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April New Home Sales: Home Sales On The Slow Road To Normal

- New home sales rose to an annual rate of 517,000 units in April from March's (revised) sales pace of 484,000 units.
- Months supply of inventory stands at 4.8 months; the median new home sale price rose by 8.3 percent on a year-over-year basis.

New home sales rose to an annualized rate of 517,000 units in April, slightly ahead of expectations and up from March's sales rate of 484,000 units (originally reported as 481,000 units). Inventories, or lack thereof, may be the bigger story here, as the months supply of new homes (at the current sales rate) fell to 4.8 months in April. Lean supplies contributed to an 8.3 percent year-on-year increase in the median new home price in April, though this also reflects the mix of homes sold as homes priced at or above \$300,000 continue to account for an unusually high share of all sales.

As we routinely point out the data on new residential construction and home sales are best viewed in the context of the underlying trends in the not seasonally adjusted data. Especially new home sales, which is one of the most inherently volatile data series out there and one subject to a sampling error so large so as to render the headline number irrelevant. Our preferred means of viewing the new home sales data is to take the 12-month moving sum of the raw (i.e., not seasonally adjusted data), which shows the underlying trend beneath the month-to-month gyrations in the headline sales numbers. Over the past 12 months the raw data show 471,000 new homes have been sold, the highest running 12-month total since late 2008. On this basis, the message in the April new home sales report is the same as it has been for the past several months – steady albeit slow improvement (as can be seen in the red line in the top chart).

Patterns in single family housing permits and single family housing starts – particularly starts of single family homes intended for sale – offer no reason to expect anything but a continuation of this underlying trend. The middle chart shows inventories of "physical" new homes for sale (those either under construction or completed) fell further in April and remain considerably below the longer run average. In one sense, however, inventory constraints for new homes are not as binding as they are with existing homes, as new homes can also be sold before construction has commenced. In April, units on which construction had not yet started accounted for 34.7 percent of all new home sales. One has to go back to the height of the housing market frenzy prior to the 2007-09 recession to find such a number, though for decidedly different reasons.

In any event, inventory constraints do not typically ease at a rapid pace and anyone harboring expectations of such need look no further than the bottom chart, which shows starts of single family units intended for sale in each of the four broad Census regions (recall roughly 30 percent of single family starts are not placed on the market for sale). We present the data in comparison to the average seen over the 2000-2002 period, which we refer to as the last "normal" years seen in the housing market. So, even forgetting about the excesses seen during the pre-recession years, the pace of new single family construction is nowhere near anything that could be considered normal. This is a function of several factors, including constraints on supplies of buildable lots, many builders (with the exceptions of the major nationals) subject to financing constraints, prospective buyers unable to procure mortgage financing, and shortages of construction labor. Additionally, with first time buyers still not in the market, for new or existing homes, to the extent that has traditionally been the case, overall demand for home purchases remains lacking. To the extent first-time buyers of existing homes foster trade-up purchases of new homes, this then remains an open gap in the new home sales market. Clearly the demand side dynamics are contributing to the above-average share of sales accounted for by homes priced at or above \$300,000 (49 percent of all sales in April and consistently between 40 and 50 percent of all sales over the past few quarters) – builders are building to where demand and, as long as this higher end demand holds up, builders have no incentive to build large numbers of "starter" homes on a spec basis.

We have from day one said the journey back to normal housing market conditions will be a slow one, and the April report on new home sales does nothing to change our view.

