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### August New Home Sales: Is August's Surge In Sales Built On A Solid Foundation?

- > New home sales rose to an annualized rate of 504,000 units in August from a (revised) sales pace of 427,000 units in July.
- > Months supply of inventory stands at 4.8 months; the median new home sale price rose by 8.0 percent on a year-over-year basis.

New home sales surged to an annualized sales rate of 504,000 units in August, well ahead of expectations and the fastest sales rate since May 2008. One can, however, be excused for not getting too terribly excited at the August sales numbers, given the inherent volatility in this series and what have of late been some fairly large revisions to initial monthly estimates. True, the August sales data are at least more in line with what has been an improved mood amongst homebuilders over recent months, but there are reasons to doubt the heady sales pace set in August can be sustained in coming months.

Signs of underlying activity in the market can be seen in the raw, i.e., not seasonally adjusted, sales data. Typically, August is a seasonally weak month for new home sales with the number of sales declining from July. This year, however, unadjusted sales rose between July and August, and the 41,000 sales (not seasonally adjusted) this year mark the strongest August since 2007. So, given sales typically decline from July, the seasonal adjustment factors for August are geared to push the unadjusted sales number higher. Moreover, the August seasonal adjustment factor this August is more generous than in past years, so there was an even bigger boost to the unadjusted sales number, helping push the seasonally adjusted sales figure so much higher. In the hopes of fending off at least some of the angry e-mails and blog posts the preceding sentences will, if the past is any guide, incite, we will simply point out that, as always, we're just reporting not only the data but also those pesky details, so we don't have a "pessimistic" bias just as we don't have an "optimistic" bias when we put a disappointing data point in context.

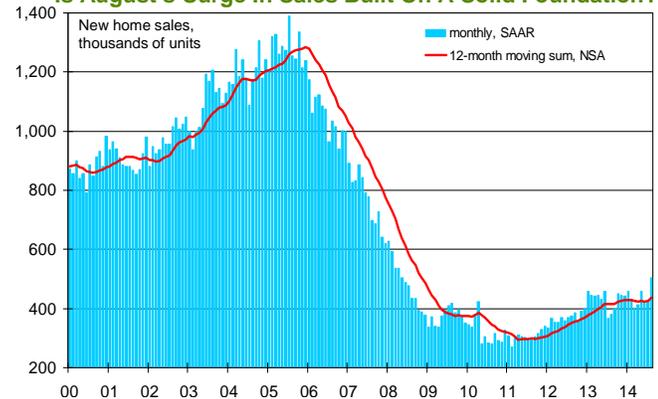
So, one question to be answered is how much of August's gain in sales is genuine – we will again point to the atypical increase in not seasonally adjusted sales as evidence of improvement. Another question to be answered is to what extent the improvement seen in August can be sustained. Here we will go back to a point we have made repeatedly over the past several months – inventories of new homes for sale remain exceptionally lean and there is nothing in the data on housing permits or housing starts to suggest a meaningful easing of inventory constraints in the near term. Think about it – for several months now there has been no, well, no shortage of tales of new home construction being constrained by shortages of lots, labor, and materials. Those trends do not change quickly and while these supply side constraints may have begun to ease, they nonetheless remain an impediment to a faster pace of construction.

As seen in the middle chart, inventories of "physical" homes for sale (i.e., homes either under construction or completed) have come off historical lows set in 2012 but remain far below any levels that could be considered normal. Another indication of lean inventories is the elevated 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. In August, sales of completed homes accounted for just 29.3 percent of all sales, while sales of units on which construction has not yet begun accounted for 34.2 percent of all sales.

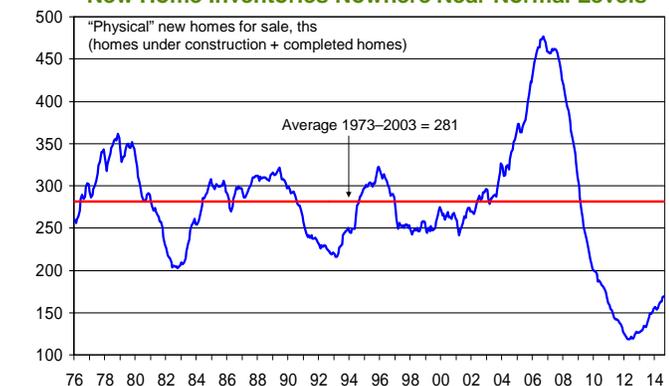
The high end of the market remains fertile ground for builders. This is in part a reflection of mortgage credit conditions – clearly still skewed towards upper income households – and in part a leftover from builders having taken some refuge in the upper ends of the market in recent years as the disposition of distressed properties selling at steep discounts took away some of the lower end of the market.

To be sure, the August sales numbers are welcome news, but we'll wait for another few months of data before coming to any conclusions about the underlying trends.

### REGIONS Is August's Surge In Sales Built On A Solid Foundation?



### REGIONS New Home Inventories Nowhere Near Normal Levels



### REGIONS Healthy Demand On High End . . . At Least For Now

