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May New Home Sales: Steady Grind Higher

- > New home sales rose to an annual rate of 610,000 units in May from April's revised sales rate of 593,000 units.
- > Months supply of inventory stands at 5.3 months; the median new home sale price rose by 16.8 percent on a year-over-year basis.

New home sales rose to an annualized rate of 610,000 units in May, easily beating the consensus call but slightly below our forecast of 612,000 units. Prior estimates for February through April were revised higher, with a particularly large revision to the April data which now show a sales rate of 593,000 units compared to the initial estimate of 569,000 units. Such sizeable revisions are of course not unusual for the new home sales data, but the revised data are consistent with our view that the demand side of the market remains quite healthy and that any issues in the market are on the supply side of the market. Don't let the heady April sales number fool you on that latter point, as the underlying details show a market that remains undersupplied, particularly on the lower ranges of the price scale. As is our view in the market for existing homes, we don't expect much relief on the supply side of the new homes market any time soon.

Not seasonally adjusted sales came in at 58,000 units in May, matching our forecast, and this leaves the running 12-month total of unadjusted sales at 591,000 units, the highest such total since June 2008. As our regular readers are well aware, we put much more stock in the not seasonally adjusted data, and it is here one can see that new home sales have kicked into a higher gear over the past three months – at 61,000 sales, March was the best month for new home sales since July 2007. As seen in our middle chart, the South and West regions are driving overall growth in new home sales.

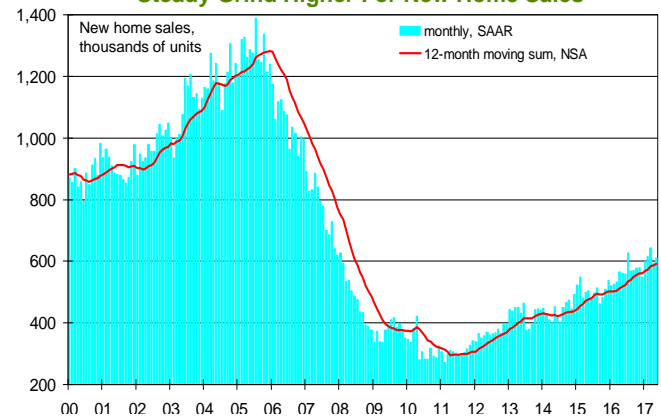
If this higher gear for sales seems at odds with our fretting over inventories remaining lean, keep in mind that new home sales can be booked at any stage in the process, i.e., sales contracts can be signed before construction begins, during construction, and after the unit has been completed. As we have been noting for some time, the share of sales accounted for by units on which construction had not yet been started has been notably high, and in May such units accounted for 34.5 percent of all new home sales. At the same time, inventories of what we refer to as "physical" homes for sale, i.e., units under construction or fully completed, remain strikingly low and have basically not budged over the past several months, hovering right around May's reading of 213,000 units (note these figures come from the not seasonally adjusted data). To help put this in perspective, over the 1973 through 2003 period (we thought it appropriate to end our sample period before the market got, you know, stupid) this figure averaged 281,000 units, and the disparity is even more striking when accounting for growth in the number of households over time. Accounting for these early sales helps reconcile strong sales numbers with the by now familiar refrain of shortages of labor and materials acting as constraints on sales, and these early sales will help ensure single family housing starts remain firm over coming months as builders work to clear growing backlogs.

It is clear that lean inventories are a binding constraint on sales of new and existing homes. While we don't put too much emphasis on median sales prices, it is nonetheless worth noting that May saw record high median sales prices for new and existing homes. Another long running trend we've been pointing to is that new home sales have been skewed towards the higher ranges of the price distribution, and this was the case to a record degree in May, when homes priced at or above \$300,000 accounted for 62.1 percent of all new home sales. This is the highest share on record, though full data on price distribution go back only to 2002 (our bottom chart shows the six-month moving average as this metric can be jumpy from month to month). For builders, higher sales prices are to some extent offsetting lower sales volumes, but also keep in mind that at least in part higher sales prices reflect what in many markets have become increasingly cumbersome entitlement costs. Either way, the group missing out the most is first-time buyers, who are in many cases being priced out of the markets for new and, due to heightened competition for limited listings, existing homes.

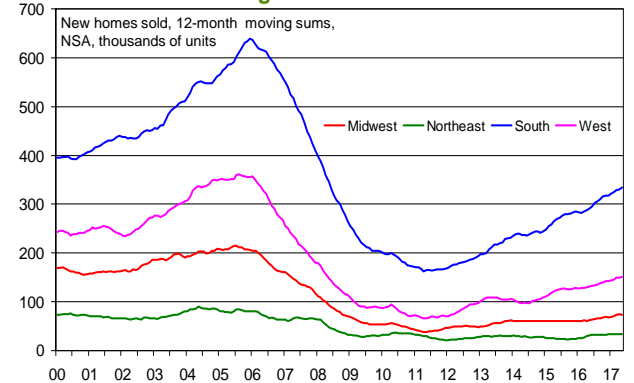
All in all, despite the usual swings in the headline sales numbers from one month to the next, we remain constructive on the demand side of the housing market, but persistently low inventories pose an increasing threat to affordability, even absent higher mortgage rates.



Steady Grind Higher For New Home Sales




South And West Driving Overall Growth In New Home Sales




Higher Price Ranges Still Driving Sales

