

Economic Indicator — May 23, 2024

New Home Sales Wane in April

Plentiful Supply and Softer Price Pressures Remain an Advantage

Summary

Higher Rates Headwind for New Home Sales in April

New home sales dropped 4.7% during April. Although a pullback was expected, the drop was a bit sharper than anticipated. The weakness in new home sales can largely be explained by early April's spurt higher in mortgage rates. Rising inventory levels in the resale market appears to be another factor weighing on sales.

Looking ahead, builders still enjoy several advantages that are likely to support sales this year. Although slightly improved, existing home inventories remain low, which should continue to push buyers into the new home market where inventories remain plentiful. Builders also appear willing to reduce prices and offer incentives to stabilize demand. Builders surveyed by NAHB stepped up their use of price cuts and mortgage rate buydowns in May, which could potentially help to bring buyers back from the sidelines.

Economist(s)

Charlie Dougherty

Senior Economist | Wells Fargo Economics
Charles.Dougherty@wellsfargo.com | 212-214-8984

Jackie Benson

Economist | Wells Fargo Economics
Jackie.Benson@wellsfargo.com | 704-410-4468

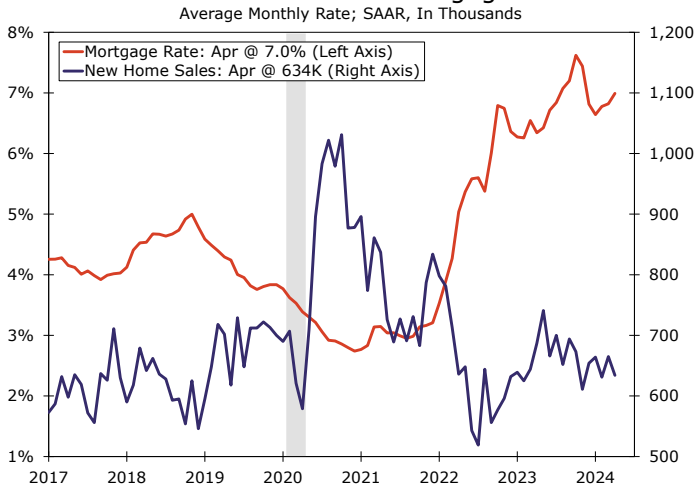
Patrick Barley

Economic Analyst | Wells Fargo Economics
Patrick.Barley@wellsfargo.com | 704-410-1232

Builders Struggle to Overcome Upturn in Mortgage Rates

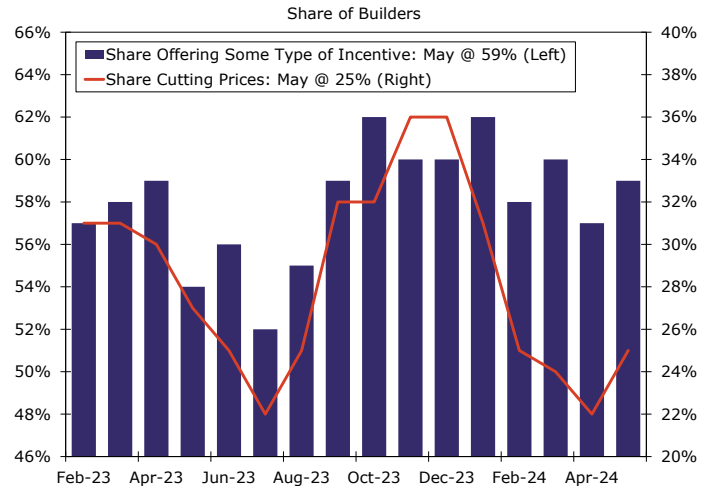
- New home sales dropped 4.7% in April to a 634K unit pace, a sharper decline than expected by the consensus forecast.
- Builders have been fairly successful employing mortgage rate buydowns and price cuts to spark buyer interest, even as affordability conditions have grown more adverse. However, April's downturn suggests that not all builders are able to offset the recent leg-up in financing costs.
- The 30-year fixed mortgage rate climbed throughout April and reached as high as 7.2% in early May according to Freddie Mac. Although rates have since fallen back a bit, early April's surge in financing costs likely weighed on buyer demand over the month.
- April's dip nearly reversed March's spike in sales, which was revised lower. The slower sales pace brought the average pace of new home sales so far this year to 649K, below 2023's average pace of 666K.
- According to the NAHB, builders stepped up their use of incentives in May to offset rising mortgage rates, with 59% of builders surveyed offering incentives to attract buyers. The prevalence of price cuts rose for the first time in four months as 25% of builders slashed prices.
- The median new home price dropped 1.4% in April to \$433,500. Although new home prices were up 3.9% year-over-year, price pressures are more muted for new construction than inventory-constrained resales.
- Plentiful supply continues to be a tailwind for builders. New home inventory rose to 480,000 units in April, the highest count since 2008. New home inventory could sustain 9.1 months of sales in April, up from 7.5 the year prior.
- The bulk of new home inventory are homes currently under construction, but completed homes are accounting for an increasing share. Completed homes made up 20.5% of inventory in April, up from a low of 7.7% in June 2022.
- That's not to say that completed homes are sitting unsold for longer. Finished homes sold in April spent a median of 2.3 months on the market after completion, down from 2.7 in March. This pace remains below the 3.6-month average registered from 2012 to 2019.

New Home Sales vs. Mortgage Rate



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

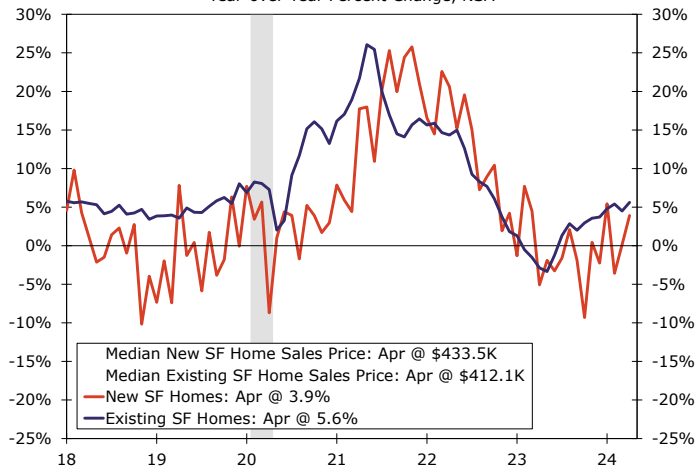
Home Builder Sales Incentives



Source: NAHB and Wells Fargo Economics

Median Single-Family Home Price

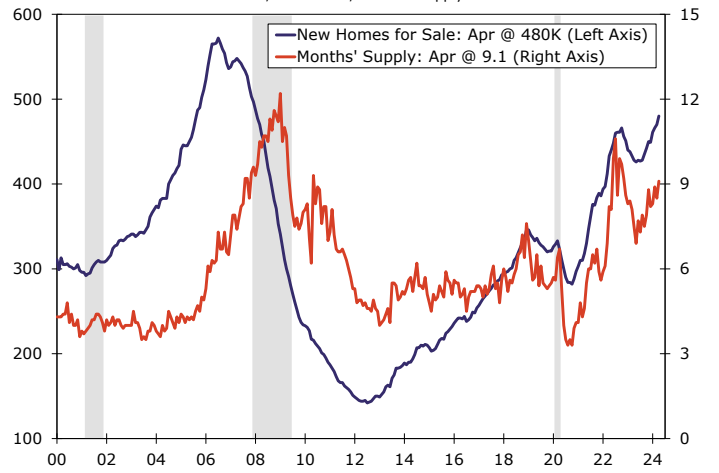
Year-over-Year Percent Change, NSA



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

Inventory of New Homes for Sale

For Sale at End of Month, Thousands; Months' Supply at Current Sales Pace



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

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE