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February New Home Sales: Strong February, Revisions Actually Make Sense

- › New home sales rose to an annual rate of 667,000 units in February from January's (revised) sales rate of 636,000 units
- › Months supply of inventory stands at 6.1 months; the median new home sale price fell by 3.6 percent year-on-year

New home sales rose to an annualized rate of 667,000 units in February, easily outdistancing our above-consensus forecast of 641,000 units. Prior estimates of sales from November through January were revised lower on net for the three-month period, but the pattern of new home sales over this period is now more consistent with, you know, reality than had been the case with the prior estimates. Relative to the prior estimates, new home sales in November and December were marked sharply lower, while sales in January were revised higher, and these patterns are more consistent with patterns in mortgage rates and other housing market indicators. Keep in mind that new home sales are booked at the signing of the sales contract, so that sales were stronger in January than last reported is consistent with mortgage rates retreating from their mid-November high, and that February sales were so strong is consistent with even lower mortgage interest rates and what we've maintained all along was still-healthy demand. To be sure, the supply side issues that have hampered new home sales over recent years have not gone away, but there is nonetheless further upside room for new home sales over coming months.

On a not seasonally adjusted basis, there were 56,000 new home sales in February, topping our forecast of 53,000 sales and reflecting a 3.7 percent year-on-year increase. Sales in the Midwest, Northeast, and West regions matched our forecast, but the 33,000 sales in the South came in above our forecast of 30,000 sales. As of February, the running 12-month total of not seasonally adjusted new home sales, which we see as the best gauge of the trend sales rate, stood at 623,000 units, well off of what at this point is the cycle high of 640,000 units seen last August, but at least stemming a steady decline. This is the pattern seen across each of the four broad Census regions, i.e., sales have stabilized over the past couple of months, and we think this sets up increases in the months ahead.

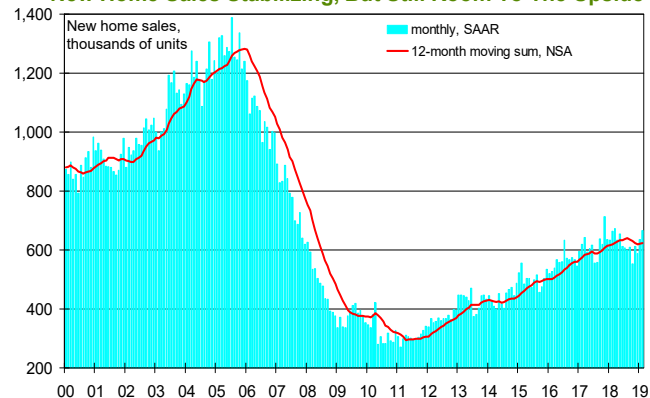
The median new home sales price was down 3.6 percent year-on-year in February, extending the recent run of over-the-year declines. The obvious explanation is that this reflects a weak housing market, as builders must slash prices in order to make sales. Okay, that must be the obvious explanation because we sure hear it enough, more than enough actually. Though obvious and correct need not be mutually exclusive, in this case they are, and the "builders must slash prices" thing is straight out of the "housing is done" narrative that took hold over the last months of 2018 and apparently hasn't let go of some observers. The patterns seen in the median new home sales price reflect a trend we've been pointing to for some time now, i.e., the shifting mix of sales across price ranges. In February, sales of homes priced at or below \$300,000 accounted for 48.2 percent of all new home sales, the highest share in two years. For some perspective, this share hit a bottom at just under 38 percent in early 2018 and has been trending higher ever since.

We've for some time argued that in order to sustain growth in sales, builders would have to turn to the lower price ranges, as higher-end demand was starting to sag after a prolonged period of builders catering to this segment of the market. Additionally, with prospective first-time buyers having been increasingly shut out of the existing homes market by lack of inventory and diminishing affordability, it made sense to us that builders could profitably target this segment of the market. This is indeed a shift that builders have made, as has been discussed in the recent rounds of earnings calls. As such, the shift in the sales mix will persist over coming months, putting downward pressure on the median sales price. Still, as seen in our bottom chart, while the new home price premium (relative to existing home prices) has diminished over the past several months, it nonetheless remains significantly larger than has been the case historically. If we are correct about the shift in the mix of sales continuing, this premium will diminish further over coming months.

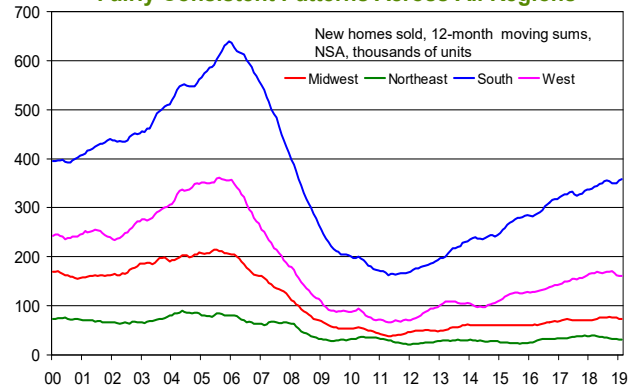
The upward revision to January sales and the strong February sales are consistent with what for some time has been our basic premise of the housing market. The demand side of the market remains healthy, and while supply constraints are still weighing on sales, we see further upside room for new home sales in 2019.



New Home Sales Stabilizing, But Still Room To The Upside




Fairly Consistent Patterns Across All Regions




New Home "Premium" Still Large, But Shrinking

