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## December New Home Sales: Soft End To A Solid Year

- > New home sales fell to an annual rate of 694,000 units in December from November's (revised) sales rate of 697,000 units
- > Months supply of inventory stands at 5.7 months; the median new home sale price rose by 0.5 percent year-on-year

New home sales fell to an annualized rate of 694,000 units in December, brutalizing our above-consensus forecast of 764,000 units, while prior estimates of sales over the September through November period were revised lower. Our forecast of December new home sales was consistent with other housing market data for the month of December. Atypically warm weather led to a spike in single family housing starts, and homebuilder confidence hovered at a two-decade high, and we thought this would carry over into the data on new home sales. But, as we noted in our *Economic Preview*, the data on new home sales are notoriously flighty, and applying reason to a forecast of new home sales seldom goes well. Yet, that's precisely what we did, and our reward was the biggest miss of any forecast in the weekly surveys. In any event, new home sales posted a double-digit increase for 2019 as a whole, and the data on single family housing permits and starts, elevated builder confidence, and still-favorable mortgage interest rates are all in line with our view that there is more upside room for new home sales in 2020. Now if we can only get the Census data to cooperate . . .

On a not seasonally adjusted basis, there were 47,000 new homes sold in December, short of our forecast of 53,000 sales. One element of the data on unadjusted sales that looks more than a bit out of line is the estimate of only 23,000 sales in the South region, well below our forecast of 31,000 sales and the lowest monthly total for the region since December 2016. This puts December 2019 sales in the South below sales in December 2018, when new home sales got crunched by the affordability shock. To our earlier point, the unadjusted December data on single family permits and starts in the South region are considerably stronger than the estimate of new home sales. So, sure, the numbers are what the numbers are and our forecast was way off the mark, but that doesn't change our view that the initial estimate of December new home sales in the South region looks highly suspect.

For full-year 2019, the not seasonally adjusted data show a total of 681,000 new home sales for the U.S. as a whole, a 10.4 percent increase from the 617,000 sales in 2018. The 397,000 sales in the South region represent a 13.8 percent increase from 2018, while the West region saw 184,000 new home sales, up 13.6 percent from 2018. In contrast, there were 70,000 new home sales in the Midwest region in 2019, a 7.9 percent decline from 2018, while the 29,000 sales in the Northeast region represent a 9.4 percent decline from 2018. The South and West regions accounted for 85.3 percent of total new home sales in 2019, a bit higher than has been the case historically.

Though at December's sales rate inventories are equivalent to 5.7 months of sales, we continue see the new homes market as undersupplied. Spec inventories, or, for-sale new homes that are either completed or in some phase of construction, fell over the course of 2019, to the point that November and December saw the largest year-on-year declines in spec inventories since November 2012. While conditions are primed for further gains in new home sales in 2020, the magnitude of any such gains will be capped unless builders are able to bring more inventory to the market. This is a point we've been stressing for some time now – builders are contending with shortages of buildable lots, more stringent and/or more costly entitlement processes in many markets, and labor shortages. We've noted that lean inventories mean that existing home sales have gotten less mileage from lower mortgage interest rates than otherwise would have been the case, and the same is true, for different reasons, in the market for new homes.

Lean inventories are sustaining pricing power on the part of builders/sellers. That the new home "premium," or, the gap between the median sales price of new and existing home sales, has narrowed sharply reflects the extent to which the median sales price on existing homes has continued to rise strongly while growth in the median sales price on new homes has softened. To the extent builders are unable to step up the pace of construction, that will sustain pricing power but will also, as with existing home sales, make new home sales vulnerable to even moderately higher mortgage interest rates. So, as with existing home sales, inadequate inventories pose a downside risk to our 2020 forecast of new home sales.

