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March New Home Sales: Builders Pressing To Keep Pace With Demand

- › New home sales rose to an annual rate of 1.021 million units in March from February’s (revised) sales rate of 0.846 million units
- › Months supply of inventory stands at 3.6 months; the median new home sale price rose by 0.8 percent year-on-year

Total new home sales rose to an annualized rate of 1.021 million units in March, outpacing our forecast of 0.962 million units and even further above the consensus forecast of 885,000 units. Moreover, prior estimates of sales over the December-February period were revised substantially higher; prior estimates had the average monthly sales rate over this span at 881,000 units, but the revised data put the average monthly sales rate at 935,000 units. The real strength of March new home sales can be seen in the not seasonally adjusted data, which show 97,000 new home sales in March, better than our forecast of 91,000 units and the highest monthly sales total since June 2006. Sales were clearly held down in February by that month’s unusually harsh winter weather, and the March data incorporate an element of payback. That said, demand for new homes remains robust, with buyers showing little reaction to higher prices and an uptick in mortgage interest rates. Indeed, the issue for many builders at present seems to be trying to manage demand against a backdrop of already swollen backlogs of unfilled orders and continued rapid increases in input costs. Our sense is that to the extent the rate of growth in new home sales eases in the months ahead, that will be more a function of builders trying to manage demand as opposed to demand itself slowing.

As noted above, on a not seasonally adjusted basis, there were 97,000 new home sales in March, with payback from sales having been held back by unusually harsh winter weather in February adding a boost to sales in a month that typically needs little help. Over the life of the new home sales data, which go back to 1963, not seasonally adjusted sales have risen by an average of 17.3 percent in the month of March – the decline in sales in March 2020 reflected the economy beginning to shut down due to the pandemic and is the only March decline on record. This March saw unadjusted sales increase by 38.6 percent from February, the second largest March increase on record. The 65,000 sales in the South region is the highest monthly total on record – in any month – for that region. We will note that the data for the West region look somewhat curious, with only 15,000 sales in March, well below that region’s run rate and oddly out of line with the data on single family housing permits and starts in the West. We’ll see if next month’s release brings a revision to the initial estimate of March sales. Either way, with the data as of March, the running 12-month total of not seasonally adjusted new home sales stands at 884,000 units, the highest since July 2007.

Beneath the stellar headline sales numbers, however, are signs of builders being increasingly pressed to keep pace with demand. We have for some time noted the rising number of single family units that have been permitted but not yet started, and have pointed to the elevated share of new home sales accounted for by units on which construction had not yet been started. That share has run above one-third over recent months and rose further in March, now approaching levels not seen since the frenzied housing market of 2006. Keep in mind that not all single family units being built end up on the market for sale; over the past several quarters roughly 76 percent of all single family homes completed have been placed on the market for sales according to the Census Bureau data. Recent quarters have seen a growing gap between new home sales and completions of new homes intended for sale, which we illustrate in our bottom chart. This goes to our point about growing backlogs of unfilled orders. Further complicating matters has been the rapid pace at which input costs have been rising, which makes it increasingly difficult for builders to price homes on which construction will not start for some time. Amid robust demand and rapidly rising input costs, many builders are now intentionally slow-walking sales, actively limiting releases in the communities they manage. Some are even shifting to spec building, i.e., starting units but not selling until construction is near completion, which is a form of “real time” pricing enabling them to pass along costs to the buyers far more effectively than they are able to do by pricing homes ahead of construction. While this may be an extreme example, it is nonetheless reflective of the extent of the pressures facing builders from both sides.

We’ve remained constructive on the demand side of the market despite affordability coming under pressure. It could be, however, that supply side issues will begin to weigh on sales.

