ECONOMIC UPDATE

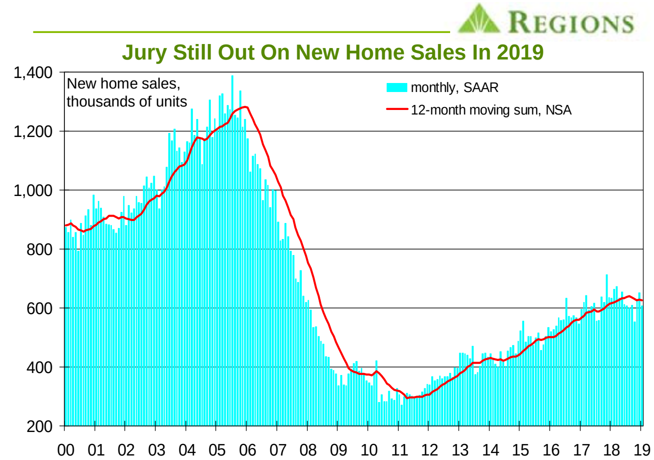
REGIONS

March 14, 2019

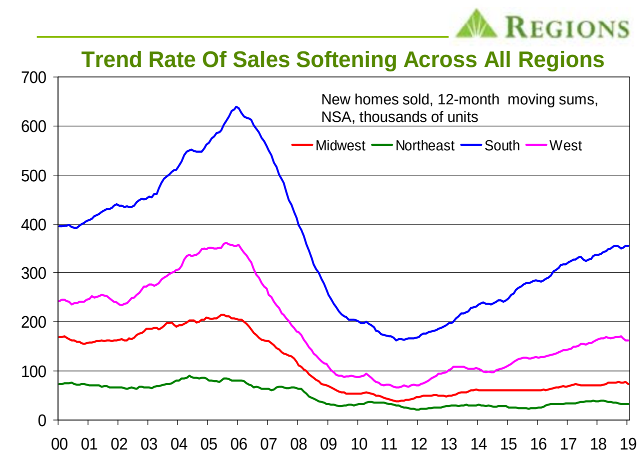
January New Home Sales: Shy Of Expectations, But December Looks Stronger

- New home sales fell to an annual rate of 607,000 units in January from December's (revised) sales rate of 652,000 units
- Months supply of inventory stands at 6.6 months; the median new home sale price fell by 3.8 percent year-on-year

New home sales fell to an annualized rate of 607,000 units in January, falling short of our forecast of 647,000 units. Prior estimates for sales during the final three months of 2018 were revised higher, significantly so for November and December. The months supply metric stands at 6.6 months as of January, and the median new home sales price fell by 3.8 percent year-on-year, reflecting a mix in home sales across price ranges. Though January sales came in weaker than we and the consensus expected, that December sales were revised significantly higher could reflect buyers having reacted more quickly to falling mortgage rates than had been reported. Keep in mind that new home sales are booked at the signing of the sales contract, so the effects of changes in mortgage interest rates are visible in the new home sales data faster than is the case with the existing home sales data. January sales were likely held back by harsh winter weather over the second half of the month, as evidenced by not seasonally adjusted sales Midwest and Northeast regions.

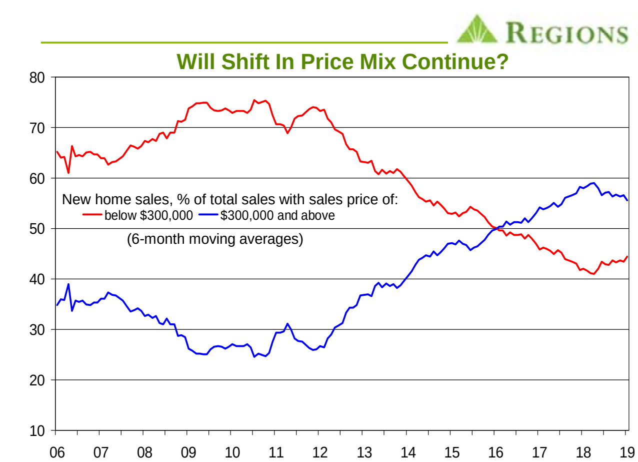


On a not seasonally adjusted basis, there were 45,000 new home sales in January, falling short of our forecast of 50,000 units and down 6.25 percent year-on-year. Unadjusted sales in both the Midwest and Northeast regions were lower than our forecast had anticipated and lower than is typical for the month of January, thus accounting for much of our miss on the headline, or, seasonally adjusted annualized, sales number. As of January, the running 12-month total of not seasonally adjusted new homes stood at 625,000 units, the lowest since last March. As seen in our middle chart, sales have softened in each of the four broad Census regions, but in each region the drop-off in sales has been fairly modest. The revisions to prior estimates of sales over the final three months of the year put total new home sales at 628,000 units for 2018 as a whole, up from the prior estimate of 622,000 sales.



Sales of units on which construction had not yet started accounted for 31.1 percent of total new home sales in January. As we have noted, this share has been elevated for quite some time now, indicating that builders have been pressed to keep pace with what has been fairly modest growth in demand for new homes, which could be a sign of the degree to which labor supply constraints have weighed on builders. What is interesting is that the share of total new home sales accounted for by units on which construction had not yet started jumped to 38.3 percent in December, the highest such share since January 2006. This could be a sign that, as we noted above, buyers reacted rather quickly as mortgage interest rates slipped from their November peak – mortgage rates fell by over 30 basis points between mid-November and mid-December, and fell even further through the end of December. With rates looking to be fairly range bound, at least over the next several months, it could be that prospective buyers will not feel the same sense of urgency to act as they may have felt in December, which would be consistent with the steady but slow growth we anticipate in new home sales.

In addition to more favorable mortgage interest rates, we've also pointed to builders supplying more product in the lower price ranges as a factor that will support growth in new home sales in 2019. The mix of sales by price range has been gradually shifting away from the higher end of the distribution, as we illustrate in our bottom chart (showing the six-month moving average as these shares can be jumpy from month-to-month). In January, homes priced at or below $300,000 accounted for 45.7 percent of all new home sales, up from 42.9 percent in January 2018. This shifting sales mix obviously helps account for string of year-on-year declines in the median new home sales price over the past several months. Though we routinely hear observers point to this as a sign that weak demand is forcing builders to slash prices, we think it reflects what has been a conscious decision on the part of builders to target prospective buyers across the lower price points, particularly given the extent to which prospective first-time buyers have been shut out of the market for existing homes.



The new home sales data are inherently volatile and prone to large revision, so we're not going to read too much into the preliminary estimate of January sales. We continue to see upside room for new home sales in 2019, particularly given still-solid demand side drivers.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com