

# ECONOMIC UPDATE



REGIONS

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## June New Home Sales: Whatever

- New home sales tumbled to an annualized rate of 406,000 units in June from a (revised) sales pace of 442,000 units in May.
- Months supply of inventory stands at 5.8 months; the median new home sale price rose by 5.3 percent on a year-over-year basis.

Okay, let's see if we have all of this straight. First, the Census Bureau reports new home sales plummeted to an annual sales rate of 406,000 units in June, considerably below even the lowest of expectations. And now it really gets, um, interesting. Last month we were told new home sales for May came in at an annualized sales rate of 504,000 units, the fastest sales pace since May 2008 with the 18.6 percent increase from April the largest monthly increase since January 1992. Today, we are told May new home sales weren't quite as strong as was first reported, with the annual sales rate now put at 442,000 units – a downward revision of 12.3 percent that, oh by the way, is the largest downward revision on record. And if that isn't enough, prior estimates for March and April were also marked down, such that the average monthly sales rate for the March-May period is now reported to be 418,000 units rather than the 446,000 unit average reported last month. Sure, the new home sales data are inherently volatile, we and others regularly point that out, and at times such as this we recall what a wise old economist once told us – “the numbers are what the numbers are” – but are the numbers really what the numbers are when the people tasked with reporting the numbers can't seem to decide what the numbers are. Perhaps what the wise old economist meant is the numbers are what the numbers are until they're not. Whatever.

With the reported decline in sales, the months supply metric rose to 5.8 months, the highest reading since October 2011. Still, this does not mean the new home market is well supplied, indeed, focusing on “physical” new homes for sale (those either under construction or already completed) tells a different story. As seen in the accompanying chart, while the supply of physical new homes for sale is off its historical low, it nonetheless remains far below historical norms – with that norm not including the bloated level seen during the years leading up to the 2007-09 recession. This reflects the ongoing constraints on lots, labor, and materials that have inhibited new single family construction.

Another indication of lean inventories is the rising share of sales accounted for by units on which construction has not yet begun. The Census Bureau defines a home as being for sale when a permit is issued in permit-issuing places or when work has begun, but no sales contract signed, in nonpermit-issuing places. In the Census data sales can occur before construction has begun, during the construction period, or after construction has been completed. The high share of sales accounted for by units not yet under construction – 34.2 percent in June – is an indication of tight inventories even though the absolute level of market activity is still low, and over the past seven months completed units have accounted for less than one-third of all new home sales.

Lean inventories mean builders are wielding a greater degree of pricing power, but there are also demand side factors at play as well. One interesting trend has been the rising share of new home sales accounted for by homes priced at or above \$300,000 which in June were 43 percent of all sales. In the early phases of the recovery builders had to contend with competition from lower priced existing homes, including large inventories of distressed properties. With distress inventories having been pared down builders have had the latitude to raise prices. At the same time, however, in a still stringent mortgage credit environment, younger and first-time buyers are accounting for a smaller share of sales and buyers with the financial wherewithal to purchase higher priced homes are increasingly driving new home sales, raising questions as to the capacity for new home sales to push higher in the months ahead.

We noted last month the May sales figures seemed at odds with the rest of the data on the single family segment of the housing market. Today's report, including the downward revisions, is more so, which is not necessarily an encouraging sign.

