

Datanote: US New Home Sales, May

In one line: New home sales likely to remain subdued

- New home sales plunged to 619K in May, from an upwardly revised 698K, below the consensus, 633K.

The drop in new home sales last month is much sharper than the relatively small miss compared to the consensus, because sales over the

preceding three months were revised up markedly, by a cumulative 95K. The estimated 11.3% drop is the biggest monthly decline since September 2022. The revised profile for the last few months now looks much more in keeping with the current sales component of the NAHB homebuilders confidence index, which has been a remarkably good indicator of sales recently, as the first chart shows.

The new home sales series is volatile, subject to large margins of error, and prone to substantial revisions, so

putting too much weight on a single month's numbers is unwise. Based on the NAHB index, we suspect that the May number will be revised up in later reports.

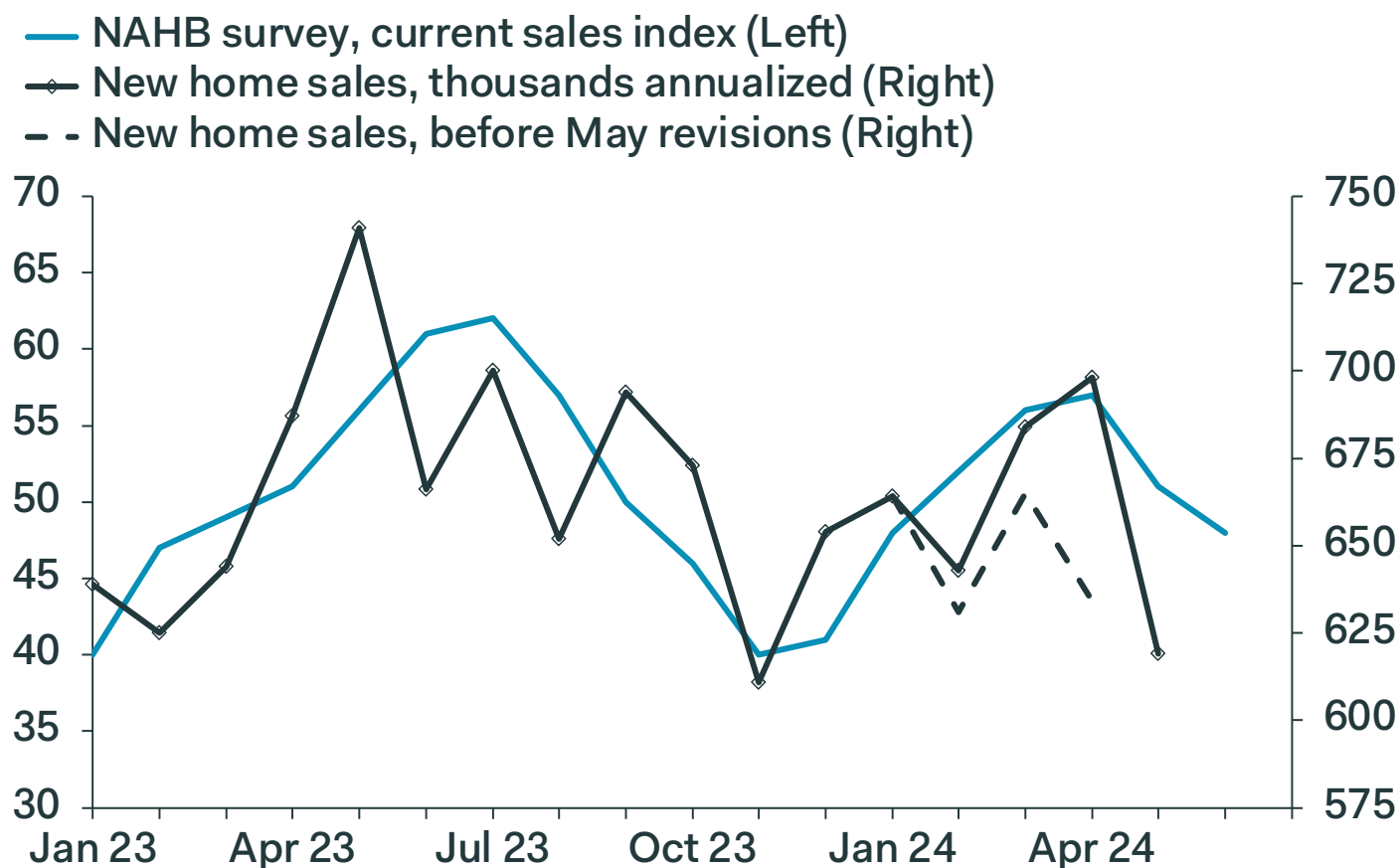
That said, new home sales seem to be at a turning point. After surging between last November and April, probably reflecting the lagged impact of the sharp fall in mortgage rates late last year, homebuilder confidence has deteriorated significantly in May and June. That probably reflects the

rebound in mortgage rates since the start of the year finally catching up with new home sales, and perhaps a nascent softening in the labor market. New home sales have, admittedly, held up very well over the past few years considering the weakness in overall housing demand, reflecting a relative lack of existing homes for sale pushing more buyers than usual to purchase new homes. As our third chart shows, that supportive supply backdrop remains in place. But that does not mean that new home sales are entirely

immune to lower rates, and the weaker labor market that we expect would slim the ranks of prospective first-time buyers significantly.

Weaker sales and relatively high levels of inventory, meanwhile, seem to be preventing new home prices from making any gains. The median new home price series rose by 2.1% in May in seasonally adjusted terms, but this reversed less than half of the 5.3% decline in April. The big picture is that new home prices have flatlined

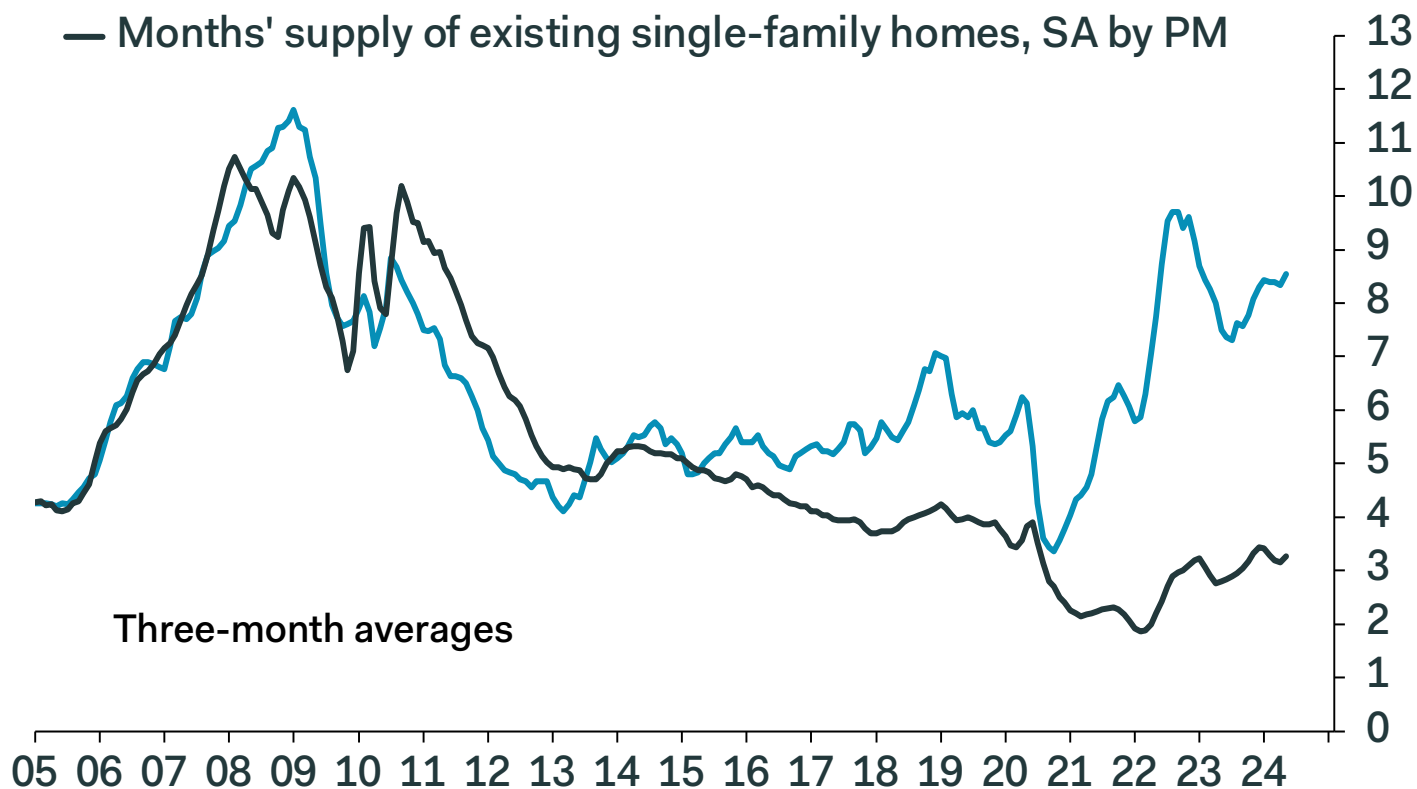
for roughly a year and a half, and it is hard to see where the impetus for a meaningful recovery would come from in the near term.



- MBA purchase index, re-adjusted by PM, adv. one month (Left)
- ◆— New home sales, thousands annualized (Right)



- Months' supply of new single-family homes
- Months' supply of existing single-family homes, SA by PM



— Median price of existing single-family home, \$K (Left)

◆ Median price of new single-family home, \$K (Right)

