



Economics Group

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New Home Sales Continue to Exceed Expectations

New home sales are so strong that they are even up when they are down! Sales fell 0.3% in October to a 999,000-unit pace, but sales for September were revised higher to just over a one-million unit pace.

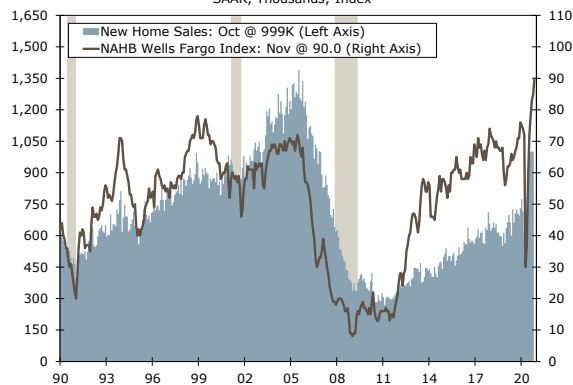
Sales Are So Strong That They Are Even up When They Are Down

New home sales fell 0.3% in October to a 999,000-unit annual rate. The consensus estimate had called for a slight increase from September's initially reported 959,000-unit pace. Sales were revised higher for July, August and September, with the prior two months both slightly topping a one-million unit annual sales pace. As a result, October's sales pace still came in 24,000 units above expectations, even though it declined by an ever-so-slight 0.3%. Sales over the past three months have averaged just slightly over a one million unit pace.

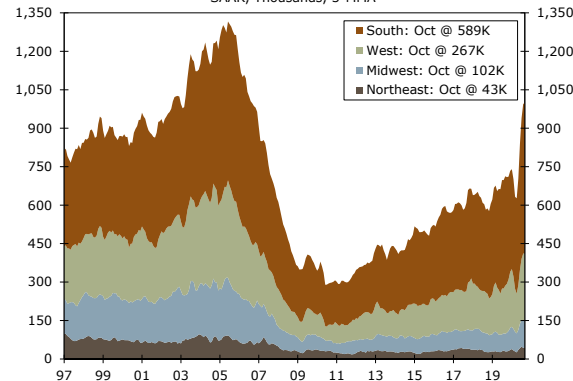
We were somewhat skeptical of the drop in new home sales initially reported last month. That earlier reported drop simply seemed out of sorts with anecdotal reports from homebuilders, even though it left sales at a still very strong pace. The present sales component of the Wells Fargo/NAHB Homebuilders' Index has soared to a record high in recent months and the overall index has hit progressive new highs in each of the past three months. The buoyance in builder confidence, which leads new sales by a month, means new home sales likely remained near their current level in November as well.

Sales during the late fall and winter months are extremely volatile and are typically influenced by weather conditions and the timing of holidays. Mild fall weather appears to have bolstered sales in the Northeast and Midwest during October, while sales fell slightly in the South and West—both of which face significant supply constraints. Close to 85% of new home sales are in the South and West, with the South alone accounting for 58% of sales. The growing share of new home sales in the South and Southwest means new home sales should be less susceptible to swings in the weather, as conditions are typically good enough to build year round throughout most of the region. The continued strength in new home sales means that inventories of new homes remained near all-time lows. A total of just 278,000 new homes were available for sale at the end of October, which is the same as in the prior month. Of the homes for sale, just 44,000 were completed. Another 172,000 of that unsold inventory were under construction and 62,000 had not yet begun construction. New home sales are also weighted more heavily toward homes where construction has not yet started. Sales of such homes rose nearly 20% in October to a 385,000-unit pace and slightly outpaced homes currently under construction (348,000 units) and sales of completed homes, which tumbled 21% to a 266,000-unit pace. The drop in completed home sales is unusually large at a time when overall sales are so strong and likely reflects the reticence of builders to begin construction at a time when lumber prices were so high. Lumber prices normally decline in the fall, as construction subsides. This year that decline has been less evident, as construction has remained exceptionally strong and supply has been constrained by fires and the ongoing trade dispute with Canada. Several other building components, including cabinets, also remain in short supply, which along with rising development costs is pushing new home prices higher. The median price of a new home has risen 2.5% over the past year.

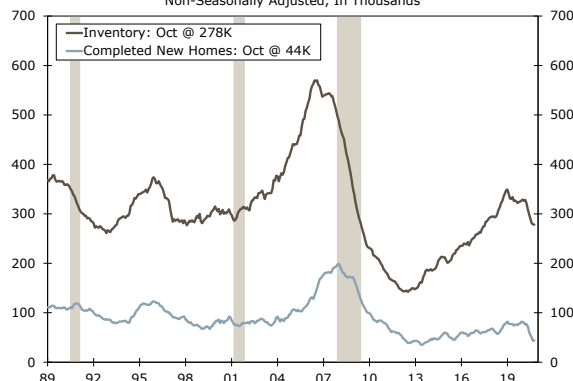
New Home Sales vs. NAHB Wells Fargo Index
 SAAR, Thousands; Index



New Home Sales
 SAAR, Thousands, 3-MMA



Inventory of New Homes for Sale
 Non-Seasonally Adjusted, In Thousands



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