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March New Home Sales: Sales Solid In Q1, But How Much Upside Remains?

- > New home sales rose to an annual rate of 694,000 units in March from February's revised sales rate of 667,000 units.
- > Months supply of inventory stands at 5.2 months; the median new home sale price rose by 4.8 percent on a year-over-year basis.

New home sales rose to an annualized rate of 694,000 units in March, easily beating our above-consensus forecast of 633,000. Additionally, there were sizeable upward revisions to prior estimates of sales in January and February; on a seasonally adjusted and annualized basis, January sales are now reported as 644,000 units (from 622,000) and February sales are now reported as 667,000 units (from 618,000). In contrast to the report on March existing home sales, there is more to the March new home sales report than an impressive headline number, as not seasonally adjusted sales were much stronger than we had anticipated, with this strength heavily concentrated in the South and West regions. That said, we continue to harbor concerns that further gains in new home sales will come at a grudging pace due to ongoing supply constraints that we do not see abating to any material degree any time soon.

As noted above, not seasonally adjusted sales were strong in March, with the 68,000 sales well above our forecast of 60,000. March tends to be a seasonally strong month for new home sales, but the 21.4 percent increase from February is well ahead of the average increase of 15.3 percent for the month of March over the 1990-2017 period. As our regular readers know, we consider the running 12-month total of not seasonally adjusted sales to be the most reliable gauge of underlying trends in sales, and as of March that total (shown with the red line in our top chart) stands at 628,000 units, the highest since May 2008, when sales were beating a hasty retreat from the prior cyclical peak. What stands out in the raw data are the 37,000 sales in the South region, the strongest month since June 2007, and the 22,000 sales in the West region, the strongest month since July 2006. As seen in our middle chart, the trend rate of sales remains basically flat in both the Midwest and Northeast regions as the South and West regions push overall new home sales higher.

Despite the strength in sales in March, the new home inventory data continue to be a source of concern. The number of what we refer to as "physical" new homes for sale, i.e., the number of homes for sale that are either complete or under construction, fell to its lowest level since last July. At the same time, sales of units on which construction had not yet begun accounted for just over one-third of all new home sales in March, and we have for some time noted this share has been elevated, an indication that builders are 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 in March accounted for just over 61 percent of all new home sales. As seen in our bottom chart (which shows 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. March saw 12,000 sales of units priced between \$400,000 and \$500,000, the highest number of any month on record for this price range, with 11,000 units priced at or above \$500,000 sold, matching the high for this price range. 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. For now, there is sufficient demand at the higher price points, but we question how long this can persist, particularly if we do see significantly higher mortgage interest rates over coming months. In all honesty, however, we've been asking this question for some time now and have been a bit surprised that high end demand has held up. Of course, a fundamental rule in economics, and perhaps life in general, is that something can continue until it no longer can.

We've often noted that the issues in the housing market lie on the supply side of the market, not the demand side. Nothing we've seen thus far has changed our view on this.

