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## February New Home Sales: An Epically Bad February, But Not Cause For Concern

- › New home sales fell to an annual rate of 0.775 million units in February from January's (revised) sales rate of 0.948 million units
- › Months supply of inventory stands at 4.8 months; the median new home sale price rose by 5.3 percent year-on-year

Total new home sales fell to an annualized rate of 775,000 units in February, right down the block from our forecast of 769,000 units but not even in the same time zone as the consensus forecast of 870,000 units. At the same time, prior estimates of sales over the November through January period were revised higher, which is worth noting in light of those taking the weak February print as evidence that higher mortgage interest rates and higher home prices are choking off demand. While we are by no means dismissing those factors out of hand – we were noting our concerns about affordability well before mortgage rates began to rise – the February data are mostly about the weather. The effects of February's unusually harsh winter weather were quite visible in the February data on residential construction, particularly in the data for the South region, and as those data are used as inputs into the estimates of new home sales, the weak February print on new home sales should have come as no surprise. To that point, on a not seasonally adjusted basis, there were 64,000 new homes sold in February, just short of our forecast of 66,000 sales and down 12.3 percent from January. In the life of the new home sales data, which go back to 1963, this is only the fifth time unadjusted sales have declined in the month of February. Thus far, there is nothing in either the weekly data on applications for purchase mortgage loans or commentary from builders to suggest the dip in new home sales in February is anything more than harsh winter weather having pushed sales into March, but it won't take long to find out as the report on March new home sales will be released on April 23.

As noted above, on a not seasonally adjusted basis, there were 64,000 new home sales in February, reflecting a 12.3 percent decline from January. The 11.5 percent decline in sales in the South region, which accounts for around 58 percent of all new home sales, was less harsh than the overall decline, but is nonetheless the largest February decline in the South region since 1982. Unadjusted sales in the Midwest region, which also faced harsh winter weather, were down by 30 percent, with the West region seeing a 5.6 percent decline while sales in the Northeast region were unchanged from January. It is worth noting that the upward revisions to estimates of sales over the prior three months were entirely accounted for by the Midwest region, which to some degree makes sense as the prior estimates were notably out of alignment with the (unadjusted) data on single family housing permits and starts in that region. It is also worth noting that, though down from January, the 64,000 unadjusted new home sales were the highest February total since 2007. As of February, the running 12-month total of not seasonally adjusted sales stood at 835,000 units, the highest such total since September 2007, with ample room for that total to rise further in the months ahead.

It should be noted that the new home sales figure reported by Census is a gross sales figure reflecting signed sales contracts with no data provided on cancellations. There have been reports of late of buyers canceling contracts due to rising costs, but thus far there is nothing, including builder commentary, to suggest those are widespread occurrences. What we find more telling is the number of builders who report they are intentionally slow-walking sales as a means of managing what have been growing backlogs of unfilled orders, with some builders being more aggressive on pricing as another means of curbing demand. Were the demand side of the market really softening to the degree some are claiming in light of higher mortgage interest rates, builders would not be actively trying to manage down demand. In February, units on which construction had not yet started accounted for over one-third of all new home sales, and spec inventories, already far below a level that would be considered normal, fell further, both signs builders are having trouble keeping pace with demand. So, while affordability constraints are likely pushing some perspective buyers out of the market, it helps to recall the distinction between a slower pace of growth in demand and an outright demand, a distinction clearly lost on some.

Our view of market conditions will be put to the test, but between March historically being the seasonally strongest month of the year for new home sales and this March bringing payback for weak February sales, it may take a few months to know whether we're off base.

