our bottom chart. This, at least to us, is the most clear sign that the new homes market remains undersupplied. Another trend in the data we have been pointing to for some time is the share of new home sales accounted for by units on which construction had not yet started; in June such units accounted for just under one-third of all new home sales. On the whole, the inventory data and the data on sales by stage of construction are consistent with our premise that builders are increasingly pressed to keep pace with demand. There isn't anything inherently wrong with this, but it nonetheless tells us that even with sales at a relatively low level on a historical basis, builders are having trouble keeping pace. This suggests limited room for further growth in sales even as single family starts remain strong over coming months as builders work to clear order backlogs.

Though one can't, or at least shouldn't, draw any conclusions from one month of data, we will at least note that the share of new home sales accounted for by homes priced below $300,000 rose to 50 percent in June, the highest share since February 2017. We have for some time been noting how the sales mix had increasingly skewed toward higher priced homes, but have wondered how long that trend could continue. There is evidence that builders are making efforts to target the prospective first-time buyers who, to an increasing extent, are being shut out of the existing homes market. This is why we find the price mix of June sales to be of interest, and this will clearly be something to watch over coming months. If we are correct that the demand side of the market remains in good condition, builders will be able to compensate for slimmer margins with increased sales volumes.







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