October New Home Sales: More Drama Than Information In Headline Sales Number

- New home sales fell to an annual rate of 544,000 units in October from September's (revised) sales rate of 597,000 units
- Months supply of inventory stands at 7.4 months; the median new home sale price fell by 3.1 percent year-on-year

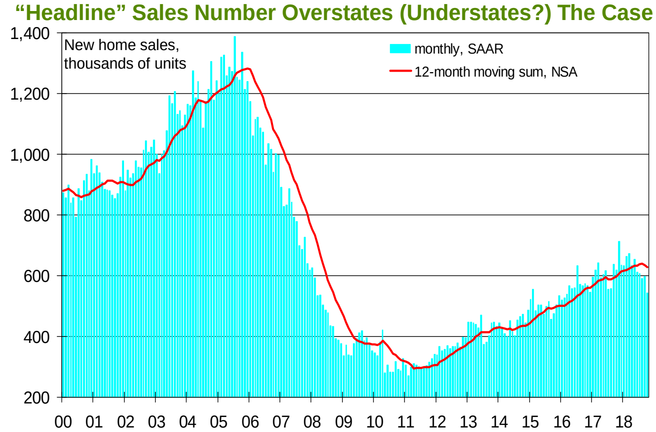
New home sales fell to an annualized rate of 544,000 units in October, falling short of not only the consensus forecast but also of the lowest forecast of any analyst surveyed. At the same time, however, prior estimates of new home sales in July, August, and September were revised higher, with a sizeable upward revision to September sales. As we often note, the data on new home sales are notoriously volatile from one month to the next and the initial estimate in any given month is prone to sizeable revision. This is why we stress the importance of looking to the underlying trends, though, if we're being totally honest here, when the headline sales number for October hit the ticker this morning, our first thought was "forget the underlying trends, it's time to jump on the 'housing is done' bandwagon and just ride that baby till the end of the line." Having had time to gather our wits, which admittedly does not take long, we opted against hopping on the 'housing is done' bandwagon which, after all, is getting more and more crowded by the day. The reality is that there is more drama than information in the October headline sales number, and we continue to hold that while the trend rate of sales has softened, those rushing to stick a fork in the housing market are at least a bit premature.

On a not seasonally adjusted basis, there were 42,000 new home sales in October, below our forecast of 48,000 sales. The 12-month moving sum of new home sales, which we see as the best gauge of the trend rate of sales, slipped to 628,000 units as of October, the second consecutive monthly decline from what to date is the cycle high of 640,000 units as of August. Unadjusted sales were down in each of the four broad regions in October – note that there are no strong seasonal patterns in the not seasonally adjusted data for the month of October. However, we remain a bit suspicious of the data for the South region over the past two months as it is unclear whether, or to what extent, Hurricanes Florence and Michael have held down new home sales in the region. Keep in mind that new home sales are booked at the signing of the sales contract, so to the extent the hurricanes disrupted economic activity in the South new home sales will have been impacted.

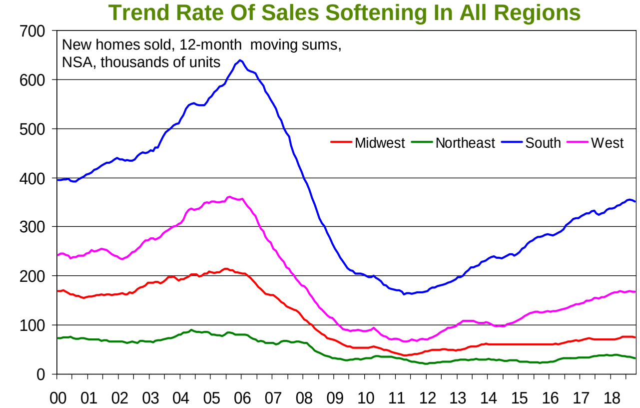
But, that new home sales are booked at the signing of the sales contract means that the effects of higher mortgage interest rates will be apparent in the data on new home sales sooner than is the case with existing home sales, and the natural reaction to the weak October headline number on the new home sales report it to attribute it to higher mortgage rates. By no means are we trying to diminish the adverse effects of higher mortgage rates, we just don't see new home sales as likely to have tumbled as dramatically as implied by that October headline sales number. And, in the "for what it's worth" department, on a year-to-date basis through October, the not seasonally adjusted data show new home sales up 2.9 percent for the U.S. as a whole, with sales higher in three of the four broad Census regions, the exception being the Northeast, which accounts for less than six percent of total sales.

Others have jumped on the year-on-year decline in the median new home sales price as further "proof" of a housing market in decline. Obviously the median sales price is sensitive to the mix of sales in any given month, and those ignoring this elementary fact are ignoring what, at least to us, has been one of the more interesting "beneath the headlines" trends in the market for new home sales. Homes priced below $300,000 accounted for 47.62 percent of all new home sales in October, the highest such share since February 2017, and a key reason the median price is down year-on-year. As our bottom chart shows (using six-month averages to smooth out the volatility in the data), recent months have seen a reversal of what had been a steadily increasing concentration of sales in the higher price ranges. Many builders have openly stated their intention to target lower price points, particularly first-time buyers who have become increasingly shut out of the market for existing homes, and our view has been – and remains – that there is still plenty of demand at these lower price points, higher mortgage rates notwithstanding. It's one thing for us to think so, it's quite another thing for builders to act on this belief. This is one, but not the only, reason we're not on that 'housing is done' bandwagon, and don't anticipate hopping on any time soon.

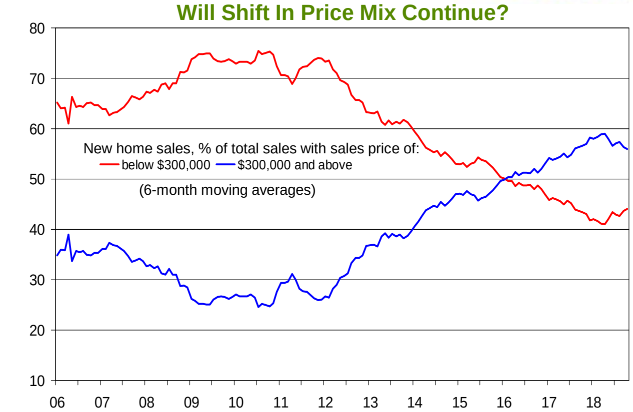
"Headline" Sales Number Overstates (Understates?) The Case



Trend Rate Of Sales Softening In All Regions



Will Shift In Price Mix Continue?



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