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April New Home Sales: Headline Number Exaggerates A Still-Solid Gain

- > New home sales rose to an annual rate of 619,000 units in April from March's revised sales rate of 531,000 units.
- > Months supply of inventory stands at 4.7 months; the median new home sale price rose by 9.7 percent on a year-over-year basis.

Wow. Okay, there, we've done it – we've broken our own cardinal rule against reacting to headline numbers on the economic data releases. Sales of new homes blew by expectations – our forecast of 533,000 was the highest in the survey – and jumped to an annual rate of 619,000 units in April, as sales rose in each of the four broad Census regions. This marks the fastest annual sales rate since January 2008. Our reaction, however, is not so much to the headline sales number reported on a seasonally adjusted annual rate as it is to the raw sales number which, as our regular readers by now know, is what we see as the more relevant number. On this basis, there were 61,000 new home sales in April – again well ahead of our forecast for 50,000 sales – which marks the best single month for new home sales since July 2007 when, as seen in our top chart, sales were hastily retreating from an artificially high peak. To be sure, the new home sales data are inherently volatile and prone to large revision, but, once again, wow.

On a not seasonally adjusted basis, sales rose in each of the four broad Census regions in April, with the South region posting 34,000 sales, the best month for sales in that region since July 2007. Total not seasonally adjusted sales were up 22 percent, month-to-month, in April, which far exceeds the typical gain seen during the month. Indeed, raw sales have been notably strong over the first four months of 2016 – up better than 10 percent from the same period of 2015. Thus, even though we think April's headline number somewhat overstates the case, we don't dismiss it out of hand as mere statistical noise. As we routinely note, we see the 12-month moving sum as the most reliable gauge of the underlying trend in sales, and in the 12 months ending in April 519,000 new homes had been sold, the best such total since November 2008.

While seemingly paradoxical, the strength in sales comes despite what remain lean inventories. The months supply metric stands at 4.7 months in April, which is itself indicative of an undersupplied market. Moreover, at 199,000 units, the inventory of what we refer to as "physical" new homes for sale, i.e., those either completed or under construction, remains far below historical norms, even if up from the cyclical trough. This seeming disparity is reconciled by recalling new home sales can be booked before construction on the unit has been started. We have regularly pointed out units on which construction has not yet started have for some time been accounting for an atypically high share of total new home sales. In April, that share rose to 34.4 percent. To be sure, builders are at present engaging in less speculative construction than has been the case at times in the past, but shortages of lots, labor, and materials are by far the more binding constraints on inventory, not to mention what in many markets is a more cumbersome (and costly) regulatory climate. These factors help explain why for some time our forecasts for new home construction (single family) and sales have been well below consensus, but closer to the mark, and these same factors account for our view that we are unlikely to see a breakout to the upside in the pace of single family activity any time soon.

Another trend we've been highlighting is the share of new home sales accounted for by homes priced at or above \$300,000. Our bottom chart shows the six-month moving average of this split (which we show to get around the volatility in the monthly data), and April marks the sixth consecutive month in which the six-month moving average has been over 50 percent. One implication of less speculative construction is that builders have been catering to more specific demand and, at least thus far, there has been sufficient demand on the higher end of the market to allow builders to make up for in higher margins what they are missing out on due to lower sales volume. We do, however continue to wonder how much longer this trend will hold up.

In last week's note on existing home sales, we stated our view the risks to the housing market now mainly stem from the supply side, as demand remains solid. The report on April new home sales does nothing to alter our view.

