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April New Home Sales: Supply Side And Demand Side Issues Weighing On Sales

- > New home sales fell to an annual rate of 0.863 million units in April from March's (revised) sales rate of 0.917 million units
- > Months supply of inventory stands at 4.4 months; the median new home sale price rose by 20.1 percent year-on-year

Total new home sales fell to an annualized rate of 863,000 units in April, well below what we and the consensus expected. The April release incorporates the Census Bureau's annual benchmark revisions to the recent historical data, with prior estimates of monthly seasonally adjusted and annualized sales rates going back to January 2016 subject to revision. On balance, the revised data show new home sales slightly lower, but the revisions to the most recent months were sizable. For instance, March's sales rate was initially reported to be 1.021 million units, but is now reported as 917,000 units, and on a not seasonally adjusted basis March sales are now reported to be 86,000 units rather than the 97,000 units originally reported. To be sure, the new home sales data are known for being quite volatile on a month to month basis and prone to sizable revision, but the revisions incorporated into the April release are still notably large. Not to mention negative. What is unclear at this point is whether what was a weak month for new home sales reflects wavering demand or builders intentionally pulling in the reins. Or, with evidence supporting both sides, perhaps the proper question is which factor had more pull in the April data, though it will take some time to have a definitive answer.

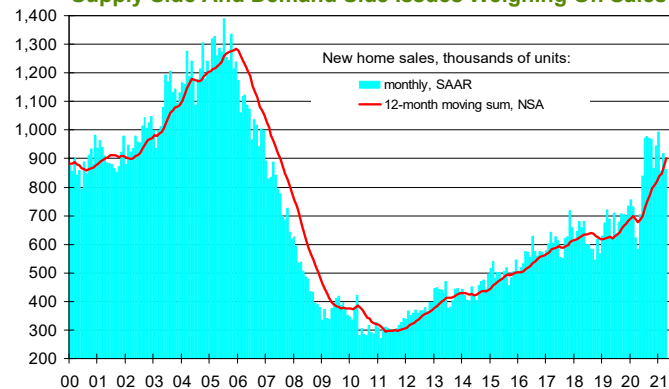
On a not seasonally adjusted basis, there were 78,000 new home sales in April, down 9.3 percent from March. To put that into perspective, over the 1990-2019 period the average April decline in unadjusted new home sales was 2.3 percent, meaning this April's decline was much closer to the 11.9 percent decline seen in April 2020 as the economy was shutting down in the early phases of the pandemic than it was to the "typical" April decline. Over the past twelve months, there have been a total of 900,000 new home sales, at least based on the not seasonally adjusted data as they stand today. That is the highest 12-month total since July 2007, but the question is whether the steady climb in the running 12-month total can be sustained in the months ahead. Further increases will be harder to come by, as coming months will get us into the strong rebound in new home sales that began last summer as the economy began to reopen and low mortgage interest rates and chronically low inventories of existing homes for sale combined to pull demand into the market for new homes.

As seen in our middle chart, applications for purchase mortgage loans have tailed off over the past few months. This is, at least to some extent, likely a reflection of what has been notably rapid house price appreciation. For instance, the median new home sales price jumped to \$381,028 in April, easily the highest on record and up 20.1 percent year-on-year. While we often caution that the median sales price is not a perfect indicator of price trends, as it is skewed by the mix of sales, the jump in the median price in April reflects the extent to which rising materials prices are working their way into new home prices. There are reports of builders not pricing homes until construction is well underway, as a means of insulating themselves against higher input costs. The flip side, however, is that fewer buyers are either willing or able to absorb these rising costs, which goes to our point that affordability constraints may be weighing on demand even though mortgage interest rates remain quite favorable by historical standards. In April, the new home "premium" widened considerably, as would be expected given the jump in the median new home sales price. The new home premium had narrowed considerably, which mostly reflected rapidly rising existing home prices, but with materials prices pushing on new home prices, the premium is likely to widen further in the months ahead, even if not approaching the extremes seen in prior years.

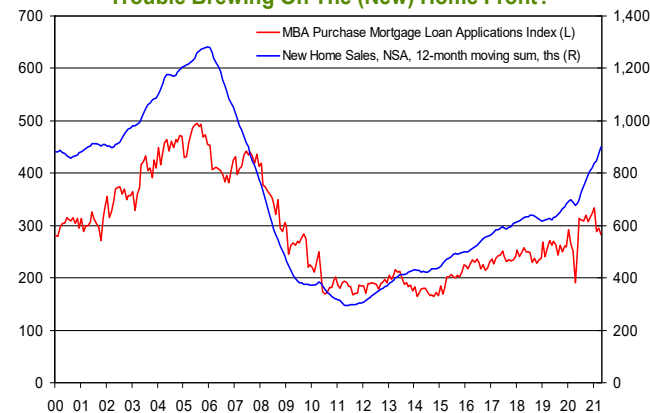
The other factor in play is that builders have become further and further behind in terms of keeping up with orders that have already been booked. We have for some time been pointing to the growing number of single family units that have been permitted but not yet started, and in April that number rose to 139,800 units, the most since August 2006. Additionally, units on which construction has not yet been started continue to account for an elevated share of total new home sales – 37.2 percent in April. Between inability to price in advance and growing backlogs of unfilled orders, many builders are intentionally limiting sales. So, that we look for the trend sales rate to flatten out over coming months reflects both supply side and demand side factors, though our sense is that the supply side issues are more pressing.



Supply Side And Demand Side Issues Weighing On Sales




Trouble Brewing On The (New) Home Front?




New Home "Premium" Not Likely To Narrow Further

