



Economics Group

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New Home Sales Continue to Surge Higher

New home sales jumped 13.8% in June to a 776,000-unit pace. The rise was larger than the consensus estimate, and follows a 19.4% rise in May. Homebuilders have been reporting strong buyer traffic amidst low inventories.

There is No Place Like Home to Ride Out the Pandemic

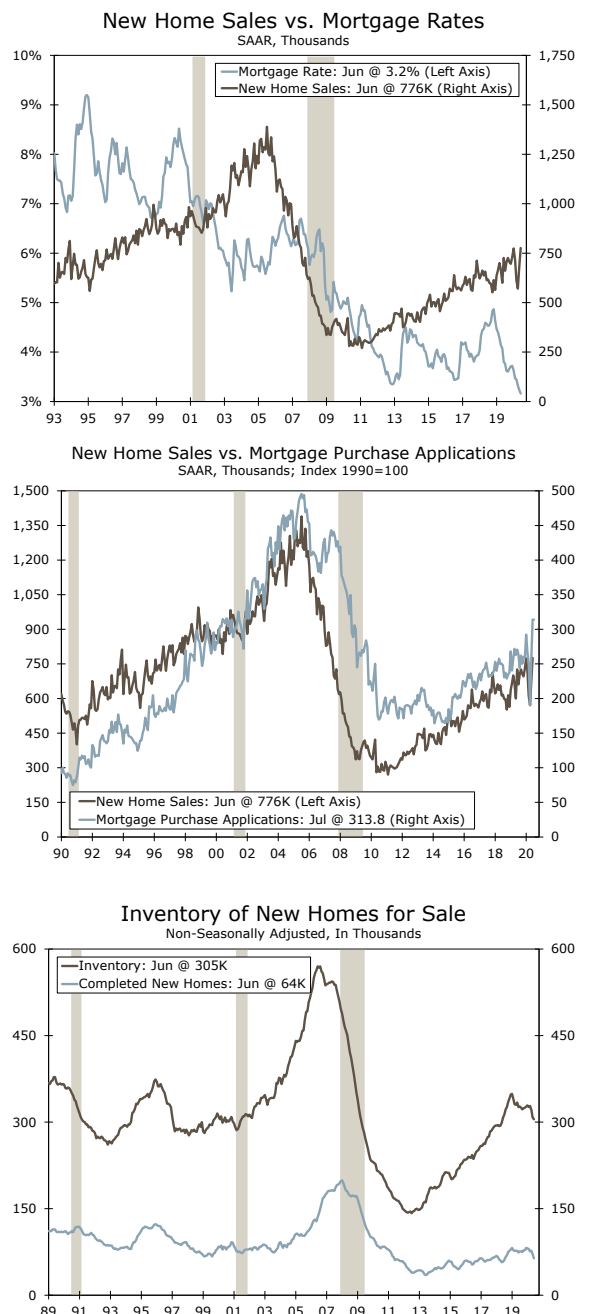
New homes sales jumped 13.8% to a 776,000-unit annual pace. Home sales rose in all four regions of the country, led by an 89.7% surge in the Northeast. The Northeast is the smallest new home market, with June's surge raising new home sales to 55,000 homes from 29,000 homes. Sales also rose in solidly in the West, climbing 18% in June to a 203,000-unit pace, while sales in the Midwest rose 10.5% to an 84,000-unit pace. Sales rose just 7.2% in the South, but that region accounts for well over half of all the homes built in the U.S. each year. The South's 7.2% rise in new home sales boosted sales in the region to a 434,000-unit pace, the strongest pace for the region since September of last year.

The broad based strength in new home sales reflects a shift in consumer attitudes toward homeownership. With people spending more time at home during the pandemic, many households are looking for more space to accommodate remote workspaces and the presence of more people in the home for more of the day. New homes provide homebuyers better options, as new homes are more apt to be internet friendly and have more open space. Inventories of existing homes remain persistently low, making new homes a more viable option.

The strength in home sales likely has considerable room to run. Mortgage rates recently hit new lows and applications for mortgages to purchase a home are nearly 20% above their year ago level. The nation's demographics also increasingly favor homeownership. The number of millennials turning 40 will rise every year through the end of this decade.

The strength in sales has cut into available inventories. The biggest rise in sales during June was for homes not yet started, which jumped 56% to a 233,000-unit pace and accounted for nearly 90% of June's overall increase. Sales of homes under construction fell slightly, while sales of completed homes rose 7% to a 290,000-unit pace. With the increase, inventories of completed homes fell to just 69,000 homes. The lack of finished inventory has supported home prices. The median price of a new home has risen 5.6% over the past year to \$329,200. Prices were also lifted by the rise in sales in the two highest-cost new home markets, the Northeast and West.

As strong as the recent surge in new home sales has been, it does not show the full picture. New home sales largely reflect sales of the big national and larger regional homebuilders but exclude most contractor-built homes. That category of homes has become larger as more home buyers have shown interest in reviving neighborhoods. Teardowns and rebuilds have become commonplace. Infill development has also increased, with townhomes making a big comeback among buyers grappling with affordability challenges. We look for new home sales to trend higher this year, providing a lift to producers of building materials, furniture and home furnishings, as well as all the service providers tied to housing.



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