New Home Sales Continue to Ramp Up

Housing is turning into a meaningful bright spot. Sales of new homes fell 0.7% in October, but sales for the prior month were revised significantly higher and are now running at their strongest 3-month pace of this expansion.

Home Sales Have Picked Up

Sales of new homes fell 0.7% in October to a 733,000-unit pace. Sales for the prior month were revised substantially higher, however, and the trend in new home sales continues to show solid improvement, with sales averaging a 725,667-unit pace over the past three months—the strongest pace of this expansion. The improvement in new home sales reflects the benefits of lower mortgage rates and more determined efforts by homebuilders to focus on more affordable homes. There also appears to be some increased migration from more expensive areas of the country to lower cost areas, with the South being the major beneficiary of this shift.

The improvement in new home sales is a much needed bright spot for an economy that struggled a bit late this summer, as uncertainty about trade negotiations with China ramped up. The Fed’s three quarter-point cuts in the federal funds rate have lowered the borrowing costs for builders, which are increasingly focusing on lower-margin and higher-volume tract building. Mortgage rates have also retreated at the very time that wage & salary growth has turned up, particularly for wage earners near and just slightly below the median. When you add in the rising number of Millennials reaching their late thirties and finally realizing key lifetime milestones such as marriage and having children, home buying now has some significant wind at its back.

The combination of a small drop in October new home sales and large upward revision to September sales, which were revised from a 701,000-unit pace to a 738,000-unit pace, make it more important to focus on the year-to-date numbers. New home sales through the first 10 months of this year are running 9.6% ahead of their year-ago pace. Last year at this time, new home sales were reeling, as interest rates rose faster and to a higher level than had been expected at the start of the year. Several builders discounted home prices aggressively late last year and in early 2019 to bring back buyers and clear out inventories. Today the housing market is in a far better place, with new home inventories and affordability now much more closely in line with their long-term norms.

Sales have risen the most in the South and the West, where the population is growing the fastest. Sales in the South through October are running 15.7% ahead of the same period last year, while sales in the West are up 9.1%. By contrast, sales in the Northeast are down 11.1% through October and sales in the Midwest are down 7.5% for the same period. Concerns about limits on the deductions for state & local taxes have likely contributed to this split, with more aging Baby Boomers that have been contemplating moving to retirement havens in the Southeast and West moving forward with those plans. Retiree-driven markets are now some of the fastest growing new home markets, particularly Florida, Arizona and Nevada.

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