ECONOMIC UPDATE

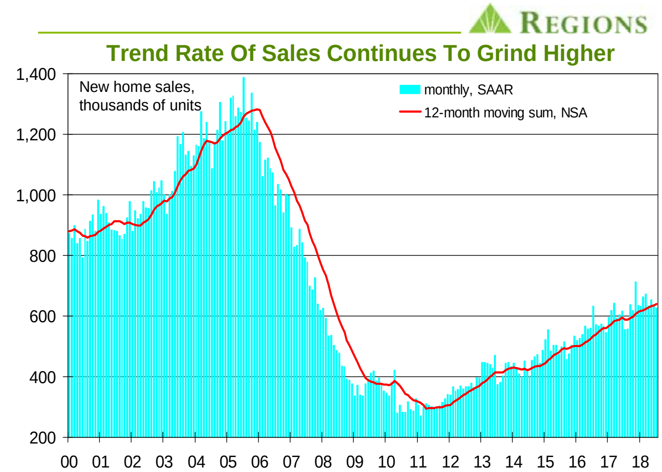
REGIONS

August 23, 2018

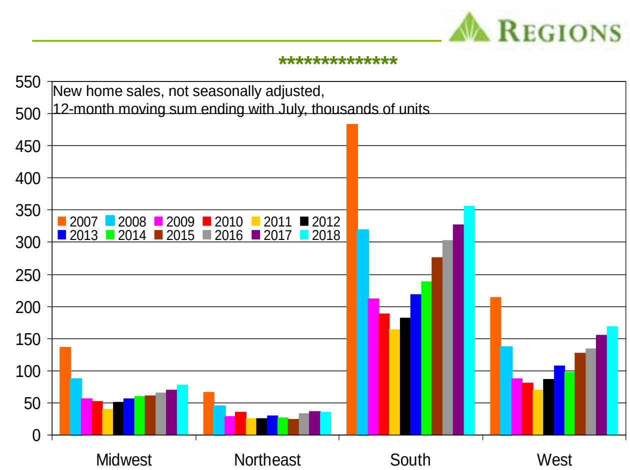
July New Home Sales: Trend Rate Of Sales Continues To Grind Higher

- New home sales fell to an annual rate of 627,000 units in July from June's revised sales rate of 638,000 units
- Months supply of inventory stands at 5.9 months; the median new home sale price rose by 1.8 percent year-on-year

New home sales fell to an annualized rate of 627,000 units in July, below the 648,000 units we and the consensus expected, and prior estimates of sales over the April-June period were revised lower. The median new home sales price rose by 1.8 percent year-on-year, and the months supply metric stands at 5.9 months. As usual, the headline sales number, reported on a seasonally adjusted and annualized basis, deflects attention away from what actually matters, which is the underlying trend rate of sales. The trend rate of sales continues to move higher, albeit at a frustratingly slow pace. Sure, no one is claiming the housing market is sizzling, but those rushing to stick a fork in the housing market are at least a bit premature.

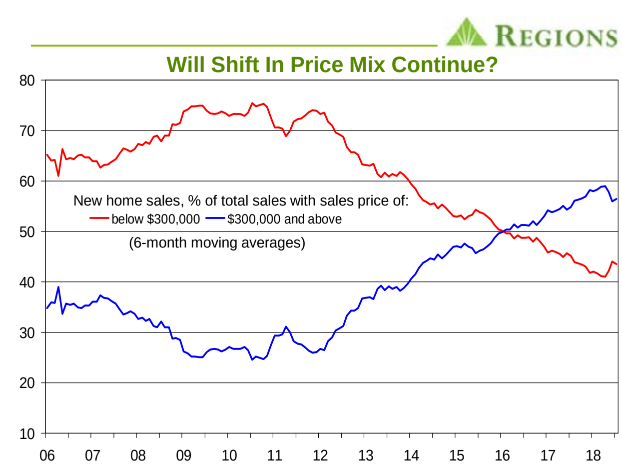


On a not seasonally adjusted basis, there were 53,000 new home sales in July, falling a bit short of our forecast of 55,000 sales. Our miss is accounted for by the Northeast region, where the 2,000 sales was below our forecast of 4,000 units, but sales in the Midwest (7,000 units), South (30,000 units), and West (14,000 units) each matched our forecasts. As of July, the running 12-month total of not seasonally adjusted sales, which we see as the most reliable gauge of trend sales, stands at 641,000 units. As shown with the red line in our top chart, the trend rate of sales is rising at a steady, and, sure, slow, pace. As of July, the running 12-month total stands at its highest level since April 2008, the difference being that back then sales were beating a hasty retreat from an unsustainably high peak whereas now sales are trending in the opposite direction. On a year-to-date basis through July, not seasonally adjusted sales are up 7.49 percent for the U.S. as a whole, with increases of 18.60 percent in the Midwest, 8.74 percent in the South, and 6.00 percent in the West, while sales in the Northeast region are down 12.50 percent on a year-to-date basis. Keep in mind that combined sales in the South and West regions account for over 80 percent of total new home sales while sales in the Northeast account for about six percent of total new home sales.



As in the market for existing homes, lean inventories continue to weigh on new home sales but there was at least modest improvement along those lines in July, Inventories of what we refer to as "physical" new homes for sale, or, the number of homes for sale that are either complete or under construction, rose in July but nonetheless remain just below what so far has been the cycle high of 246,000 units last November and remain substantially below historical norms. Sales of units on which construction had not yet started accounted for 34 percent of total new home sales in July, and this share has been elevated for some time. On the whole, the inventory data and the data on sales by stage of construction are consistent with our premise that builders are increasingly 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 the trend rate of sales to accelerate, even as single family starts remain strong over coming months as builders work to clear order backlogs.

In our weekly *Economic Preview* we pointed to the price mix of sales. We have for some time been highlighting how new home sales have been unusually concentrated in the higher price ranges, but this trend had shown signs of reversing over recent months. While we expect the share of sales accounted for by higher priced homes to slip further over coming months, that did not prove to be the case in July. To be sure, this number is highly volatile from one month to the next, which is why we show the six-month moving average in our bottom chart. But, you can still see the shift over recent months in our bottom chart. Many builders are making an increasing effort to target first-time buyers, which is reflected in the shifting price mix illustrated in our chart. Our view is that the demand is still there at these lower price points, but it will be the trend established over coming months, not the data in any one single month, that will show whether or not we are correct on this point.



We continue to see the issues in the housing market as being largely concentrated on the supply side of the market. To be sure, prospective buyers have grown increasingly frustrated, but we do not take that to mean they have totally given up as some analysts are claiming to be the case. More supply would go a long way towards settling this debate.

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