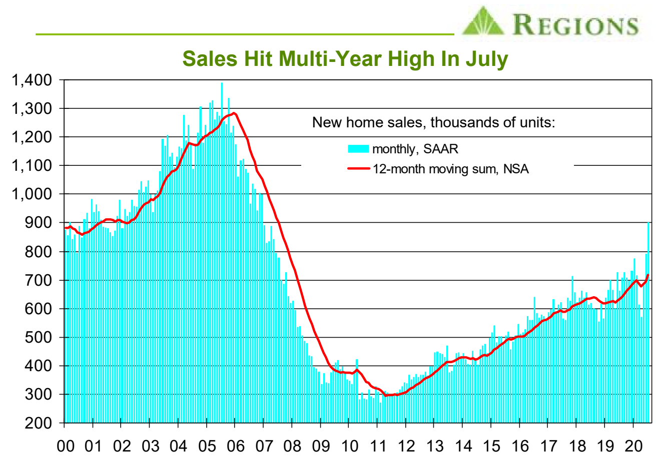
ECONOMIC UPDATE
REGIONS
August 25, 2020



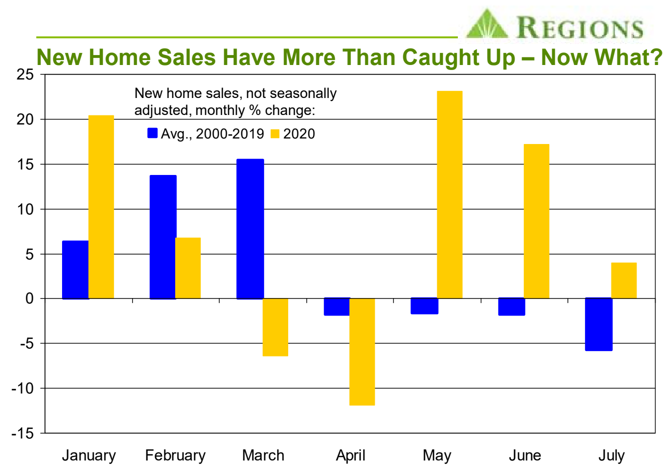
## July New Home Sales: Sales Hit A Multi-Year High, Now What?

- New home sales rose to an annual rate of 901,000 units in July from June's (revised) sales rate of 791,000 units
- Months supply of inventory stands at 4.0 months; the median new home sale price rose by 7.2 percent year-on-year

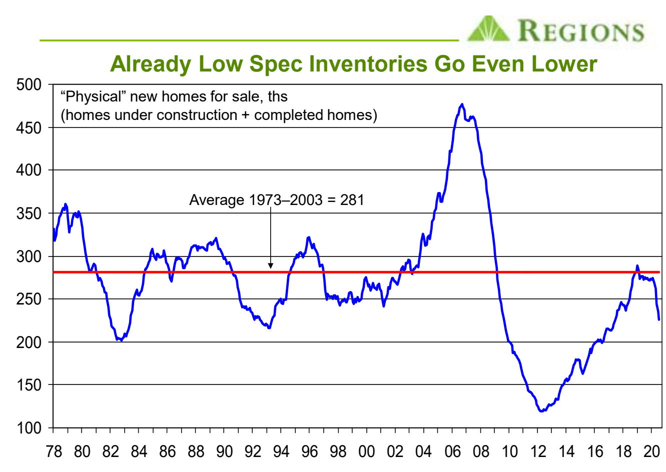
Total new home sales rose to an annualized rate of 901,000 units in July, tantalizingly close to, and yet agonizingly far from, our forecast of 907,000 units, both of which were well above the consensus forecast of 790,000 units. Prior estimates of sales over the April through June period were revised modestly higher. July's annualized sales rate is the highest monthly sales rate since December 2006. On a not seasonally adjusted basis, Census reports 78,000 new home sales in July, matching our forecast and the highest monthly total since May 2007. With the July data, the running 12-month total of not seasonally adjusted new home sales, which we believe to be the most reliable gauge of underlying sales trends, stands at 717,000 units, the highest such total since February 2008 – when sales were in the midst of a dramatic and prolonged retreat from the unsustainable peak reached in 2006. Perhaps of more significance is that new home sales have more than made up the ground lost during March and April, when large segments of the U.S. economy were on lockdown. Even in the midst of those lockdowns, however, it was clear that the new homes market was suffering to a lesser degree than most of the rest of the U.S. economy. So, with strong sales in July, builder confidence significantly elevated, and notably low mortgage interest rates helping sustain demand, it's straight up from here for new home sales, right? We're going to have to go with "no" on this one; while we do see considerably more upside room for new home sales than we do for existing home sales, there are reasons to curb your enthusiasm.




The 11,000 sales (not seasonally adjusted) in the Midwest region mark the highest monthly total for that region since August 2007, and the 44,000 sales in the South region marked that region's best month since September 2006, but sales slipped slightly in both the Northeast and West regions in July. On a year-to-date basis through July, total new home sales are up 8.4 percent, with increases of 20.5 percent in the Midwest region, 35.3 percent in the Northeast, 4.1 percent in the South, and 8.0 percent in the West. Keep in mind that the South region – which includes both Florida and Texas – accounts for over 57 percent of all new home sales. Contrast this to the performance of existing home sales which, even after sales jumped to a multi-year high in July, were down 4.7 percent on a year-to-date basis.




After existing home sales jumped to a multi-year high in July, we posed a seemingly simple question – now what? We have the same question in the wake of the July data on new home sales. Part of answering that question is accounting for the distortions in normal seasonal sales patterns, which we show in our middle chart. Note that in March and April, sales were much weaker than is typically the case for those months, obviously reflecting the effects of the shuttering of a wide swath of the U.S. economy. New home sales came roaring back in May and June, however, more than making up for lost ground, and July sales were much stronger than is typically the case for the month. And this gets to the heart of our "now what" question, which is how strong organic demand is and how much higher can it push new home sales. We remain concerned with the labor market, where the recovery seems more tentative of late. Moreover, low mortgage interest rates notwithstanding, we think that at some point affordability constraints could curb demand, and that point may come sooner than many think. While low mortgage rates act as a buffer, that price appreciation remains so robust means affordability will be more sensitive to any given change in mortgage rates.




Also, though not nearly to the extent as in the market for existing homes, inventories of new homes for sale remain lean and builders are increasingly pressed to keep pace with demand. Though the ongoing shift to exurban areas – which the pandemic did not start but which it has intensified – has helped alleviate shortages of buildable lots and a more stringent regulatory environment, labor shortages remain a constraint on supply. True, builders can work off backlogs of unfilled orders over time, but at some point this becomes a drag on sales, and some builders have taken to raising prices as a means of managing demand, which gets us back to our point on affordability. Even should one not buy our caveats on the demand side, it's hard to ignore what remain pressing supply constraints. So, sure, while we see further upside room for new home sales, we don't expect a straight line higher.

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