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## December New Home Sales: Don't Get Too Attached To The Headline Sales Number

- › New home sales rose to an annual rate of 811,000 units in December from November's (revised) sales rate of 725,000 units
- › Months supply of inventory stands at 6.0 months; the median new home sale price rose by 3.4 percent year-on-year

Total new home sales rose to an annualized rate of 811,000 units in December, easily ahead of expectations. At least for now. In keeping with the pattern seen over the past several months, estimates of sales in prior months were revised meaningfully lower. For instance, the initial estimate for October showed new home sales at an annualized rate of 745,000 units, which a month later was revised down to a rate of 662,000 units, and in today's release October's sales rate is now reported to be 649,000 units. At the same time, November's sales rate is now shown at 725,000 units, down from the initial estimate of 744,000 units. So, sure, it's possible that the at least for now lofty December sales rate will stand, but we wouldn't bet, well, the house on that happening. To be sure, the new home sales data are inherently volatile and prone to sizable revision, but that the revisions have been sizable and in the same direction, i.e., down, over the past several months tells us that the initial estimates of sales have simply failed to adequately track market conditions. Though demand for new home purchases has remained solid, builders have not only been unable to keep up but have fallen further and further behind, even with many having imposed sales caps during the summer months. While there are indications that the jump in mortgage interest rates over recent weeks has led some prospective buyers to act sooner than they otherwise would have, that's a matter to be sorted out in the January data. As such, we'll work with the data as they now stand, but we just won't get too attached to the initial estimate of December sales.

On a not seasonally adjusted basis, there were 57,000 new home sales in December, above our forecast of 51,000 units. The revised data show sales of 51,000 units in November, down from the initial estimate of 53,000 sales. One thing that makes us suspicious of the initial estimates of December sales is that they are out of line with the data on single family housing permits and starts, particularly for the West region. As the numbers stand, however, even though sales increased in December, they are still easily below sales in December 2020. For the U.S. as a whole, sales were down 9.5 percent year-on-year in December, with double-digit declines in the Midwest, Northeast, and South regions, while sales were up year-on-year in the West region. For full-year 2021, the not seasonally adjusted data show a total of 763,000 new home sales, down 7.1 percent from the 821,000 sales in 2020. As our middle chart shows, annual sales were down in each of the four broad Census regions in 2021, with declines of 6.5 percent in the Midwest, 5.3 percent in the Northeast, 6.1 percent in the South, and 10.6 percent in the West. While sales started out the year on a fast track, they slowed considerably over the back half of the year, dragging the annual total down. As we've discussed, the slower pace of sales over the second half of 2021 is far more of a supply side story than a demand side story. Materials supply constraints became more binding as the year wore on while labor supply constraints continued to hinder production schedules, and many builders began to cap sales around mid-year to focus on clearing order backlogs that have continued to grow. Even if sales do pick up in early-2022, they will likely be down year-on-year through the first half of 2022.

The December data also show a curious decline in the median sales price, which fell from \$405,595 in November to \$364,519 in December, which is the lowest median sales price since February 2021. Still, builders continue to wield pricing power, passing along higher costs for materials and labor along to buyers in the form of higher sales prices. One way builders have done so is to start units but not make them available for sale until construction is well underway, enabling them to price in higher costs in what, at least in terms of construction, is effectively real time. This is reflected in the data on sales by stage of construction, which show units under construction accounting for nearly half of all new home sales over the past several months – which we think is a big reason the reported increase in spec inventories is somewhat misleading as an indicator of market balance. Thus far, buyers have been quite willing to take on these higher costs, though the extent to which they will continue to do so in the face of higher mortgage interest rates remains to be seen. While higher rates will curb demand, they won't choke it off, and even if demand does fall farther than we think it will, clearing order backlogs will keep builders busy for some time.

