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September New Home Sales: Downward Trek Resumes In September

- > New home sales fell to an annual rate of 603,000 units in September from August's (revised) sales rate of 577,000 units
- > Months supply of inventory stands at 9.2 months; the median new home sale price rose by 13.9 percent year-on-year

Total new home sales fell to an annualized rate of 603,000 units in September, a bit lower than our forecast of 618,000 units but above the consensus forecast of 581,000 units. Not seasonally adjusted sales, a/k/a the number that actually matters but no one pays attention to, fell from 54,000 units in August to 49,000 units in September, matching our forecast. When Census reported last month that new homes had jumped in August, our comment was don't expect it to last, as that jump was nothing more than a break in a clear downward trend in sales, perhaps helped along by a dip in mortgage rates in the first half of the month (recall that new home sales are booked at the signing of the sales contract). The September data show that to have been the case, and with mortgage interest rates having pushed even higher, new home sales will fall even further over the next few months. To the extent that is the case, inventories of new homes for sale will increase further, adding on to the bulge in inventories of spec homes for sale seen over the past several months. That in turn has led builders to be more aggressive with sales incentives, including pricing. That is not, however, necessarily reflected in the median new home sales price, which was up 13.9 percent year-on-year in September, in contrast to the sharply decelerating growth in existing home sales prices. At the September sales rate, inventories of new homes for sale are equivalent to 9.2 months of sales, with units already under construction accounting for the bulk of new homes for sale. The reality, however, is that months supply is even higher, as Census reports the new home sales data on a gross, not a net, basis, i.e., sales are booked at the signing of the sales contract, but subsequent cancellations are not accounted for. With cancellations having risen sharply in recent months, sales are lower than Census has been reporting. Either way, it will take some time to clear the backlog of inventories but, given how chronically undersupplied the market has been over the past several years, with enough flexibility on pricing builders will find buyers for these units, particularly if mortgage interest rates begin to drift lower.

With the 49,000 sales in September, the running 12-month total of unadjusted sales fell to 684,000 units, the lowest such total since April 2020, a month in which sales were obviously held down by the onset of the pandemic. September sales are down 31.0 percent from the 71,000 sales in February, which will no doubt be the high water mark for unadjusted sales in 2022. On a year-to-date basis through September, sales were down 14.4 percent nationally, with declines of 20.8 percent in the Midwest, 20.0 percent in the Northeast, 18.2 percent in the West, and 12.1 percent in the South (recall that the South region, which includes both Florida and Texas, accounts for over one-half of all new home sales).

Spec inventories of new homes for sale (units either completed or under construction) have been little changed over the past three months but are nonetheless up 26.6 percent year-on-year. As we have discussed over the past several months, a shift in tactics amongst builders in mid-2021 – starting units but not releasing them for sale until construction was well underway – resulted in a sharp increase in spec inventories driven by rising numbers of units under construction when sales began to decline. While builders have been more aggressive with incentives to help move these units, slowly but steadily increasing completions have led to completed units accounting for a larger share of inventories of new homes for sale. That should, however, be put into proper context, as it was only in June when the share of new homes for sale accounted for by completed units fell to an all-time low of 7.7 percent. So, at 11.8 percent in September, that share is still abnormally low.

Completed or under construction, the bottom line is that builders are clearly contending with an undesirably high level of inventories. Still, over the past few months we've stated our view that growth in spec inventories was likely nearing an inflection point. For sure, even though spec inventories have flattened out over the past three months, it's too soon to conclude we've reached such an inflection point, but even if not, we still do not expect spec inventories to approach the levels seen in the previous cycle. Our contention all along has been that there is considerable unmet demand after years of the market being undersupplied, and that completed new homes are lasting less than two months on the market before being sold supports our view. It may be more a question of how much (margin) pain builders are willing to endure in order to move these units rather than whether there are buyers out there.

