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September New Home Sales: Sales Trending Firmly Higher Despite Small Slip In September

- > New home sales fell to an annual rate of 701,000 units in September from August's (revised) sales rate of 706,000 units
- > Months supply of inventory stands at 5.5 months; the median new home sale price was down by 8.8 percent year-on-year

New home sales fell to an annualized rate of 701,000 units in August, just below our forecast of 707,000 units. Though the initial estimate of August sales was marked down slightly, from 713,000 to 706,000 units (annualized), the monthly sales rate has nonetheless topped the 700,000 mark in back-to-back months for the first time since June and July of 2007, when the housing market was heading in a decidedly different direction. After having been knocked off track by the affordability shock of late-2018, new home sales have clearly responded to the subsequent drop in mortgage interest rates and are trending firmly higher. Though this can at times be lost in what are often wild swings in the headline sales number from one month to the next, it is readily apparent in the not seasonally adjusted data, as indicated by the red line in our top chart. Still, though not nearly to the same degree as is the case with sales of existing homes, sales of new homes are being held back by supply side issues. The months supply metric stands at 5.5 months, and units on which construction has not yet started continue to account for an elevated share of total new home sales. One thing that stands out in the September data is that the median new home sales price fell to \$299,400 (not seasonally adjusted), the lowest median sales price since February 2017, as the sales mix was much more tilted towards the lower price ranges than had been the case in recent months. Even if this tilt is a bit exaggerated in the September data, it reflects concerted efforts by many builders to target the lower price points, specifically first-time buyers. This is one reason we expect new home sales to push higher, even if at a modest pace, over coming months.

On a not seasonally adjusted basis, there were 54,000 new home sales in September, just off of our forecast of 55,000 sales. On a year-to-date basis through September, new home sales are up 7.11 percent in 2019, though there are stark differences in performance across the four broad Census regions. Year-to-date sales are up 12.77 percent in the South and 6.87 percent in the West, but are down 11.29 percent in the Midwest and 11.54 percent in the Northeast. These regional splits are apparent in the running 12-month total of not seasonally adjusted sales, as seen in our middle chart. Thus far in 2019, the South and West regions have combined to account for 85.20 percent of all new home sales. Nationally, the running 12-month total of not seasonally adjusted sales stood at 652,000 units as of September, the highest such total since April 2008.

Sales of new and existing homes stumbled badly in late-2018, reflecting the cumulative effects of a prolonged period of robust growth in house prices and mortgage interest rates hitting a multi-year high in November 2018. That weakness in sales persisted into early 2019. What is notable, however, is that new home sales have recovered much more strongly than has been the case with existing home sales, which we see as a reflection of differences in supply side conditions. Inventories of existing homes for sale have been shrinking, thus acting as a material drag on sales. While the supply of what we refer to as "physical" new homes for sale – units either completed or under construction – has been drifting lower over recent months and remains below historical norms, the one buffer builders have at their disposal is that new home sales can be booked before construction has started. Such sales accounted for 31.5 percent of new home sales in September, and that this ratio has for some time been elevated means that single family starts will continue to push higher as builders work to clear these order backlogs.

The median new home sales price has been drifting lower over the past several months, which is a reflection of the shifting mix of sales across price ranges. This has contributed to a narrowing of the new home premium. At the same time, however, supply constraints are supporting increases in the median existing home sales price, which is also playing a role in the shrinking new home premium. To the extent builders focus on the lower price points, the new home premium will narrow further, but will likely remain above its long-term average. That said, builders can clearly profit by targeting those buyers who are being shut out of the existing homes market, which will be a support for new home sales in the months ahead.

