

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

February New Home Sales: Builders Ready For Spring "Rush"

- › New home sales fell to an annual rate of 662,000 units in February from January's (revised) sales rate of 644,000 units
- › Months supply of inventory stands at 8.4 months; the median new home sale price fell by 7.6 percent year-on-year

Total new home sales fell to an annual rate of 662,000 units in February, below what we and the consensus forecast expected. On a not seasonally adjusted basis, there were 60,000 new homes sold in February, falling a bit short of our forecast of 62,000 sales, with our miss accounted for by slower sales in the South region than our forecast anticipated. There were modest upward revisions to prior estimates of sales over the prior three months, with "modest" being the operative word here, with the revisions much smaller than is typical for one of the most volatile data series out there. That sales were a bit slower than expected is not all that surprising given the behavior of mortgage interest rates during the month. Recall that new home sales are booked at the signing of the sales contract so, as such, are quicker to show the impact of changes in mortgage interest rates than are sales of existing homes, which are booked at closing. Mortgage rates, as reported in the Mortgage Bankers Association's weekly data on mortgage loan applications, rose during February and even pushed back over the seven percent mark, and builders reported fairly slow conditions over the first half of the month. Still, many builders reported increased activity over the latter half of February as mortgage rates stabilized, which we expect will have carried into March. We noted in this week's *Economic Preview* that even if February sales fell short of our forecast, we'd still expect a meaningful pick-up in new home sales during the spring months, in no small measure due to still-lean inventories of existing homes for sale continuing to funnel buyer traffic into the market for new homes. That many builders have opted to add to spec inventories suggests they too are expecting a spring pick-up in new home sales.

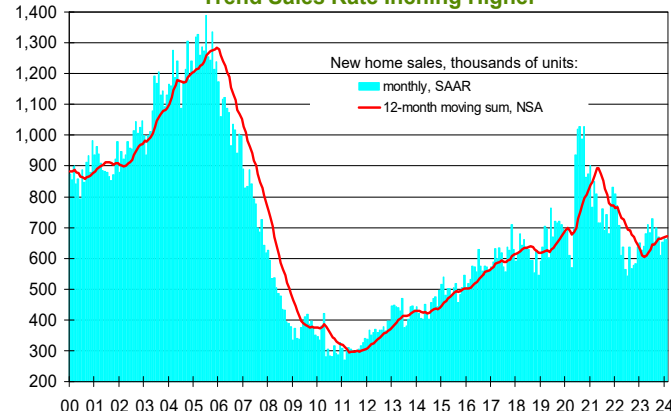
As noted above, the not seasonally adjusted data show new home sales of 60,000 units in February, up 5.3 percent from January. As our middle chart shows, while this is nowhere close to what in pre-pandemic times would have been a "normal" February increase, it is at least the best February increase since 2020. Sales in the South and West regions rose in February, while sales were unchanged, albeit at a high level, in the Midwest region and down in the Northeast region. Additionally, the running twelve-month total of not seasonally adjusted sales, which we see as the most useful gauge of underlying sales trends, rose to 672,000 units in February, marking the eleventh straight month at which this total has increased, even if it is only inching higher.

At February's sales rate, the level of inventory is equivalent to 8.4 months of sales, which could be taken as an indication that market for new homes 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. Perhaps on the premise that mortgage rates would be lower than they at present are, many builders have been intentionally adding to spec inventories in reaction to the chronically undersupplied market for existing homes, a condition which still prevails despite some relief of late. Builders have also been actively using incentives, including mortgage rate buydowns, to help facilitate sales, which to an increasing degree have come from spec inventories. The past several months have seen meaningful increase in the share of new home sales accounted for by units under construction or already completed, with a sharp decline in the share of sales accounted for by units not yet started.

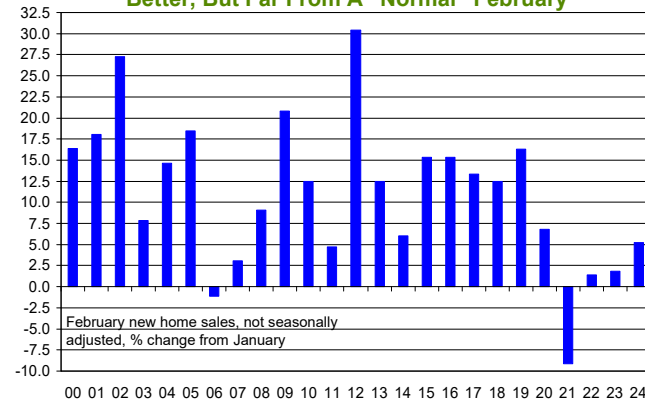
To be sure, this strategy is only tenable if demand holds up, which is a function of not only mortgage interest rates but also existing home inventories and overall economic conditions. We have for some time pointed to a substantial degree of pent-up demand for home purchases, and builders are counting on capturing higher shares of that demand than has been the case historically. That activity picked up over the latter half of February could be a sign that buyers are at least coming to terms with elevated mortgage interest rates. The spring sales season will offer an early read on how this dynamic is playing out, but with spec inventories and backlogs of units awaiting start elevated, it could be that builders begin to tap the brakes on permit issuance and spec starts.



Trend Sales Rate Inching Higher



Better, But Far From A "Normal" February



Builders Ready For Spring "Rush"

