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## January New Home Sales: In Context, Still A Solid January For New Home Sales

- > New home sales fell to an annual rate of 801,000 units in January from December's (revised) sales rate of 839,000 units
- > Months supply of inventory stands at 6.1 months; the median new home sale price rose by 13.4 percent year-on-year

Total new home sales fell to an annualized rate of 801,000 units in January, in line with the consensus forecast but below our forecast of 827,000 units. As we always note, it is never a good idea to get too attached to the initial estimate of sales in any given month, as the data on new home sales are inherently volatile and prone to sizable revision, and the January data are unlikely to be an exception. What stands out about the revisions incorporated into the report on January sales, however, is that after several months of large downward revisions to prior estimates of sales, estimates for sales over the October-December period were revised higher. The average annualized sales rate over the prior three months was revised from 728,000 units to 752,000 units, which reflects upward revisions in the unadjusted data, as opposed to simply reflecting more friendly seasonal factors being applied to the raw data. As for January sales, the not seasonally adjusted data show sales of 64,000 units, just below our forecast of 65,000 units but up from 59,000 sales in December. That the 8.5 percent increase in sales in January is a bit smaller than the typical January increase helps account for why sales were down on a seasonally adjusted annualized basis, but keep in mind that the unadjusted data show December sales were stronger than is typical for the month.

It is likely that higher mortgage interest rates induced fence sitters to move sooner than they otherwise would have, which would have supported sales in December and, to a much greater extent, January. One offset, however, is that many builders tightened sales caps in January, reversing course after having eased these caps over the final months of 2021. What led them to do so was a worsening of the supply side constraints that have made sourcing materials more complicated, not to mention considerably more expensive, at a time when builders were already contending with large, and growing, backlogs of unfilled orders. Were it not for these sales caps having been tightened, particularly in the South region (which accounts for just under 60 percent of all new home sales), January sales would likely have been even higher. It is interesting to note, however, that even with these sales caps in place, January was still a strong month for new home sales. While not matching up to what was a frenzied pace of sales in January 2021, thanks in large measure to record-low mortgage interest rates, sales this January would fall nicely in line with the steady upward trend in place prior to the pandemic, as our top chart illustrates.

Our middle chart goes to our point on large and growing order backlogs. As single family starts have tailed off, a trend in place well before weather-related disruptions in January, the number of single family units permitted but not yet started has risen significantly. At the same time, single family completions have lagged, as delays in materials such as cabinets, windows, and garage doors have become more pronounced. This helps account for why many builders felt compelled to tighten up sales caps in January, voluntarily limiting sales.

As we've discussed over the past several months, builders have responded to rapidly rising materials costs and increasingly uncertain materials delivery times by starting units but not making them available for sales until construction is well underway. This affords them at least some degree of control over completion times while passing more and more price risk along to buyers. This turns up in the new home sales data in the rising share of sales accounted for by units under construction, while the share of sales accounted for by units that have been completed has fallen significantly. At the same time, the share of sales accounted for by homes that have not yet been started has slipped over recent months, consistent with the shift in tactics by builders. In many cases, this shift in tactics has limited choices for buyers, in that builders are building what they can build with the materials they have, leaving less latitude for buyers to modify design choices. At the same time, rapidly rising materials costs being passed along to buyers clearly shows up in the data on sales by price points, which we illustrate in our bottom chart. It is simply getting harder and harder for builders to be able to profitably build lower priced homes. Still, demand for new homes has remained solid. What remains to be seen, however, is the extent to which higher mortgage interest rates will, in conjunction with rapidly rising prices, impact demand. Even if demand fades, builders will remain busy clearing order backlogs for some time to come.

