

Economic Indicator — January 26, 2022

New Home Sales Top Expectations in December

Summary

New Home Sales Rise Solidly at Year End

Sales of new single-family homes rose 11.9% in December to an 811,000-unit pace, which is the highest since March 2021. The rise topped consensus expectations but was tempered somewhat by downward revisions to sales in both October and November. Sales were likely bolstered by an increase in home completions last fall, particularly for more modestly priced homes. The bulk of the increase in sales, however, continues to come from sales of homes where construction has not yet started or from homes currently under construction.

The median price of a new home was \$377,700, which was up just 3.4% from last December. The modest price rise is deceiving, however, and reflects a substantial increase in the share of home sales priced \$300,000 or below. For the year as whole, preliminary data show the median price of a new home was \$392,900, which is up 16.6% from the prior year. The average price of a new home rose 15.8% to \$457,300. The large gap between the two reflects the strength in home sales at the high end of the market, which has benefited from the strength in the stock market.

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New Home Sales End 2021 on a High Note

New home sales jumped 11.9% to an 811,000-unit annual rate, marking the strongest sales pace for new homes since last March. The increase was tempered somewhat by downward revisions to sales in both October and November. New home sales for the year came in at 762,000 units, which was down 7.3% from 2020. The drop reflects the impact of ongoing supply chain bottlenecks which have lengthened the timeline for building new homes. Supply chain bottlenecks eased up a bit last fall, which allowed more homes to be completed, but then worsened later in the year following devastating floods in western Canada which put further strains on lumber.

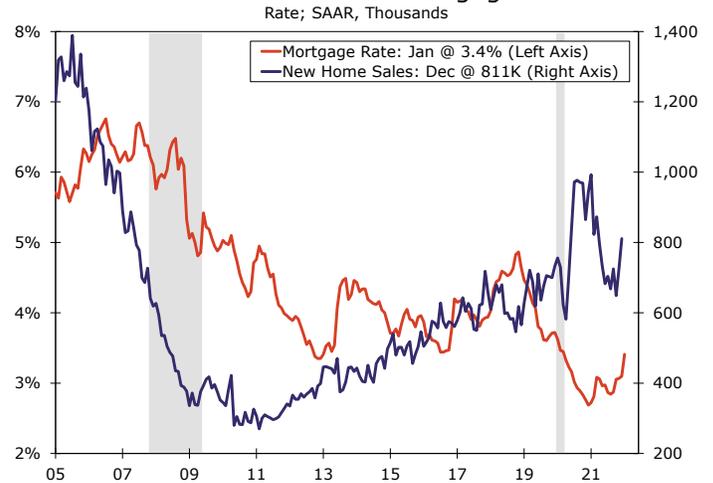
December's jump in new home sales also likely reflects efforts by home buyers to stay a step ahead of rising mortgage rates. Discussions about the Fed accelerating its timetable for normalizing monetary policy brought about much more discussion about rising interest rates, which likely prompted some buyers to pull forward their plans. Supply chain woes have made this more difficult, however, because it is hard to lock in on a mortgage if you do not know when a home will be completed.

Mild weather may have also helped. Sales surged 56.4% in the Midwest to 86,000 units in December. Sales also rose solidly in the South, climbing 14.9% to a 456,000-unit pace, and rose 0.4% in the West to a 242,000-unit pace. Sales fell 15.6% in the Northeast to a 27,000-unit pace.

December's big jump pulled the months' supply of new homes available for sale back down to six months. This closely watched inventory measure is not in line with its historic norm, at least technically. Builders have scrambled to secure more buildable lots, hire workers and strengthen supply chains. The time needed to build a home still remains much longer than usual, and builders have an unusually large number of homes currently under construction due to supply chain challenges. The latest construction data show builders currently have 769,000 single-family homes under construction, which is the highest since January 2007.

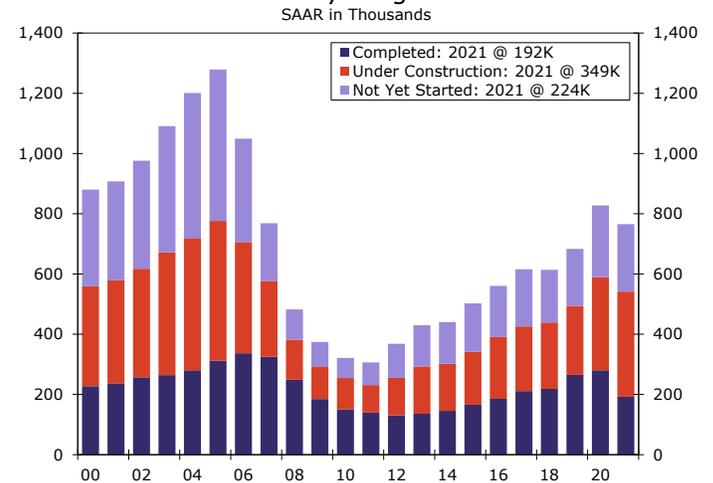
With so many homes under construction, it is not surprising that homes under construction have accounted for a growing share of new home sales. Preliminary data show that 45.4% of new home sales this past year were for homes currently under construction, compared to 37.2% of new home sales in 2020. Homes where construction has not yet started also accounted for a larger share of sales, accounting for 29.4% of overall new home sales, up from 28.5% the prior year. Completed homes accounted for just 25.2% of new home sales, down from 34.3% the prior year.

New Home Sales vs. Mortgage Rate



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

New Home Sales by Stage of Construction

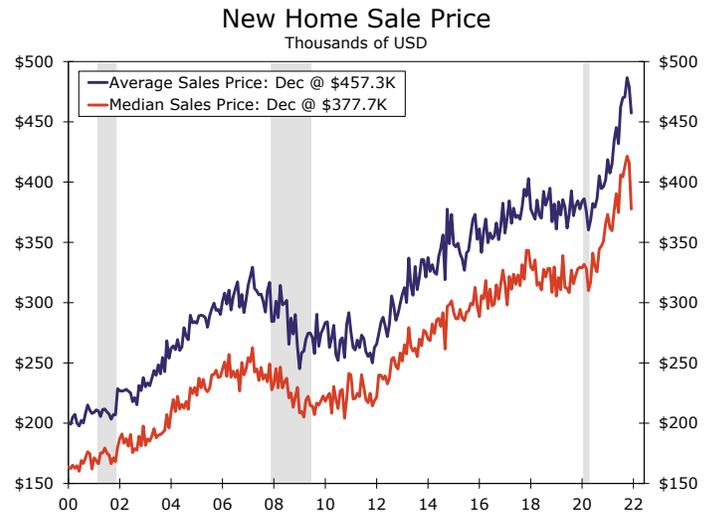


Source: U.S. Department of Commerce and Wells Fargo Economics

Home Prices Rose Solidly in 2021

The median price of a new home fell from \$416,100 in December to \$377,700 in December on a not seasonally adjusted basis. The drop is due to a sharp rise in the proportion of homes sold that at were priced at below \$300,000 during the month. Home prices at less than \$300,000 accounted for 7% of new home sales in November, but the share jumped to around 13% in December, thanks to the huge increase in sales in the South and Midwest, where single-family home prices tend to be much lower than in the West and Northeast.

For the year as a whole, preliminary data show the median price of a new home was \$392,900, which is up 16.6% from the prior year. The average price of a new home rose 15.8% to \$457,300. The large gap between the two reflects the strength in home sales at the high end of the market, which has benefited from the strength in the stock market. Sales of homes priced over \$500,000 accounted for 28% of new home sales in 2021, up from 18% the prior year.



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

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