

Economic Indicator — March 25, 2024

New Home Sales Slip in February Uptick in Mortgage Rates Looks to Have Weighed on Sales

Summary

Strengthening Trend Still Largely in Place

New home sales dipped 0.3% to a 662K-unit pace during February. The slight decline occurred against a backdrop of mortgage rates creeping higher during the month. Despite easing a bit recently, affordability is still a major constraint on homebuyer activity and the edge-up in financing costs looks like it was enough to discourage transactions. More resale inventory coming to market also may have cut into sales during the month. All that being said, a strengthening trend largely remains intact, with sales up 5.9% on a year-over-year basis in February. Moving forward, a structural shortfall of available single-family homes as well as home builders' ability to bridge the affordability gap with price incentives should continue as tailwinds and support an improving sales pace this year.

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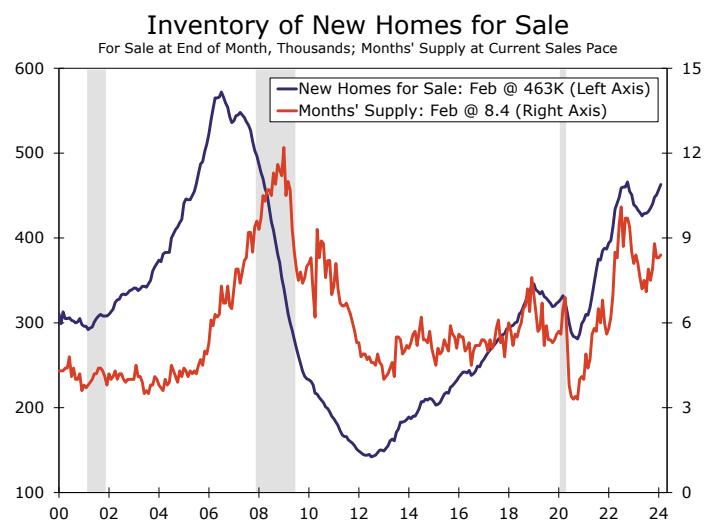
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New Home Sales Miss a Beat in February

- New home sales fell 0.3% during February. Although slower, the 662K-unit pace was just under the upwardly revised 664K-unit sales pace in January.
- The tiny decline registered was likely owed to an uptick in mortgage rates during the month. According to Freddie Mac, the average 30-year mortgage rate rose to 6.8% in February from 6.6% the month prior.
- As we have noted recently, more resale inventory is coming to market. While still low, the relative improvement in available existing homes also may have cut into new home sales during the month.
- The minor slip in new home sales stands in stark contrast to a surge in existing home sales during the same month. The discrepancy is likely owed to differences in the methodology behind each data series. New home sales are a snapshot of signed sales agreements whereas existing home sales data measures contract closings, which can lag by a month or two. As such, the marginal fall in new home sales may be presaging a near-term slowdown in buyer demand on account of worsening affordability conditions.
- All that being said, a strengthening trend in new home sales remains largely intact. Sales were up 5.9% on a year-over-year basis in February. On a not-seasonally adjusted, not annualized basis, the count of new homes sold in the first two months of this year stood at 117K, up 4.4% from the 112K count during the same period in 2023.
- Moving forward, a structural shortfall of available single-family homes as well as home builders' ability to bridge the affordability gap with price incentives should continue as tailwinds and support an improving sales pace this year.

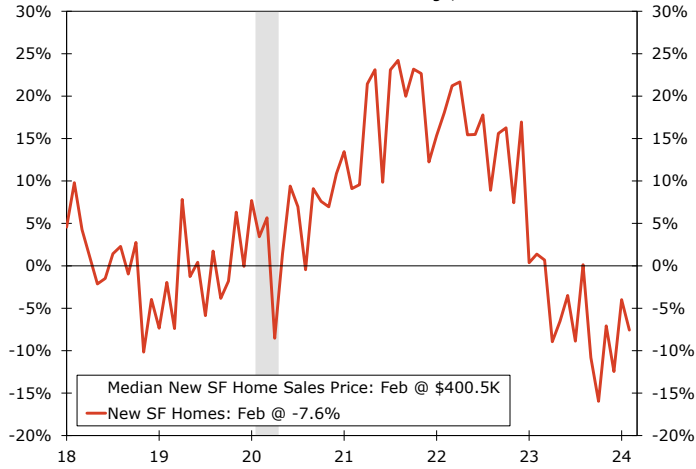


Plentiful Inventory and Lower Construction Costs Push Prices Lower

- February's steady sales pace gave inventory further room to grow over the month as builders continue to churn out new supply. The months' supply of new homes at the current sales pace increased to 8.4 months from 8.3 in January.
- In level terms, this amounts to there being 463,000 new single-family units available for sale at the end of February. The stock of new homes has now risen for seven straight months and is inching toward the cycle peak of 466,000 reached in October 2022.
- Abundant supply is helping to dull price growth for new homes. The median price for a new home fell 7.6% year-over-year to \$400,500. The median price is now down 19.4% from its cycle peak of \$496,800 reached in October 2022.
- The ability to offer incentives remains a key advantage for the new home market. According to NAHB's March builder survey, 60% of builders reported offering same type of incentive to buyers. Price cuts are becoming less common, however, with just 24% of builders reporting cutting prices in March, the lowest share since July 2023.
- Stable material prices may also be exerting downward pressure on prices for new construction. The producer price index for residential construction was up 2.6% on a year-over-year basis in February.

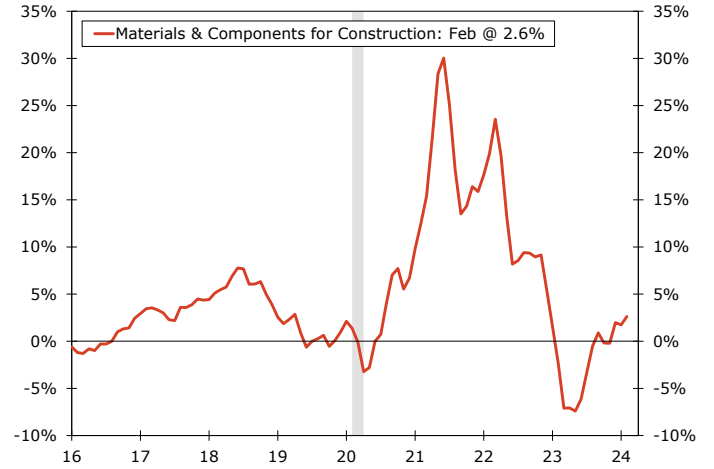
In particular, lower lumber prices, which are a major input for home builders, appear to be providing cost pressure relief for builders.

Median New Single-Family Home Price
Year-over-Year Percent Change, NSA



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

Producer Price Index: Residential Construction
Year-over-Year Percent Change



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

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