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July New Home Sales: New Home Numbers Have That Lived-In Feeling

- > New home sales dipped to an annualized rate of 412,000 units in July from a (revised) sales pace of 422,000 units in June.
- > Months supply of inventory stands at 6.0 months; the median new home sale price rose by 2.9 percent on a year-over-year basis.

New home sales fell to an annual rate of 412,000 units in July from a revised sales rate of 422,000 units in June. Sales rose in the South region, were unchanged in the Northeast, and fell in the Midwest and West. June's sales figure reflects an upward revision to the initial estimate of 406,000 units, and prior estimates for April and May were also revised modestly higher. Still, while the monthly sales figures can be volatile and prone to large revision, an alternative view of the data show the new home market basically running in place. Looking at the not seasonally adjusted data on a 12-month moving sum basis, the sales rate basically has not budged over the past ten months, as shown by the red line in the top chart. In other words, the new home sales figures by now have that lived-in feeling, with few signs of a significant change, in either direction, over the near term.

With the monthly sales rate having fallen, the months supply metric rose to 6.0 months, which would be a normal reading were we in normal times, which can hardly be considered the case. While the months supply metric suggests a well-supplied new home market, 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 – 35.1 percent in July – is an indication of tight inventories even though the absolute level of market activity is still low. In July, completed units accounted for just 29.7 percent of all new home sales and over the past eight months completed units have accounted for less than one-third of all new home sales.

Despite a middling sales pace that apparently refuses to budge, lean inventories have nonetheless endowed builders with 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 July were 43.5 percent of all sales. Over the past ten months, homes in this price range have accounted for over 43 percent of all new home sales, the longest such run in the life of the data. 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. Additionally, one consequence of the sales mix is the reported gain in the median new home price will slow, as has been the case of late, as higher priced homes are no longer displacing lower priced homes in the sales mix and instead the split between higher and lower priced homes remains fairly steady.

Thus far in 2014, the single family segment has been undershooting expectations, even what have become scaled back expectations. The July new home sales data are more of the same, and we see few signs of a significant pick up over coming months.

