

Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
 Charlie Dougherty, Economist
charles.dougherty@wellsfargo.com • (704) 410-6542

New Home Sales Drop in May

New home sales fell 7.8% to 626,000 unit pace during May. Despite the monthly decline, lower mortgage rates and builder discounts have led to an overall improving trend and sales are up 4.0% on a year-to-date basis.

New Home Sales Weaken, but Improving Trend Intact

Despite sliding mortgage rates and a pickup in purchase application activity, new home sales plunged 7.8% during May. That noted, the pace of new home sales remains solid and May's weak report overshadows an improving overall trend. Sales are running at a 670,000 unit pace over the past three months, well ahead of the 615,000 unit pace averaged throughout 2018.

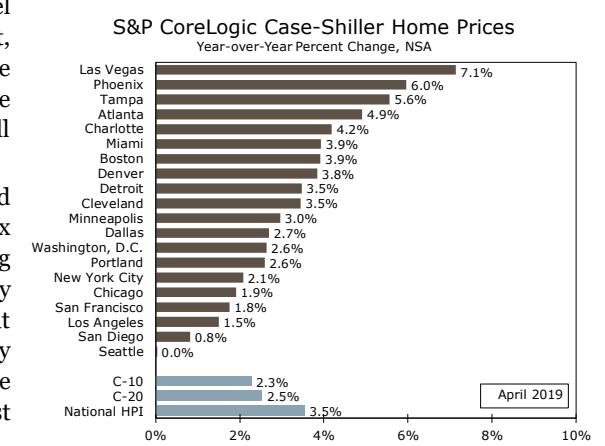
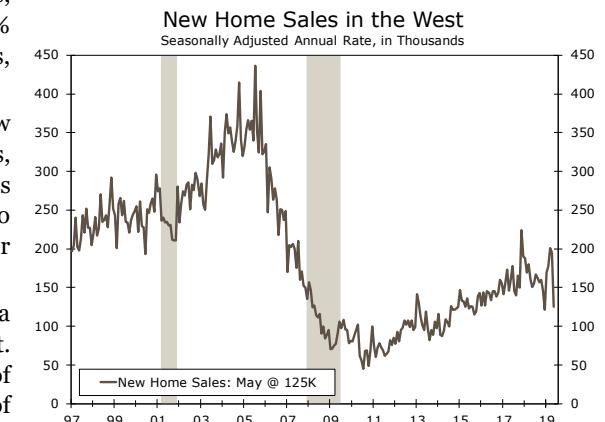
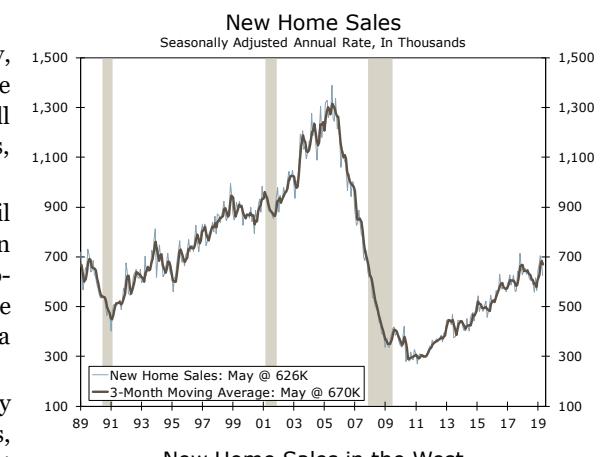
Monthly data tend to be noisy and are prone to large revisions. Sales in April were revised up, while March's blow-out month of sales were revised down slightly. Through the volatility, sales are still up a solid 4.0% on a year-to-date basis. We expect lower mortgage rates to continue to support the steadily improving trend in new home sales in coming months, however a surge in activity is unlikely.

Furthermore, there appears to have been a fair amount of regional variability in May. Sales in the West, which account for roughly 26% of total sales, plunged 35.9% during the month. The Northeast also registered a 17.6% drop. Sales in the South, which is by far the largest market for new homes, rose 4.9%, while the Midwest also posted a 6.3% gain.

The median home price fell 2.7% year-over-year to \$308,000. Lower new home prices compared to last year reflect steep discounts offered by builders, which has helped bring down rapidly rising inventories. Inventory levels edged 0.3% higher and the month's supply at the current sales pace grew to 6.4 months during May. That noted, inventories remain significantly lower than the elevated level experienced in the second half of last year.

Sales of new homes priced *above* \$300,000 weakened during May, likely a result of the precipitous decline in sales in the relatively-higher priced West. Meanwhile, demand continues to be stronger at the entry level. Sales of homes priced *below* \$300,000 rose during May and accounted for 47% of total sales. Homebuilders have responded to strengthening entry-level demand and shifted their focus to building more affordable product, however rising construction costs, especially for qualified labor, make building entry-level homes increasingly a challenge. A scarcity of new home construction at more affordable price points is likely impeding overall activity.

More broadly, home price appreciation continues to soften. Reported separately, the S&P CoreLogic Case-Shiller National Home Price Index (HPI) increased 3.5% in April, a slower pace than both the 3.7% rise during March and 6.5% registered during the same month last year. The 20-City Composite Index also showed price appreciation across the country was flat during the month and eased 2.5% over the year. A sharp 0.6% monthly decline in Seattle likely weighed on the topline index, however 16 of the 20 covered markets posted gains during April. The West and Southeast continue to see the strongest growth in home values.



Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2019 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, 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. 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 Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE