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April New Home Sales: Trend Rate Of Sales Trudges Higher

- > New home sales fell to an annual rate of 662,000 units in April from March's revised sales rate of 672,000 units.
- > Months supply of inventory stands at 5.4 months; the median new home sale price rose by 0.4 percent on a year-over-year basis.

New home sales fell to an annualized rate of 662,000 units in April, well below both our forecast and the consensus forecast. At the same time, there were significant downward revisions to prior estimates of sales over the December 2017-March 2018 period, reversing what had been a run of sizeable upward revisions. All of which simply illustrates, yet again for anyone who needed a reminder, how volatile the headline numbers are on the new home sales report in any given month. The April report incorporates the Census Bureau's annual benchmark revisions to the new home sales data. Estimates of seasonally adjusted annualized sales going back to January 2013 were subject to revision, and while there were some sizeable revisions for given months the net revision for the entire 2013-2017 period was lower but not significantly so.

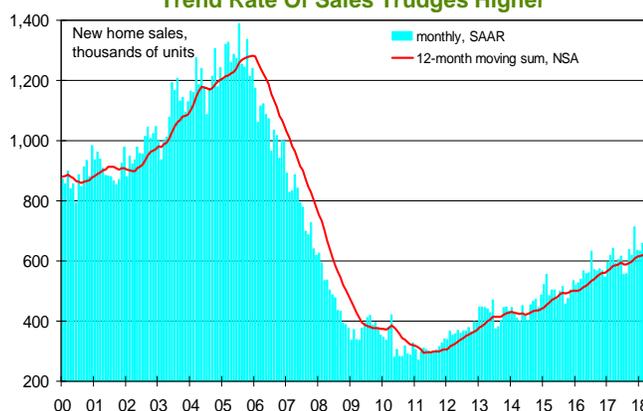
On a not seasonally adjusted basis, there were 64,000 new home sales in April, well below our forecast of 72,000 sales. The 33,000 sales in the South region were far weaker than the 41,000 sales our forecast anticipated. Our forecast was bolstered by the strength of single family housing starts in April, at least according to the initial estimate which showed 84,300 single family starts for the U.S. as a whole, the most in any month since August 2007. With 48,300 single family starts in the South region in April (the most in any month since June 2007) and a spike in single family permits in the region, we anticipated some carryover to April new home sales, which did not happen. Moreover, prior estimates of new home sales in the South over the past three months were revised sharply lower. Clearly there is a disconnect in the data, but whether that means the new home sales data get revised higher or the housing starts data get revised lower remains to be seen. Unadjusted sales were up in the Midwest and Northeast in April and down in the South and West regions. With the 64,000 sales in April, at least based on the number we have today, the running 12-month total of new home sales stands at 631,000 units, the highest such total since May 2008. As seen in our middle chart, the South and West regions remain the sources of whatever upward momentum there is in overall new home sales.

The April data show slightly over 34 percent of new home sales in the month were accounted for by units on which construction had not yet started, in line with what we've seen over the past several months. The elevated share of sales accounted for by pre-construction units is an indication of how tight market conditions are. While the inventory data in the April report show 300,000 new homes available for sale, we prefer to focus on a subset of the inventory which we refer to as "physical" new homes for sale, i.e., the number of homes for sale that are either complete or under construction. That number has actually fallen over the past six months. 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.

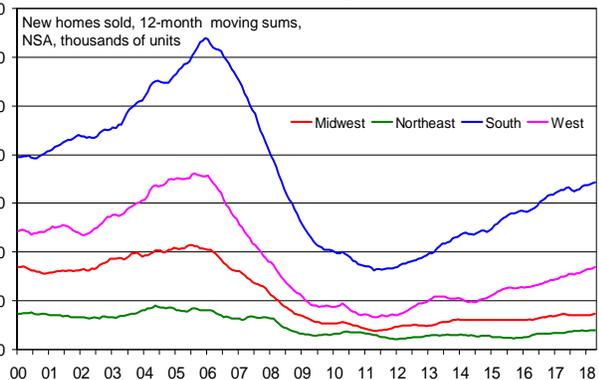
Another trend we've been tracking is the elevated share of new home sales accounted for by homes priced at or above \$300,000, which we show in our bottom chart (using six-month moving averages to counter the month-to-month volatility). Sales of higher priced units have accounted for the majority of new home sales over the past two years. Though some builders have made efforts to attract prospective first-time buyers who are increasingly being shut out of the existing homes market, it seems their capacity to do so is limited by lack of buildable lots, rising labor costs, rising materials costs, and entitlement processes that are more costly and cumbersome than has been the case in the past. And, oddly enough, higher mortgage rates may extend this trend towards sales of pricier homes, with one builder noting mortgage rates aren't a pressing concern in that segment of the market. What we could end up seeing are fewer sales, but an even higher concentration of sales in the upper price ranges. As has been the case for some time now, there is still nothing normal about the housing market.



Trend Rate Of Sales Trudges Higher




South And West Continue To Drive New Home Sales




Higher Price Ranges Still Driving Sales

