

Economic Indicator — July 24, 2024

# New Home Sales Retreat in June

## High Mortgage Rates Eat into Buyer Demand

### Summary

#### Lower Rate Expectations Tomorrow Dent New Home Sales Today

The housing market continues to lose momentum. New home sales dipped 0.6% in June to a 617K annual rate, a weak outturn when contrasted with expectations for a modest improvement. Although prior data were revised higher, the pace of new home sales in June remained at its lowest level since November 2023 and 7.4% below its year-ago rate. Prices softened year-over-year, and inventories rose on the slower sales pace. Despite increased use of builder incentives, pervasively high financing costs appear to be one hurdle that builders cannot overcome at the present moment. The average 30-year fixed mortgage rate trended slightly lower in June but remained close to 7.0%.

Builders report that buyers are in wait-and-see mode amid expectations for lower mortgage rates later this year. As inflation continues to progress toward target and the labor market shows signs of softening, we continue to expect the first Federal Reserve rate cut in September. If realized, lower rate expectations would likely prompt mortgage rates to retreat more meaningfully and help to reignite buyer interest.

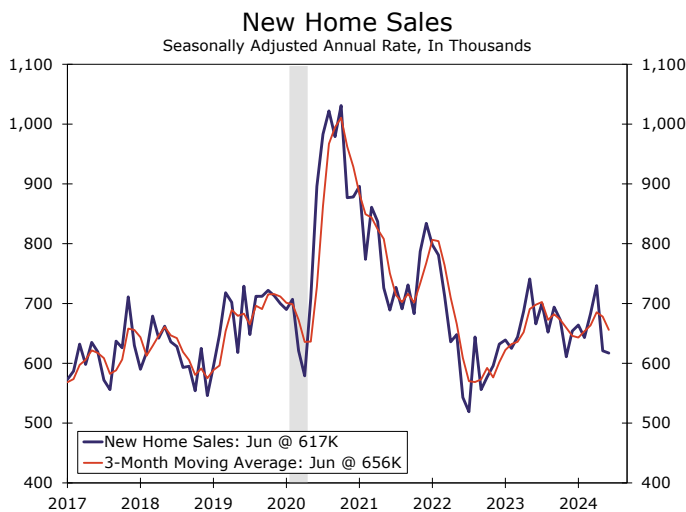
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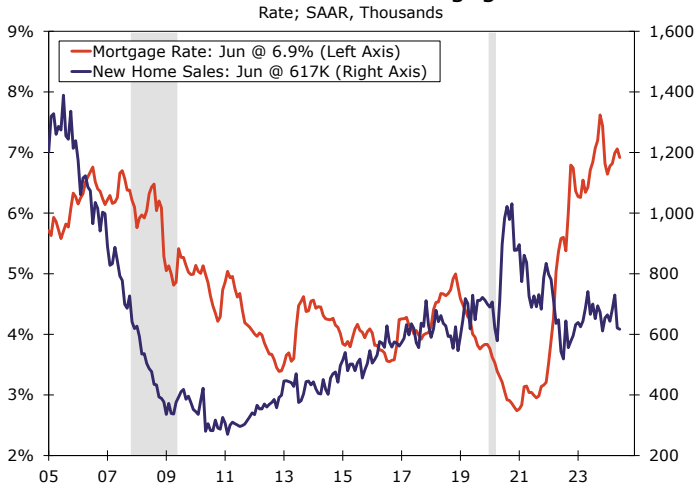


Source: U.S. Department of Commerce and Wells Fargo Economics

## New Home Sales Losing Steam

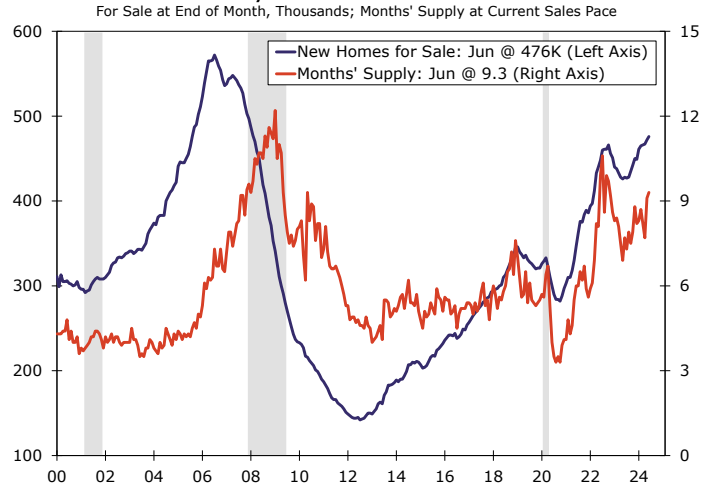
- New home sales waned for the second consecutive month in June as high financing costs discourage prospective homebuyers. The dip amounted to a mere 0.6% decline, but the 617K annual sales pace was significantly lower than the consensus expectation of 640K made by economic forecasters.
- June's deterioration was coupled with upward revisions to prior data. However, the sales pace remained 7.4% below June 2023.
- The non-seasonally-adjusted median sales price dipped 0.1% below its year-ago level, the fifth straight month that new home prices have declined on an annual basis.
- Despite softening prices, elevated mortgage rates are fostering poor affordability conditions. New home sales are counted at the time of contract signing, which is indicative of mortgage rates in that current month. After surpassing 7.0% in April and May, the Freddie Mac 30-year fixed mortgage rate regained a six-handle in June, but remained far above historic norms at 6.9%.
- Builder incentives seem to hold less sway over homebuyers as mortgage rates remain stuck at high levels. Sixty-one percent of builders surveyed by the National Association of Home Builders (NAHB) reported offering sales incentives in July, and 31% offered price cuts, the highest share since January.
- NAHB builders report that sales are being held back by buyer expectations for lower interest rates later this year. Declines in buyer traffic are sapping builder confidence in turn, leading to a sustained pullback in new home construction.
- Aside from weak demand, plentiful new home inventory has also discouraged new single-family development. The count of new homes for sale rose for the third consecutive month in June and is now sitting above the prior cycle peak reached in October 2022. Available listings could sustain 9.3 months' supply at June's sales pace, above the 7.7 months' supply registered in June 2023.

**New Home Sales vs. Mortgage Rate**



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

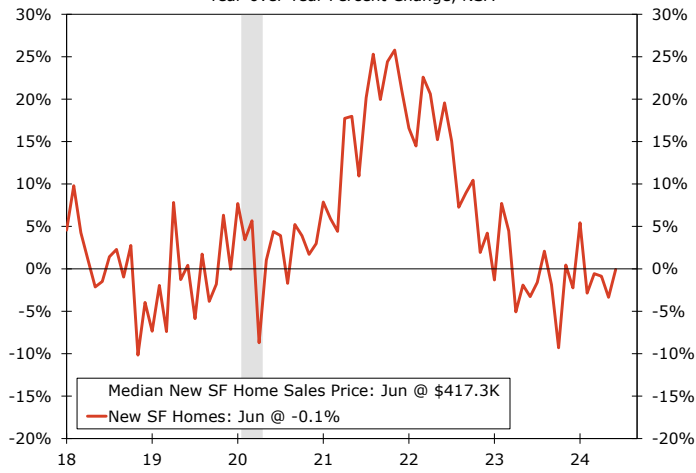
**Inventory of New Homes for Sale**



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

### Median New Single-Family Home Price

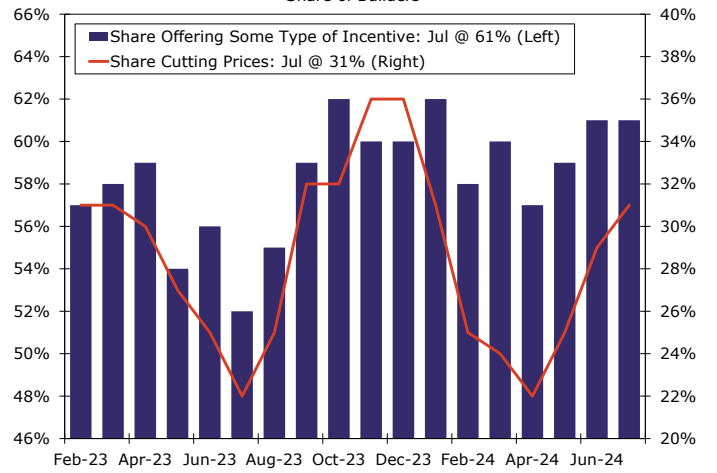
Year-over-Year Percent Change, NSA



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

### Home Builder Sales Incentives

Share of Builders



Source: NAHB and Wells Fargo Economics

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