

*This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.*

## June New Home Sales: Same Old New Home Sales Story

- > New home sales rose to an annual rate of 610,000 units in June from May's revised sales rate of 605,000 units.
- > Months supply of inventory stands at 5.4 months; the median new home sale price fell by 3.4 percent on a year-over-year basis.

New home sales rose to an annualized rate of 610,000 units in June, slightly below the consensus forecast of 615,000 units and much further below our high-end forecast of 646,000 units. Prior estimates for sales over the past four months were revised lower. Though not nearly to the extent as in the market for existing homes, the new homes market remains undersupplied, with the months supply metric standing at 5.4 months as of June and units on which construction had not yet started accounting for over one-third of all new home sales in June. Though the median new home sales price was down year-on-year, sales of higher-end homes continue to dominate new home sales. In short, though the numbers change from month to month, it's pretty much the same old new homes story. And, no matter how many times the pages may turn, we don't see that story changing much any time soon.

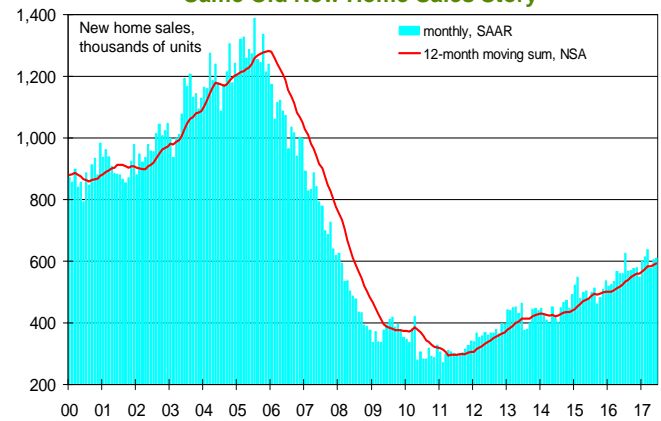
Our forecast of the headline sales number was predicated on an increase in raw, i.e., not seasonally adjusted, sales combined with a friendly seasonal adjustment factor. While we were correct on the latter, we missed on the former, as not seasonally adjusted sales came in at 55,000 units compared to our forecast of 60,000 units. June's sales put the running 12-month total of new home sales at 593,000 units, the highest since June 2008. Our miss was entirely due to the 29,000 sales in the South region falling short of our forecast of 34,000 units as our forecasts for the Midwest, Northeast, and West regions were on the mark. For some time now new homes in the South region have underperformed our expectations, which are guided by levels of single family permits and starts in the region, which remain well above the level of new home sales. Though it is not uncommon for the data to be out of alignment in any given month, it is a bit odd that this misalignment has persisted.

The number of what we refer to as "physical" new homes for sale, i.e., units either under construction or fully completed, rose modestly in June but remains significantly below historical norms. As we often note, however, lean inventories are not as binding a constraint on new home sales as they are on existing home sales. This simply reflects the fact 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 June such units accounted for 34.6 percent of all new home sales. 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.

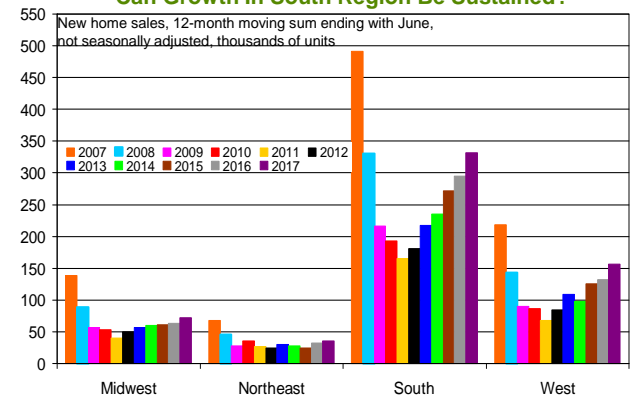
To the extent builders cannot build greater numbers of new homes, in terms of generating sales revenue they can compensate by building higher priced homes, and this is a trend that has for some time now been firmly entrenched in the market for new homes. For over two years now, more than half of all new home sales have been accounted for by units priced at or above \$300,000. To some extent this reflects builders passing on higher costs, whether for lots, labor, materials, or development fees, on to buyers, and low mortgage rates have helped keep payments manageable in the face of higher sales prices. As we routinely note, we don't put much stock in the median sales price, as it is sensitive to the mix of homes sold in any given month. The median new home sales price hit a record high in May but fell sharply in June. What is more relevant, however, is the yawning gap between median sales prices on new and existing homes, as seen in our bottom chart. In the early phases of the recovery, this was more a reflection of plummeting prices on existing homes as sales of discounted distress properties accounted for a significant share of existing home sales. As time has gone on, however, existing home prices have recovered smartly, reflecting extraordinarily lean inventories, but new home prices have become increasingly elevated as higher priced homes dominate the sales mix. One implication is that prospective first-time buyers are to a large extent priced out of the market; another implication is the housing market is increasingly vulnerable to any material increase in mortgage interest rates.



### Same Old New Home Sales Story




### Can Growth In South Region Be Sustained?




### New Home "Premium" Remains Significantly Elevated

