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January New Home Sales: The West Sinks January New Home Sales

- > New home sales fell to an annual rate of 494,000 units in January from December's sales rate of 544,000 units.
- > Months supply of inventory stands at 5.8 months; the median new home sale price fell by 4.5 percent on a year-over-year basis.

New home sales fell to an annualized rate of 494,000 units in January, coming in below expectations. December's sales rate was unchanged from the initial estimate of 544,000 units while prior estimates for November were revised slightly higher. January's decline is more than accounted for by the West region, where sales tumbled to an annual rate of 110,000 units from December's sales rate of 162,000 units. Sales in the Midwest were down a more temperate 5.9 percent while sales in the Northeast and South regions rose in January. Inventories of new homes for sale posted another in a string of modest increases which, in conjunction with the decline in the monthly sales rate, leaves the months supply metric at 5.8 months, which is by no means indicative of what remain lean inventories.

In all honesty, the magnitude of the decline in sales in the West – a 32.1 percent decline – makes it difficult to draw many, if not any, useful inferences from the January data. We will, as we do each month with the data on residential construction and sales, point to what we think the more reliable indicator of underlying trends in the market, i.e., the 12-month moving sum of not seasonally adjusted sales. This is seen in the red line in the top chart, and in the 12 months ending in January 499,000 new homes were sold in the U.S., an 11.9 percent increase from January 2015. Over this same time period, sales in the Midwest were unchanged, sales in the Northeast were down 3.9 percent, but sales in the South were up 14.5 percent and sales in the West were up 14.4 percent. Indeed, as shown in the middle chart, since the recovery, such as it is, in new home sales began after the 2007-09 recession it has been overwhelmingly driven by the South and West regions. As a further illustration of why we place so much emphasis on trends in the raw data, in January not seasonally adjusted sales in the West region were 9,000 units, the same as in November 2015. In November, though, when reported on a seasonally adjusted annualized basis sales in the West were 142,000 units compared to 110,000 units in January – from the exact same base. This isn't meant to bash seasonal adjustment, obviously we understand the rationale for this process and even do it ourselves, but our point all along is that when you have data series with a good deal of underlying volatility looking at month-to-month changes in seasonally adjusted annualized rates doesn't always buy you a lot of clarity. That is particularly true of the data on residential construction and sales.

In any event, what has been apparent for some time is the slow but steady increase in both construction and sales of new homes. The bottom chart shows annual new home sales along with starts and completions of single family homes intended for sale – an important qualification as over time only about 72 percent of all single family homes started are actually put on the market for sale. As is clearly seen in the chart, activity in the single family segment remains significantly depressed relative to normal levels. And, by "normal" levels we are by no means referring to the artificially high totals seen in 2004-06 but instead we think of 2000-02 as the last normal years in the housing market. Again, even by this measure construction and sales, while having risen steadily in recent years, remain well below normal. Another point of interest is that in 2015 new single family home sales exceed completions of single family homes intended for sale, while starts topped both sales and completions. Keep in mind new home sales can be recorded at any stage, from prior to construction being started through construction being completed. What we saw in 2015 was sales of units on which construction had not yet been started accounted for an elevated share of total new home sales, indicating that even at relatively low levels of sales builders are having difficulty keeping up with demand. This dynamic is likely to prevail for most, if not all, of 2016; in January 32.4 percent of all new home sales were sales of units on which construction had not yet been started.

Sure, the decline in new home sales reported for January is unsettling. But, beneath all the noisy and volatile headline numbers, the underlying trend showed further improvement in new home sales in 2015 and we expect the same in 2016. While our 2016 new home sales forecast is again below consensus, that's worked out well for us in recent years.

