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## April New Home Sales: The Stage Is Set For Gradually Increasing Sales

- › New home sales rose to an annual rate of 683,000 units in April from March's (revised) sales rate of 656,000 units
- › Months supply of inventory stands at 7.6 months; the median new home sale price fell by 8.2 percent year-on-year

Total new home sales rose to an annualized rate of 683,000 units in April, a bit closer to our forecast of 691,000 units than to the consensus forecast of 663,000 units. At least for now. We add that caveat because if the April headline sales number looks familiar, that may be because it was the March headline sales number, at least until it wasn't, which it no longer is. Originally reported as an annual sales rate of 683,000 units, March sales were revised down to a rate of 656,000 units, more than offsetting modest upward revisions to prior estimates of sales in January and February. Unadjusted sales were revised down by a net 3,000 units for the three-month period, while the initial estimate of not seasonally adjusted sales in April is 62,000 units, slightly below our forecast of 63,000 units. As we frequently note, the new home sales data are inherently volatile and the initial estimate in any given month is prone to sizable revision. As such, there is nothing to be gained by drawing firm conclusions about the state of the market based on any given month's report. That said, at least as the data now stand, what stands out to us is that the running twelve-month total of not seasonally adjusted sales, which we see as the most reliable gauge of the underlying sales trend, turned higher in April. Not by much, mind you, but when you're on the bottom any upward movement is welcome, at least if it doesn't get revised away. Unadjusted sales were up 10.7 percent year-on-year in April, the first such increase since February 2022, and this increase nudged the running twelve-month total up to 615,000 units from March's total of 609,000 units. Still, to put April's increase in proper context, keep in mind the recent peak was 893,000 units, hit in May 2021. So, off the bottom is one thing, back to where you were is quite another thing.

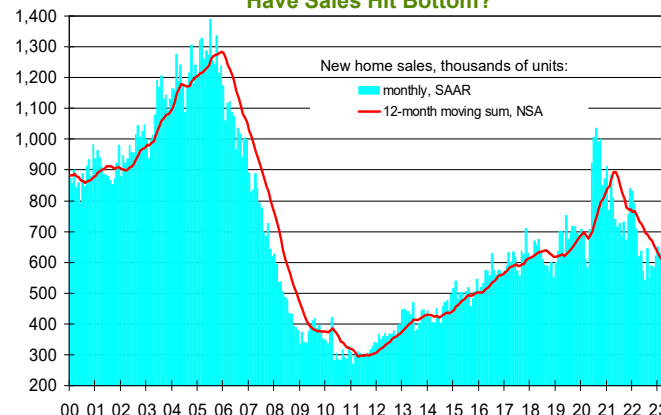
As noted above, on a not seasonally adjusted basis there were 62,000 new home sales in April, with sales higher in the Midwest and South regions and lower in the Northeast and West Regions. The South region, which as defined by Census includes both Florida and Texas, accounts for well over half of all new home sales and entirely accounts for the increase in the running twelve-month total of unadjusted sales nationally, as illustrated in our middle chart. The trend sales rate ticked higher in the Midwest in April, but no such signs of progress are visible in the Northeast and Midwest regions. The South region is clearly benefitting from rapid population growth, while the Midwest benefits from affordability being greater, or less constrained if you prefer, than is the case in the Northeast and West regions. One thing all four Census regions have in common, however, is that extraordinarily lean inventories of existing homes for sale are funneling more and more prospective buyers to the market for new homes, and builders have been more accommodating over the past several months than was the case in the frenzied days of 2020 and 2021 when builders (or sellers of existing homes) didn't actually have to be accommodating to generate sales.

One incentive for builders to be more accommodative was clearing spec inventories, which had risen to uncomfortably high levels as mortgage rates took flight in 2022. Spec inventories (homes for sale that are either completed or under construction) rose to 373,000 units in the fall of 2022, which marked the highest level since mid-2008. Though having been pared down since that late-2022 peak, spec inventories are nonetheless higher than many builders are comfortable with. As such, even with the tailwind provided by lean inventories of existing homes for sale, builders have been offering incentives, including buying down mortgage rates, in order to close sales and move units. That materials prices have come off what were notably lofty peaks has also given builders more latitude on pricing, which to some extent accounts for the median new home sales price being down by 8.2 percent in April on an over-the-year basis, the first such decline since August 2020. It is worth noting that completed new homes are sitting for a median of 2.8 months before going under contract, which is considerably longer than was the case in 2022 (1.9 months) but down meaningfully from the peak seen in 2022.

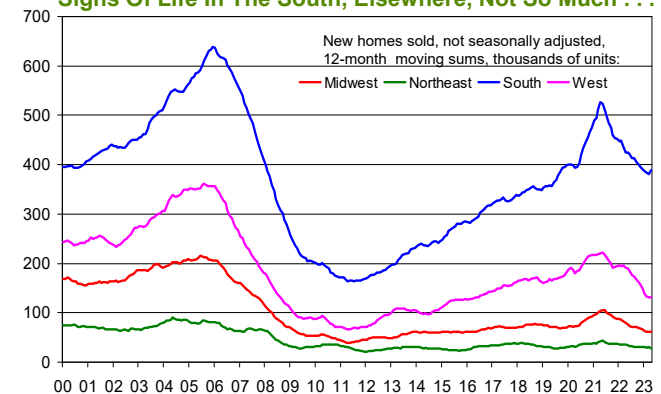
We have for some time contended that even as mortgage interest rates were rising sharply there was still significant pent-up demand for home purchases that would be drawn out by improvements in affordability. Those improvements can take the form of builders offering incentives and, as it turns out, availability helps too. So, while no one is, or should be, looking for rapid growth, new home sales should continue to gradually climb higher.



### Have Sales Hit Bottom?



### Signs Of Life In The South, Elsewhere, Not So Much . . .



### Elevated Spec Inventories Moving In The Right Direction

