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April New Home Sales: Reserving Judgment On An Oddly Strong Number

- › New home sales rose to an annual rate of 623,000 units in April from March's (revised) sales rate of 619,000 units
- › Months supply of inventory stands at 6.3 months; the median new home sale price fell by 8.6 percent year-on-year

Total new home sales rose to an annualized rate of 623,000 units in April, trouncing our forecast (481,000) and the consensus forecast (480,000). Sure, sometimes you just get your hat handed to you, and you move on with your life, or, in this case, you move on to the next forecast. That said, we have some doubts about the April new home sales data. Aside from the inherent volatility in the new home sales data, the April data on new home sales seem, at least at first glance, out of alignment with the April data on single family housing permits and starts. Additionally, it is important to keep in mind that the Census data on new home sales do not account for cancellations – new home sales are booked when a sales contract is signed, regardless of whether the sale is ultimately closed. As such, reported new home sales will overstate actual sales during times of rising cancellations, and with many builders having reported rising cancellations in April, it is likely that the Census Bureau's April new home sales figure is overstating actual sales. As with the March data, Census reports that their data collections methods changed to reflect factors such as social distancing and some local government offices either being closed or operating at diminished capacity. But, Census reports that response rates were within a normal range, and that the quality of the new home sales data is also within normal ranges.

On a not seasonally adjusted basis, there were 59,000 new home sales in April, mocking our forecast of 46,000 sales. The blow to our pride notwithstanding, this beat is meaningful, as it tells us that the beat on the headline, i.e., seasonally adjusted and annualized, sales number is not simply the result of overly generous seasonal adjustment. The question, as noted above, is really whether the Census Bureau's unadjusted sales number is itself genuine. It is important to note that new home sales can be booked at three different stages – before construction has been started, when construction is underway, or after construction has been completed. In April, there was a spike in the number of sales of units on which construction had not yet been started, more than offsetting a mild decline in sales of under construction units and a sharp decline in sales of completed units. The magnitude of the increase in sales of units on which construction had not yet been started seems somewhat, even if not highly, suspect to us, given that virtually the entire nation was under stay at home orders throughout the month of April. Granted, builders were able to conduct showings on an appointment basis in many parts of the country, and prospective buyers may be more comfortable with online showings of new homes than with existing homes, but, nonetheless, if April new home sales are ultimately revised lower, this will be the first detail we look at.

The April report on new residential construction did show a drop-off in single family completions, which is consistent with the reported decline in sales of completed new homes. This contributed to what was a sharp decline in spec inventories in April, as seen in our bottom chart. Keep in mind that spec inventories had been steadily drifting lower since hitting a cycle high in early 2019, a sign that builders had been pressed to keep pace with demand. If the April data showing a jump in sales of units on which construction had not yet been started do prove to be reliable, it will put that much more downward pressure on spec inventories, as builders will have to focus on working off what are suddenly larger backlogs of unfilled orders. Though not nearly to the same extent as in the market for existing homes, new home inventories have been on the lean side for some time now, which has curbed growth in new home sales. Lean spec inventories do help provide builders with a buffer against a material decline in demand and should help preserve pricing in such a case.

It is simply too soon to assess the state of the market for new homes. While it is true that applications for purchase mortgage loans have rebounded strongly since mid-April, it is also true that mortgage lending standards have become more stringent, so an application is not the same as an approval. Moreover, with further job losses on tap for May, demand for home purchases may waver. At the same time, however, consumer confidence has begun to stabilize, and mortgage interest rates remain favorable. While not dismissing out of hand the April new home sales data, we'll wait on the May data before drawing any conclusions.

