

Economic Indicator — May 24, 2022

New Home Sales Plummet in April

Higher Mortgage Rates Bring Sales to Slowest Pace Since April 2020

Summary

Sales Slump in April

- New home sales plunged 16.6% during April, the fourth straight monthly decline and the second consecutive double-digit drop.
- While new home sales can be volatile on a month-over-month basis, April's fall is the sharpest monthly contraction since July 2013, which coincided with a spike in mortgage rates following the Fed's comments on forthcoming monetary policy tightening and resulting "taper tantrum."
- The 591,000-unit annual pace of home sales was the slowest pace since April 2020 when sales came to a grinding halt at the onset of the pandemic.
- The pull-back in new home sales arrives against a back-drop of significantly higher mortgage rates. According to Freddie Mac, the average 30-year commitment rate for a fixed-rate mortgage was almost 5% in April, up from 4.17% in March.
- Borrowing costs only appear to be rising further, which should continue to weigh on housing activity over the next few months. As of this writing, the average 30-year fixed rate was 5.36%, according to Mortgage News Daily.
- Higher mortgage rates are just one part of the story. On top of higher rates, new home prices continue to rise at a rapid pace. The median new home price rose to \$450,600, up 19.6% from April 2021.
- Rising financing costs and rapid price appreciation have caused many traditional buyers to take a step back from the housing market. In addition, some previously qualified buyers may no longer qualify under current interest rates.
- Home builders continue to contend with supply constraints which make completing new homes challenging. That said, the inventory of new homes has risen sharply, with a 9-month supply of new homes currently available for sale. The number of unsold homes that are currently under construction rose to 288,000 (highest since 2007), while inventories of completed homes for sale rose by 5,000 to 38,000 homes, the most since early 2021.

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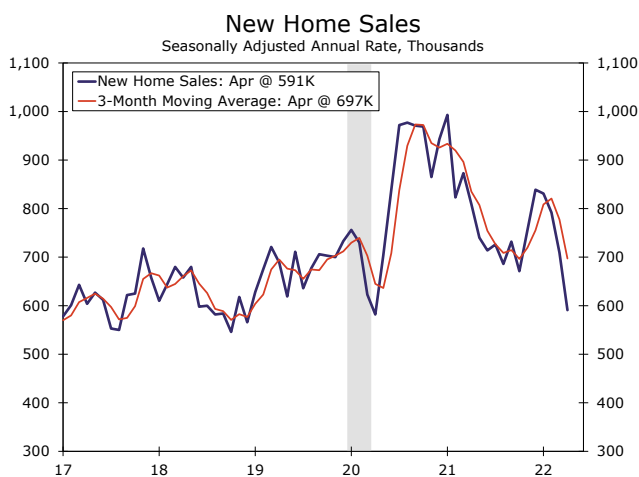
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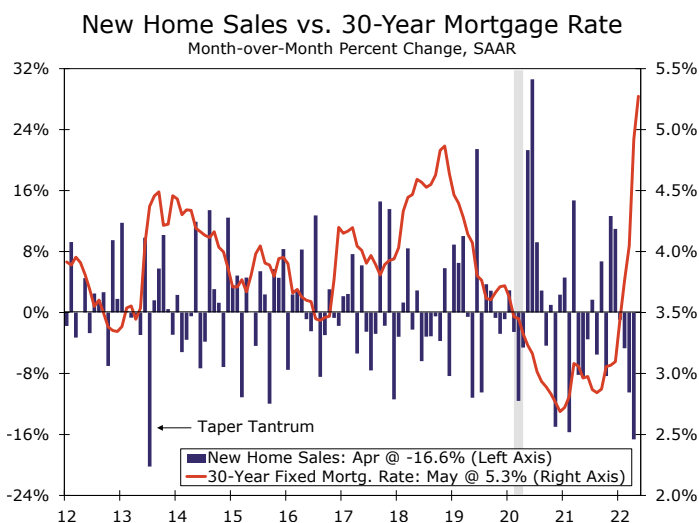
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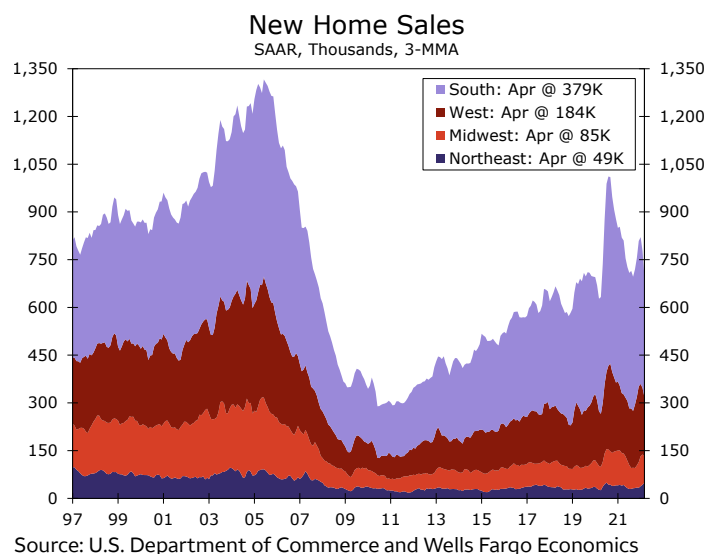
Source: U.S. Department of Commerce and Wells Fargo Economics

New Home Sales Run at the Slowest Pace Since the Onset of the Pandemic

- New home sales declined by a steep 16.6% during April to a 591,000-unit annual pace. April's drop marks the fourth straight monthly decline and the second consecutive double-digit drop. Revisions show that sales have been slightly weaker than initially reported over the past few months. March's originally reported 8.6% decline was revised to a 10.5% drop, while February's original 1.2% decline now shows a 4.7% contraction.
- While new home sales can be volatile on a month-over-month basis, April's decline is the sharpest monthly contraction since July 2013 which coincided with a spike in mortgage rates following the Fed's comments on forthcoming monetary policy tightening and resulting "taper tantrum."
- The 591,000-unit pace of home sales was the slowest pace since April 2020 when sales came to a grinding halt at the onset of the pandemic.
- Sales fell in every region during April. The South (-19.8%) posted the sharpest decline, while the Midwest (-15.1%) also registered a steep drop-off. Sales in the West and Northeast fell 13.8% and 5.9%, respectively.
- Deteriorating buying conditions appear to be hitting sales at the entry level the hardest. Homes priced below \$399,000 accounted for 36% of sales in April, down from 44% in March and 58% of sales last April. Conversely, 64% of this past month's new home sales occurred in homes priced over \$400,000, up from 55% in March and just 42% last April.



Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Economics



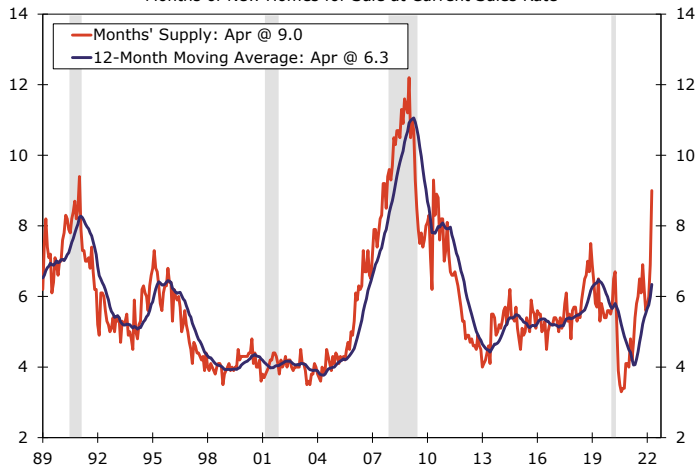
Source: U.S. Department of Commerce and Wells Fargo Economics

Supply Picture Brightens a Bit

- The inventory of unsold homes rose 8.3% to 444,000 units during the month. Inventories have increased in each of the previous four months. The overall months' supply of new homes, or the length of time it would take to sell all available inventory at the current sales pace, rose to 9.0 months, the highest since May 2010.
- Many of the unsold homes are still under construction, however. The number of unsold homes that are still under construction rose to 288,000, which marks the highest level since 2007.
- Home builders continue to contend with supply constraints which make completing new construction a challenge. That said, supply snags appear to be gradually improving, with inventories of completed unsold homes rising by 5,000 to 38,000 homes in April. This increase marks the largest monthly gain in completed homes since August 2007 and the highest level for completed inventory since early 2021.
- New home prices continue to rise at a rapid clip. The median new home price rose to \$450,600, a 19.6% year-over-year gain. April's 19.6% annual gain is slightly softer than the 21.0% increase realized in March. The slight improvement in year-over-year price growth is likely due more to the larger declines in new home sales in the South and Midwest, which are the most affordable regions for new homes. Median prices in April were \$74,000 higher than year-ago levels.

Inventory of New Homes for Sale

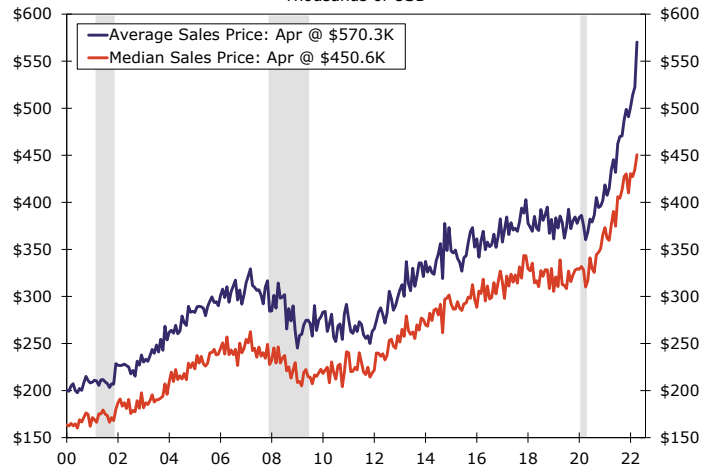
Months of New Homes for Sale at Current Sales Rate



Source: U.S. Department of Commerce and Wells Fargo Economics

New Home Sale Price

Thousands of USD



Source: U.S. Department of Commerce and Wells Fargo Economics

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