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March New Home Sales: Strong Sales, But Still Some Catching Up To Do

- > New home sales rose to an annual rate of 692,000 units in March from February's (revised) sales rate of 662,000 units
- > Months supply of inventory stands at 6.0 months; the median new home sale price fell by 9.7 percent year-on-year

New home sales rose to an annualized rate of 692,000 units in March, breezing by our forecast 674,000 units (the consensus forecast was 648,000 units). As to the number that actually matters, i.e., not seasonally adjusted sales, there were 68,000 new home sales in March, just above our forecast of 67,000 units, making March the best month for new home sales since July 2007. There were slight downward revisions to estimates of sales over the prior three months, but it is worth noting that the modest downward revision to the February data reflects a revision to the seasonal adjustment factor, as the number of not seasonally adjusted sales was not revised. In any event, that new home sales were so strong in March is consistent with our underlying premise of a strong demand side of the housing market, one indication of which has been rapidly rising purchase mortgage applications thus far in 2019. We look for new home sales to continue to push higher over coming months.

As to how to square strong new home sales in March with what was a notably soft report on March existing home sales, it helps to recall that new home sales are booked at the signing of the sales contract while existing home sales are booked at closing. This puts new home sales in alignment with the jump in purchase mortgage applications in March. Additionally, as we noted in our weekly *Economic Preview*, while weather effects clearly wreaked havoc on much of the housing market data during Q1, particularly in the Midwest region, that need not have been a factor in the new home sales data. We pointed to what has been an elevated share of new home sales accounted for by units on which ground had not yet been broken, and our forecast anticipated new home sales in the Midwest would outperform single family housing starts, which were materially weaker than is typical for the month of March. The 8,000 new home sales in the Midwest make March the best month for new home sales in the Region since last May. To our broader point, sales of units on which construction had not yet started jumped in March, and this is in line with our premise that the starts data over the next month or two would reflect builders making up for weather-related delays during February and March, when not seasonally adjusted single family housing starts were atypically weak for these months.

As it turns out, not seasonally adjusted sales rose by 21.4 percent between February and March, slightly below the 22.2 percent increase seen in March 2018 but easily ahead of the average March increase of 15.5 percent over the 1990-2018 period, as we illustrate in our middle chart. The 68,000 sales in March leave the running 12-month total of not seasonally adjusted sales at 620,000 units. While this is well off what is to date the cycle high of 640,000 units, hit in August 2018, the running 12-month sum has turned higher again after having been dragged lower the weakness in sales over 2018's final quarter that persisted into January 2019 as a material jump in mortgage interest rates rocked the housing market. Starting with the February data, we had expected the effects of sharply lower mortgage rates to begin turning up in the new home sales data, and thus far that has been the case. With still-solid labor market conditions, what have been modestly higher mortgage rates over the past few weeks should not derail the new homes market, though we'll reiterate our oft-made point that while we expect new home sales to rise steadily, we also expect them to do so at a somewhat restrained pace.

One key support for new home sales we've been pointing to is builders targeting first-time buyers by building smaller, lower-priced homes. Our bottom chart shows the ongoing shift in the mix of new home sales across price ranges; we show the six-month moving average to account for the volatility in the data, but will note that in March, sales of homes priced at or below \$300,000 accounted for 50.0 percent of all new home sales, the highest since February 2017. We look for this shift to persist over coming months, as builders are effectively broadening the base of new home sales; while per-home margins will be slimmer, higher sales volumes will compensate for this. The shifting sales mix across price ranges is one factor in our view that there is more upside room for new home sales, with our broader point being that the demand side of the housing market remains quite healthy.

