



# Economics Group

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## 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.

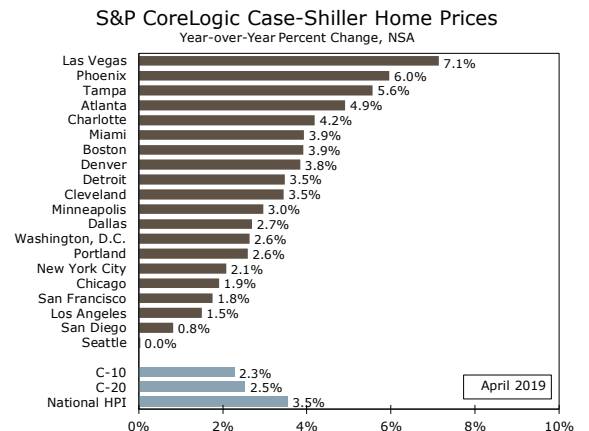
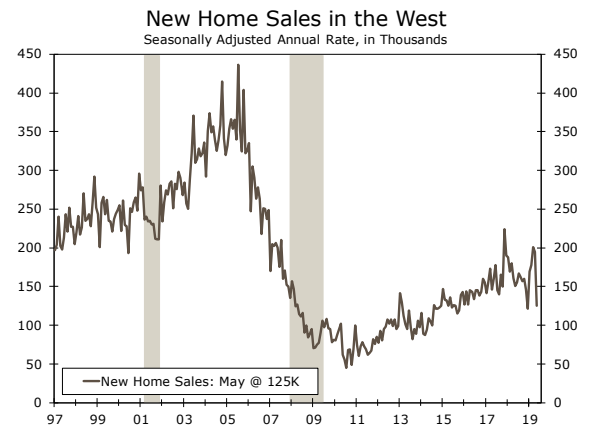
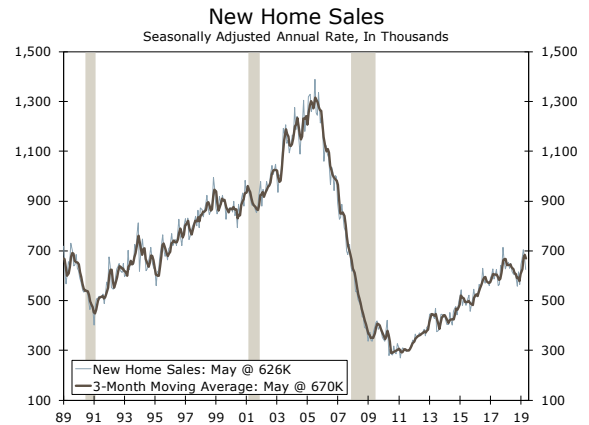
Monthly data tend to be noisy and are prone to large revisions. Sales in April were revised up, while March’s blow-out month of sales were revised down slightly. Through the volatility, sales are still up a solid 4.0% on a year-to-date basis. We expect lower mortgage rates to continue to support the 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.



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