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December New Home Sales: Further Gains In Store For 2024

- › New home sales rose to an annual rate of 664,000 units in December from November's (revised) sales rate of 615,000 units
- › Months supply of inventory stands at 8.2 months; the median new home sale price fell by 13.2 percent year-on-year

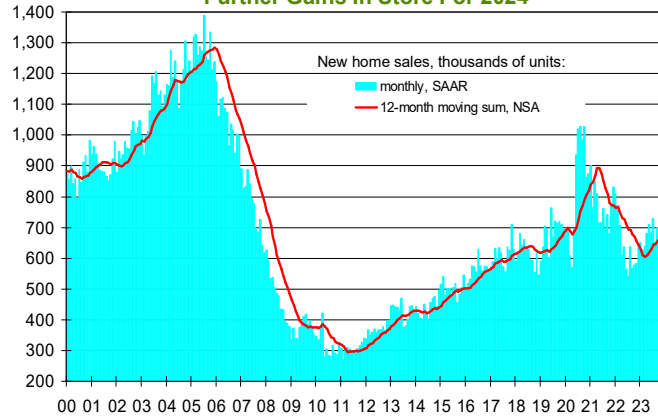
Total new home sales rose to an annualized rate of 664,000 units in December, surprising us and the consensus to the upside, aided by lower mortgage interest rates and some relief on pricing. On a not seasonally adjusted basis, there were 50,000 new home sales in December, ahead of our forecast of 46,000 sales. Keep in mind that new home sales are booked at the signing of the sales contract, making them a more timely indicator of the effects of changes in mortgage interest rates than are existing home sales, which are booked at closing. As such, the December data show new home sales responding to the drop in mortgage interest rates in December. As we noted in this week's *Economic Preview*, that the original estimate of sales in November looked suspiciously low to us coupled with the December data on single family housing permits and starts being notably weak lessened our confidence in our forecast of December new home sales, though we noted that sales could outperform permits and starts if builders were making more sales out of spec inventories, which is what the data show. With mortgage rates having backed off further and many builders reporting notable increases in interest amongst prospective buyers thus far in 2024, the January data could show a much more significant increase in new home sales, particularly to the extent that the paucity of existing homes for sale continues to funnel prospective buyers into the market for new homes, with ample spec inventories allowing builders to absorb this demand. It isn't that mortgage rates or new home prices are low in an absolute sense, but between what remains considerable pent-up demand for home purchases and what for many builders are uncomfortably high spec inventories, there is a fairly easy path to facilitating sales, particularly to the extent builders continue to offer rate buydowns and some flexibility on pricing. As such, we expect further increases in new home sales in the months ahead.

As noted above, the not seasonally adjusted data show new home sales of 50,000 units in December, which puts the annual 2023 total at 668,000 units, up 4.2 percent from 2022. Sales were up in each of the four broad Census regions, rising by 13.3 percent in the Northeast (a very low base, to be sure), 5.3 percent in the South, 2.7 percent in the West, and 1.5 percent in the Midwest. As our top chart shows, the twelve-month moving sum of not seasonally adjusted sales, which we see as the most useful gauge of underlying sales trends, bottomed at 605,000 units in March then pushed higher over the remainder of 2023, which is interesting given that by October mortgage rates were 120 basis points higher than in March. Again, though, builders were actively offering rate buydowns to help ease affordability constraints while at the same time pent-up demand for home purchases and lean inventories of existing homes for sale made for a match. It isn't as though sales were rising at anything approaching the frenzied pace of growth seen in 2020 and the first half of 2021 before builders began to voluntarily cap sales, but that new home sales increased at all given where mortgage rates were over most of 2023 is noteworthy.

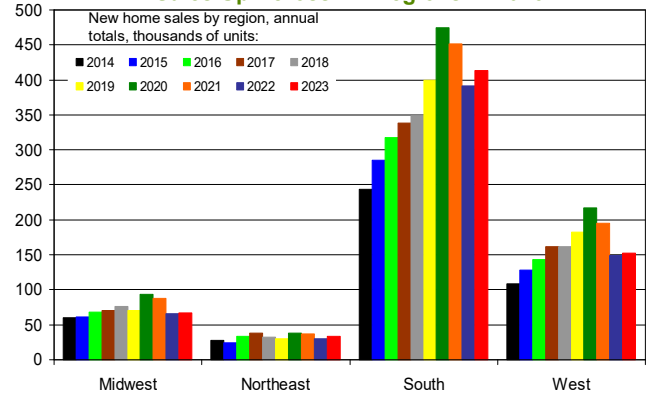
With inventories equivalent to 8.2 months of sales, it may seem that the market for new home sales is out of balance, but in the opposite manner from how we've been describing it for years (chronically undersupplied). A look at our bottom chart, showing "physical" inventories of new homes for sale, i.e., units either under construction or completed, may further reinforce that impression. Builders, however, do not seem overly concerned with current levels of spec inventories, at least judging from the still-sizable backlog of units awaiting start, particularly to the extent they are already reporting demand responding to the declines in mortgage rates seen to date. It also bears noting that builders are in a position to offer concessions on spec inventories while still preserving margins, and that has contributed to the rising trend sales rate. For instance, completed units accounted for 41.3 percent of total new home sales in 2023, the highest share since 2011, and though down from the prior two years, at 43.1 percent the share of sales accounted for by under-construction units was still far higher than at any time since the mid-1980s. To be sure, "curb your enthusiasm" is a useful piece of advice for builders, and analysts, at present, as current levels of spec inventories are only tenable if demand holds up, which is a function of not only mortgage rates but also existing home inventories and overall economic conditions. So, while we look for sales to rise further in 2024, we continue to expect an increase in the mid-single digits.



Further Gains In Store For 2024



Sales Up Across All Regions In 2023



Spec Inventories Too High For Comfort?

