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June New Home Sales: Downward Revisions Add Insult To Injury

- › New home sales fell to an annual rate of 590,000 units in June from May's (revised) sales rate of 642,000 units
- › Months supply of inventory stands at 9.3 months; the median new home sale price rose by 7.4 percent year-on-year

Total new home sales fell to an annualized rate of 590,000 units in June, well short of our below-consensus forecast of 639,000 units and the lowest monthly sales rate since April 2020. As if the June headline sales number wasn't bad enough, prior estimates of sales over the March-May period were revised significantly lower; what had previously been reported as an average monthly sales rate of 680,000 units over that three-month span is now reported to be an average monthly sales rate of 651,000 units. The most pronounced revision was to the May data; the initial estimate showed an annualized sales rate of 696,000 units in May, but the revised data put the sales rate at 642,000 units. Upon the release of the initial estimate of May sales we expressed surprise over how strong new home sales were in light of higher mortgage interest rates, so in that sense the revised estimate seems more fitting, but, still . . . The not seasonally adjusted data show new home sales of 49,000 units in June, down 17.0 percent from May (our forecast anticipated an eleven percent decline) and the lowest June total since 2015. At June's sales rate, the supply of new homes for sale is equivalent to 9.3 months of sales, the most in any month since April 2009. While the median new home sales price was up 7.4 percent year-on-year, June marks the second straight monthly decline in the median sales price; at \$402,400 in June, the median new home sales price was down 9.5 percent from May.

With 49,000 sales in June, the year-to-date total of not seasonally adjusted sales stands at 371,000 units, down 13.7 percent from the year-to-date total as of June 2021. On a year-to-date basis through June, sales are down by 25.0 percent in the Midwest region, down by 18.2 percent in the Northeast, down by 12.9 percent in the South, and down by 8.7 percent in the West. As of June, the running 12-month total of not seasonally adjusted sales, which we see as the best gauge of the trend sales rate, stood at 712,000 units, and this total has been steadily falling over the past thirteen months, as shown in our top chart.

Spec inventories of new homes for sale (units either under construction or completed) rose to 347,000 units in June, the highest monthly total since September 2008. At the same time, units under construction accounted for 44.9 percent of all new home sales in June, and while this is down from a better than fifty percent share in each of the prior five months, we'll note the initial estimate of this share has been getting revised higher. While to some extent rising spec inventories reflect diminished demand leaving builders holding more such units, it remains the case that supply chain constraints remain a formidable barrier to builders not only starting but also completing new homes. The pace of single family completions slowed in June, while the number of single family units under construction has topped 800,000 units in each of the past four months. Units under construction account for roughly two-thirds of all new homes for sale while, conversely, completed units account for just over eight percent of all new homes for sale, not far above the record-low set earlier this year. It is worth noting that completed units sold in June had been for sale for just 2.5 months, compared to 4.1 months in June of 2021. This suggests that, while demand has clearly slowed, supply constraints remain a considerable impediment to sales. It could be that a year ago buyers were more willing to snap up under construction units than is the case now which, again, is compounded by there being fewer prospective buyers, and buyers now have leverage on pricing that they did not have a year ago. Either way, it isn't the case that builders are sitting on meaningfully larger inventories of completed, unsold homes.

What does remain to be seen is the extent to which builders actually start work on the large backlog of single family units that have been permitted but not yet started. That this backlog remains so large suggests that, despite demand having softened and an already crowded construction pipeline, builders intend on pushing ahead with spec starts. That would be both curious and worrisome, unless of course builders sense that there is a floor under demand, and that floor is higher than implied by a steady barrage of stories of the demise of the housing market. As we've made clear, we do not buy into that story, particularly given how chronically undersupplied the market has been for more than a decade. That said, it will be interesting to see how many of these permitted units actually get started in the months ahead.

