

Economic Indicator — September 27, 2022

New Home Sales Rebound in August

Lower Rates and Price Discounts Provide Temporary Boost to Sales

Summary

August Brings Brief Respite for Housing Correction

- New home sales jumped 28.8% over the month to a 685K unit annual pace in August, ending two months of consecutive declines. Year-to-date, new home sales are running 14.1% slower than the same period last year.
- Sales rose in every region in August, with the Northeast (66.7%), South (29.4%), West (27.5%) and Midwest (16.7%) all registering improvements.
- Mortgage rates trended lower in the second half of July and first weeks of August, which likely spurred buyers to move forward with a purchase. Further incentives were likely provided by builders, who are increasingly turning to rate buy-downs and price-discounting to boost sales. The upside surprise is also a reminder that underlying home buying demand remains strong and worsening affordability is the major factor holding back prospective buyers.
- Mortgage rates have spiked back up and are currently close to 7%, however. The move higher threatens to significantly reduce home buying activity in the months ahead.
- The leg up in mortgage rates follows higher 10-year Treasury yields and reflects expectations for even tighter monetary policy to combat inflation. The spread between MBS and 10-year Treasury yields has widened the most since 2008, likely reflecting rising interest rate volatility and increased prepayment risk.
- Increased building material availability has allowed builders to complete more homes. The monthly count of sold completed homes rose to 201K in August, the highest pace so far this year. The monthly count of unsold completed homes also increased to 49K, a post-pandemic high.
- The total number of homes for sale rose to 461,000 during the month, up from 459,000 the month prior. The increase in sales pace pushed months supply down to 8.1 months from 10.4 months in July.
- The median new home price fell 6.3% during the month to \$436,800. This equates to an 8.0% year-over-year gain, the softest annual rise since November 2020.
- Despite August's unexpected surge in new home sales, higher mortgage rates are likely to continue to slow home buying and take the air out home price appreciation, a process that already appears underway.
- The FHFA House Price Index declined 0.6%, a sharper drop than consensus expectations and the first monthly fall since May 2020.
- Similarly, the S&P CoreLogic Case-Shiller 20-City Composite Home Price Index (HPI) fell 0.4% in July, the first monthly decline in over a decade. The 10-City Composite and National Composite indices fell 0.5% and 0.2%, respectively, in July.
- On balance, home prices are still well above prior year levels, with the national HPI up 15.8% on a year-over-year basis. Still, home prices appear set for further softening as sellers lower their asking prices in a bid to attract a dwindling pool of buyers stung by higher mortgage rates.
- Sharply higher financing costs in September increases the risk home prices moderate more quickly. That noted, higher rates may serve to dissuade sellers from trading to a higher cost mortgage. Reduced turnover as buyer demand remains strong could limit the extent home prices cool.

Economist(s)

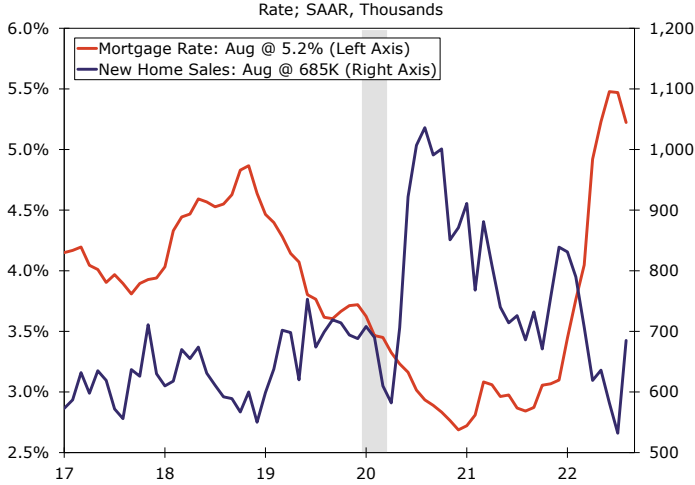
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New Home Sales vs. Mortgage Rate



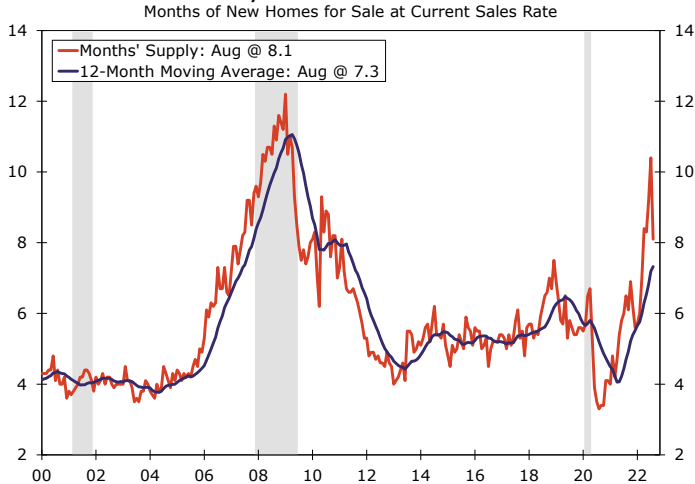
Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Economics

MBS vs. 10-Year Treasury Spread



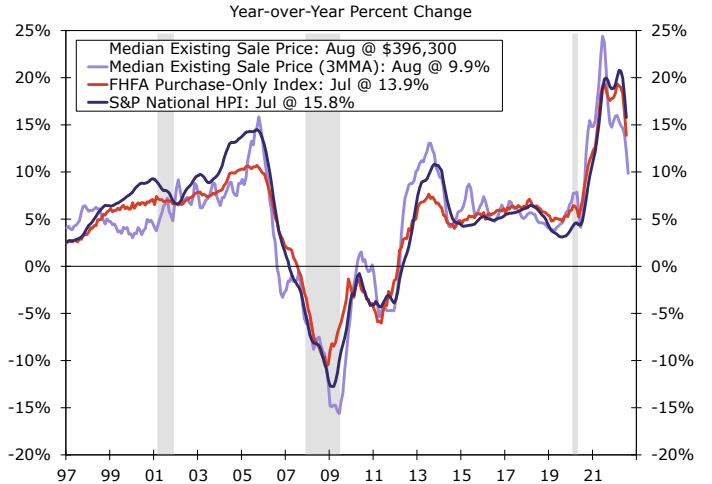
Source: Bloomberg Finance L.P. and Wells Fargo Economics

Inventory of New Homes for Sale



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

Home Prices



Source: NAR, FHFA, S&P CoreLogic and Wells Fargo Economics

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