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## December New Home Sales: Soft Q4 Means Middling Year For New Home Sales

- > New home sales rose to an annual rate of 621,000 units in December from November's (revised) sales rate of 599,000 units
- > Months supply of inventory stands at 6.6 months; the median new home sale price fell by 7.2 percent year-on-year

New home sales rose to an annualized rate of 621,000 units in December, topping the consensus forecast of 585,000 units and our forecast of 572,000 units. At least for now – in terms of reliability, the initial estimate of new home sales in any given month is only marginally better than the initial estimate of retail sales, a bar almost impossible to not clear. To that point, estimates of sales in September, October, and November were revised lower, sharply so in the case of November with the initial estimate of an annualized sales rate of 657,000 units now reported at 599,000 units. That the initial estimate topped expectations puts new home sales at odds with pretty much every other housing market indicator for the month of December, with single family permits and starts and existing home sales all falling well short of consensus expectations. Months supply of new homes for sale stands at 6.6 months as of December, which we think understates the extent to which the market for new homes remains undersupplied, even if not as profoundly as the market for existing homes. The median new home sales price fell 7.2 percent year-on-year in December, which reflects an ongoing, though frustratingly slow, shift in the sales mix. Regardless of the extent to which the initial estimate of December new home sales is revised in the months ahead, we'll repeat a point we've made before, which is that we think there is more life left in the housing market than implied by the soft Q4 data.

On a not seasonally adjusted basis, there were 44,000 new home sales in December, down from 45,000 sales in December 2017 but just above our forecast of 42,000 sales – the 27,000 sales in the South region topped our forecast of 25,000 sales while sales in the Midwest, Northeast, and West regions matched our forecasts. Pending revision, the December data put total 2018 new home sales at 622,000 units, up 1.47 percent from 2017 sales. While this makes 2018 the best year for new home sales since 2007, this is a somewhat hollow accomplishment given how the pace of new home sales fizzled during Q4 2018 and how generally slow new home sales have been over the course of the current expansion. For 2018 as a whole, sales were up 8.57 percent in the Midwest, up 4.14 percent in the South, up 0.62 percent in the West, and down 13.16 percent in the Northeast.

Sales of homes priced at or below \$300,000 accounted for 44.44 percent of total new home sales in December, down from 51.16 percent in November but easily topping the 37.78 percent share in December 2017. As seen in our bottom chart, the mix of sales across price ranges has been shifting for some time, but this shift has nonetheless been more gradual than we've been expecting. This is something we have been pointing to for quite some time now, and our expectation has been that builders would become more focused on building smaller, less expensive homes than has been the case over the past few years. Our reasoning has been two-fold – first, at some point the higher-end demand would become tapped out, and second, the first-time buyers who have become increasingly shut out of the existing homes market would be a lucrative target for builders. Obviously per-home margins would be slimmer, but higher sales volumes would help compensate for this, and with lumber prices having come down over recent months the math becomes more favorable for builders. Indeed, in the latest round of earnings calls, many builders expressed their intent to target buyers in the lower price points, so we expect that the shift that is apparent in our bottom chart will be sustained through this year. Still, builders remain somewhat hamstrung by labor shortages, which helps explain what remains an elevated share of new home sales accounted for by units on which construction has not yet started. Though softer demand (as always, our analysis is based on the not seasonally adjusted data) in Q4 enabled builders to do some catching up, if we are correct about the underlying health of the demand side of the market builders may again find themselves falling behind as the spring sales season draws near.

Our expectations for new home sales in 2019 remain little changed. While by no means do we expect robust growth in new home sales, solid labor market conditions, more favorable mortgage interest rates, and persistently lean inventories of existing homes for sale do leave some upside room for new home sales in 2019.

