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December New Home Sales: By This Measure, A Soft Ending To 2020

- › New home sales rose to an annual rate of 0.842 million units in December from November's (revised) sales rate of 0.829 million units
- › Months supply of inventory stands at 4.3 months; the median new home sale price rose by 8.1 percent year-on-year

In our weekly *Economic Preview*, we noted that, as a general rule, it seldom pays to spend too much time trying to make sense out of whatever we're told new home sales are in any given month. With that as a lead-in, total new home sales rose to an annual rate of 842,000 units in December, not even within the same universe as our forecast of 1.004 million units. Our forecast was predicated on there being payback in not seasonally adjusted sales after an oddly soft November combined with a typically generous December seasonal adjustment factor. We got half of that right, but, sadly, it's the half that doesn't really matter, i.e., the seasonal adjustment factor. As for the half that does matter, not seasonally sales came in at 55,000 units, far below our forecast of 69,000 units. According to the Census data, new home sales tailed off sharply over the final two months of 2020. And, sure, you could craft a plausible narrative tying this into the surge in COVID-19 cases and corresponding limitations on activity. The only problem with that, however, is that it is totally at odds with other indicators of single family construction and sales, including the Census Bureau's own data on single family housing permits and starts. Still, however much evidence to the contrary we can point to, we'll go back to what a wise old economist told us many years ago, which is that the numbers are what the numbers are. But, while the December new home sales numbers are far, far below where we expected them to be, they do nothing to change our view of the for-sale segment of the housing market.

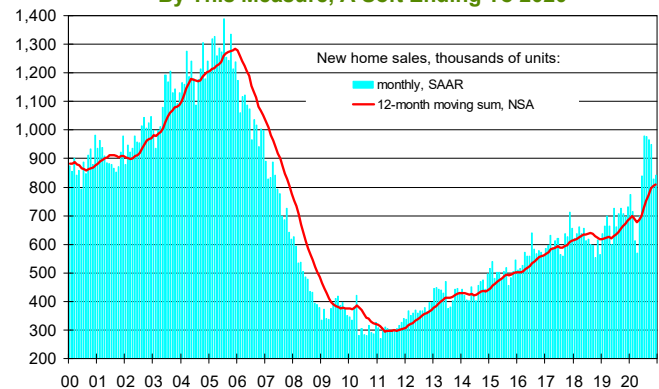
Even with the soft end to 2020 implied in the Census Bureau's data, 2020 was still a strong year for new home sales. There were 810,000 new home sales in 2020, up 18.8 percent from 2019 and the most in any year since 2006. Sales rose by 28.6 percent in the Midwest, by 23.3 percent in the Northeast, by 17.5 percent in the South, and by 18.7 percent in the West (these figures are based on the not seasonally adjusted data). Both permits and starts outperformed the sales numbers in each of the broad regions over the final months of 2020, which either suggests support for sales in early 2021 or suggests the permits and starts data are just off. While we'll go with "support for sales," our miss on our forecast of December sales suggests we not get too attached to that call.

Though not to the same extent as is the case in the market for existing homes, the market for new homes remains hindered by low inventories. At 4.3 months in December, the months supply metric is lower than is consistent with a balanced market. While spec inventories rose modestly in December, they nonetheless remain well below historical norms. Additionally, the share of new home sales accounted for by units on which construction had not yet been started remains elevated, and the backlog of units that have been permitted but have yet to be started rose steadily over the course of 2020. All of these things are consistent with commentary from builders indicating that orders are rising much faster than builders can fill them. In some instances, builders are using price as a means to curb demand, and others are slow-walking development. While it is true that builders back-filling prior orders means starts could remain elevated as sales begin to taper off, as is implied in the body of the Census data, there is nothing in the other indicators we track or in builder commentary that suggests sales have slowed to the extent reported in the new home sales data.

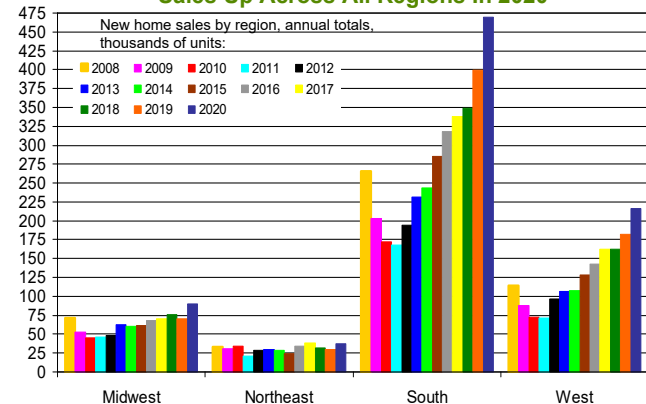
Our view of the for-sale segment of the housing market has not changed. We remain constructive on the demand side of the market. Our main concern remains affordability, given the extent to which prices of both new and existing homes have risen over recent months. Our worry is that, given this robust price appreciation, affordability will be more sensitive to a given change in mortgage interest rates than has been seen in past cycles. While that could lead to some tapering in demand over the course of 2021, improving economic conditions should act as a counter. Clearly, the pandemic continues to pose a threat to near-term growth, but further progress on the vaccine front makes it reasonable to expect the economy to strengthen as 2021 progresses. On balance, then, we remain constructive on the demand side of the housing market in 2021, and our main concerns continue to rest on the supply side of the market, the headline new home sales number notwithstanding.



By This Measure, A Soft Ending To 2020



Sales Up Across All Regions In 2020



Spec Inventories Remain Well Below Normal

