



Economics Group

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New Home Sales Begin 2019 on a Soft Note

New home sales fell 6.9% in January to a 607,000-unit pace. Sales for prior 3 months were revised significantly higher, however, mostly due to updated seasonal adjustment—not stronger sales. Prices continue to moderate.

New Home Sales Begin The Year on a Soft Note

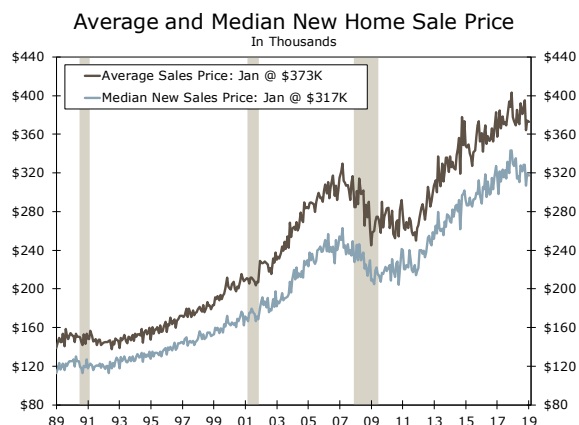
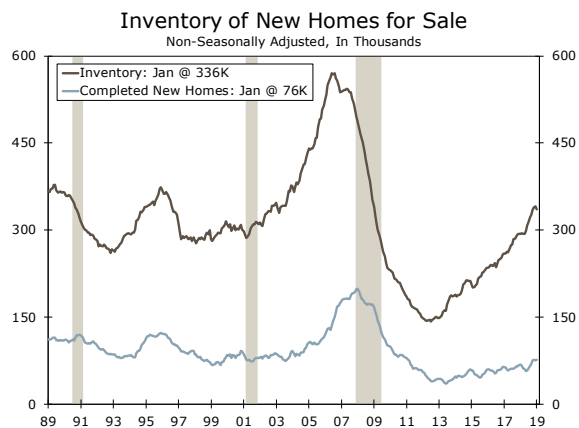
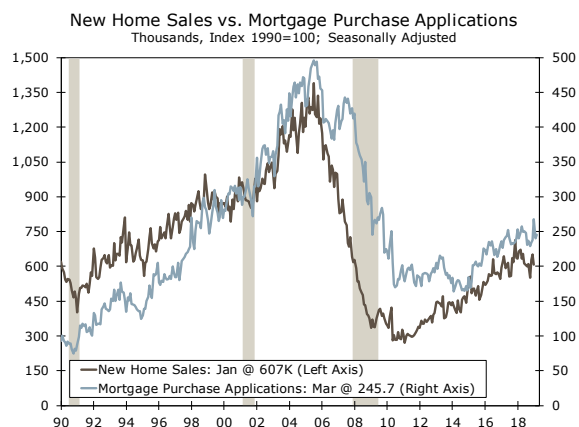
New home sales fell 6.9% in January to a 607,000-unit pace. Consensus estimates had called for a modest increase, as homebuilders had reported a rise in prospective buyer traffic earlier this year. Homebuilder confidence and consumer confidence have both rebounded, following the Fed's monetary policy pivot. Moreover, with mortgage rates about a half of a percentage point lower than they were in December, mortgage purchase applications have increased. Given the improvement in these advance indicators, we are looking for some improvement in new home sales as we move into the spring. The Fed's abrupt reversal in its policy stance likely caught many potential buyers unaware. Such buyers may need a little more time before they feel comfortable signing purchase contracts.

The 'large' upward revisions to the prior three months' data may also have made it more difficult to post a seasonally adjusted increase. On a non-seasonally adjusted basis, about 6,000 more homes were sold during the last three months of 2018 than previously reported. Virtually all of that gain was in the South. Because this time of year is such a slow period for new home sales, even small changes can lead to outsized impacts in the seasonally adjusted data. On a seasonally adjusted basis, new home sales averaged a 611,000-unit pace during the last three months of 2018, up from a previously reported 590,000 units—so 6,000 more actual sales resulted in a reported 21,000-unit increase in the annual sales pace.

Looking past these technical hurdles, new home sales look set to improve this spring. In addition to the drop in mortgage rates, builders now have a little more inventory for prospective buyers to choose from. Builders currently have 336,000 homes available for sale, which equates to a 6.6-month supply. That is up from 295,000 units a year ago, or a 5.6-month supply. About three quarters of that inventory is in the South and West, where the bulk of new homes are sold.

Much of this new product is also available at lower price points. The median price of a new home was \$317,200 in January, which is 3.9% lower than it was a year ago. The drop in the median price reflects a shift in demand toward more moderately priced homes. Thirty-seven percent of the homes sold in January sold for a price between \$200,000 and \$299,000, up from 27% a year ago. By contrast, the proportion of home sales priced at \$400,000 or more has fallen to 27% from 33% one year ago. The drop likely reflects a shift in new home construction to less expensive markets and submarkets.

The combination of lower interest rates and lower new home prices should bring buyers back out this spring. We are looking for new home sales to rise 2.9% this year to 645,000 homes. Most of that gain should come in the South, where homes are relatively more affordable, as well more affordable parts of the West, such as Phoenix and Las Vegas.



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