Despite Rebounding, New Home Sales Remain Disappointing

New home sales rose 7% in June but sales for the prior three months were revised lower, leaving the level of sales well below consensus expectations. Much of the downward revision was in the flood ravaged Midwest.

New Home Sales Remain Sluggish

New home sales rebounded 7% in June to a 646,000-unit annual rate. Sales for the previous three months were revised down by a combined 55,000 units. While overall sales rose in June, virtually all of the increase came from the West, where sales jumped 50.4%. Sales also inched up 0.3% in the South but tumbled 26.3% in the flood ravaged Midwest and fell 4.2% in the Northeast. The smaller than expected June rebound and downward revision to the prior data raises a number of questions about just how much of a lift lower mortgage rates will provide the housing sector.

The devastating floods that inundated parts of the Midwest this spring likely contributed to the sharp 26.3% drop reported for new home sales in that region during June. Sales for the prior three months were also revised lower by a combined 22,000 units, accounting for 40% of the overall revision. Sales in the Midwest through the first six months of this year are now running 10.8% below the same period last year. Some rebound from these flood-related declines should be evident during the second half of the year.

New home sales in the Northeast through the first six months of 2019 are running 24.4% below their year-ago level. The weakness in the Northeast at least partly reflects changes to the tax law which limited the deductions of mortgage interest and state and local taxes. International home buying has also reportedly slowed, according to a recent report from the National Association of Realtors. In contrast to the slowdown in the Midwest, the slowdown in sales in the Northeast looks to be more lasting.

More than 80% of new home sales during the past two years have been in the South and West, which account for the bulk of the nation’s population growth. Sales in the West surged 50.4% in June to an 185,000-unit pace. Despite the surge, new home sales in the West simply reversed their prior month’s decline and the current pace is roughly even with the average for the region through the first half of 2019, particularly if the May data are excluded. Sales in the West through the first six months of 2019 are running 6.2% ahead of their year ago pace. Sales in the West appear to be benefitting from some discounting by builders and a shift by buyers to markets where homes tend to be more affordable.

Sales in the South rose 0.3% in June to a 382,000-unit pace and are running 5.9% ahead of their year-ago pace through the first six months of this year. The continued strength of sales in the South, discounting by homebuilders in the West and the general shift by buyers away from higher priced homes has helped moderate increases in home prices. The median price of a new home was $310,400 in June, which is roughly unchanged from its year-ago level. The average price of a new home fell 0.4% over the past year. The moderation in home prices is bringing buyers back to the market and helping clear the buildup in inventories that occurred late last year.

Source: U.S. Department of Commerce, Freddie Mac, and Wells Fargo Securities