

Datanote: US New Home Sales, July

In one line: New home sales unlikely to keep rising.

- New home sales surged to 738K in July, from an upwardly revised 668K, well above the consensus, 623K. Net revisions were +102K.

The leap in new home sales last month looks impressive at first glance. But, as the hefty revisions to sales

over the past three months show, this series is exceptionally volatile, often revised heavily, and comes with a huge margin of error. The Census Bureau reports that the 10.6% surge in sales in July does not meet the threshold for statistical significance; the confidence interval is $-/+16.5\%$. Some of the upturn in sales last month - if it happened - probably reflects the drop in mortgage rates in May and June. Hotter-than-usual weather this summer likely played a role at the margin too. But we're skeptical

that sales are as strong as this report suggests. The current sales index of the NAHB homebuilders confidence survey, which has led the three-month average of new home sales quite well over the past year-and-a-half, suggests that sales have dropped back significantly since the spring. We think new home sales will drop back down to around the 650K mark implied by the NAHB over the next couple of months.

Further ahead, our third chart shows that the supply of existing homes

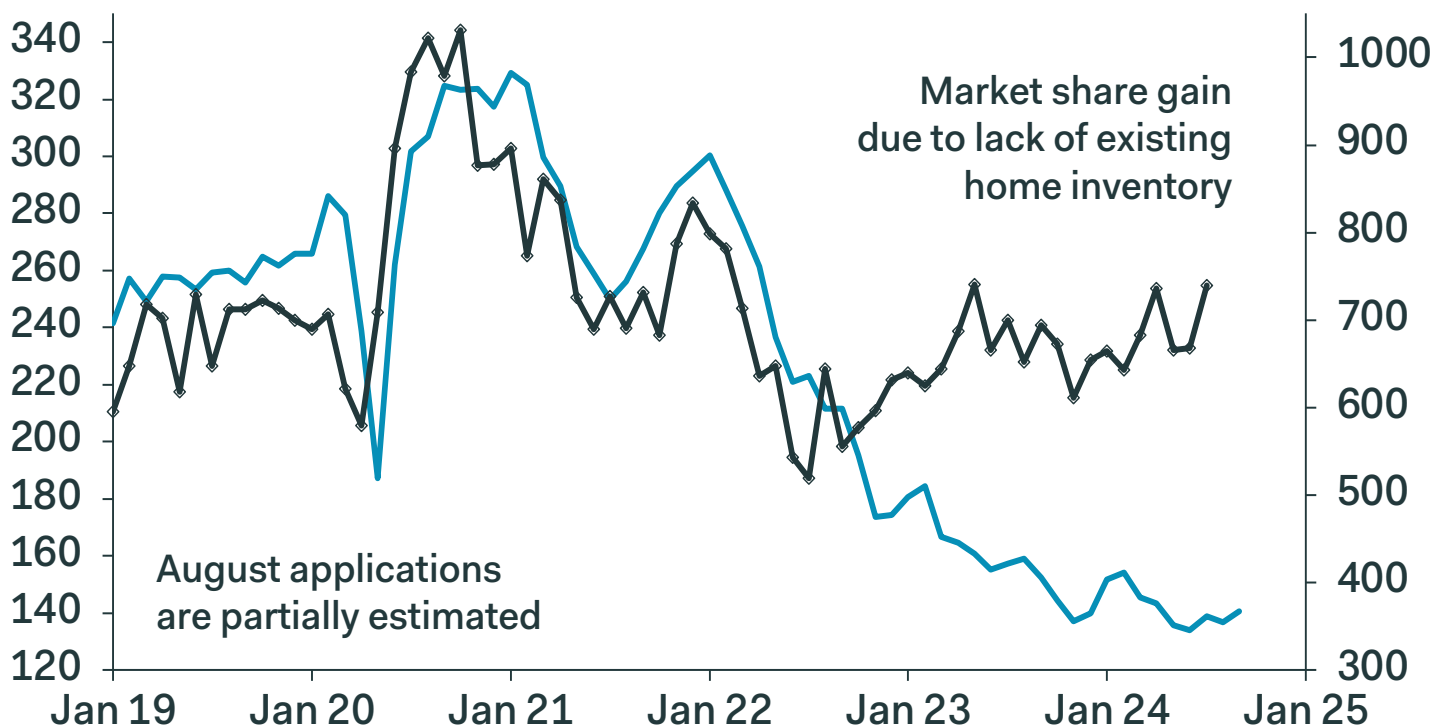
for sale remains very constrained compared to the glut of new homes, which should continue to support new home sales despite rock-bottom levels of overall housing demand. The additional decline in mortgage rates since late July should also support demand for new homes, at least at the margin. But that boost will probably be at least partly offset by the drag on demand from a further weakening in the labor market. Moreover, lower rates will also incentivize some more existing homeowners to move, which could lead

to homebuilders losing some of the market share they have gained over the past two years.

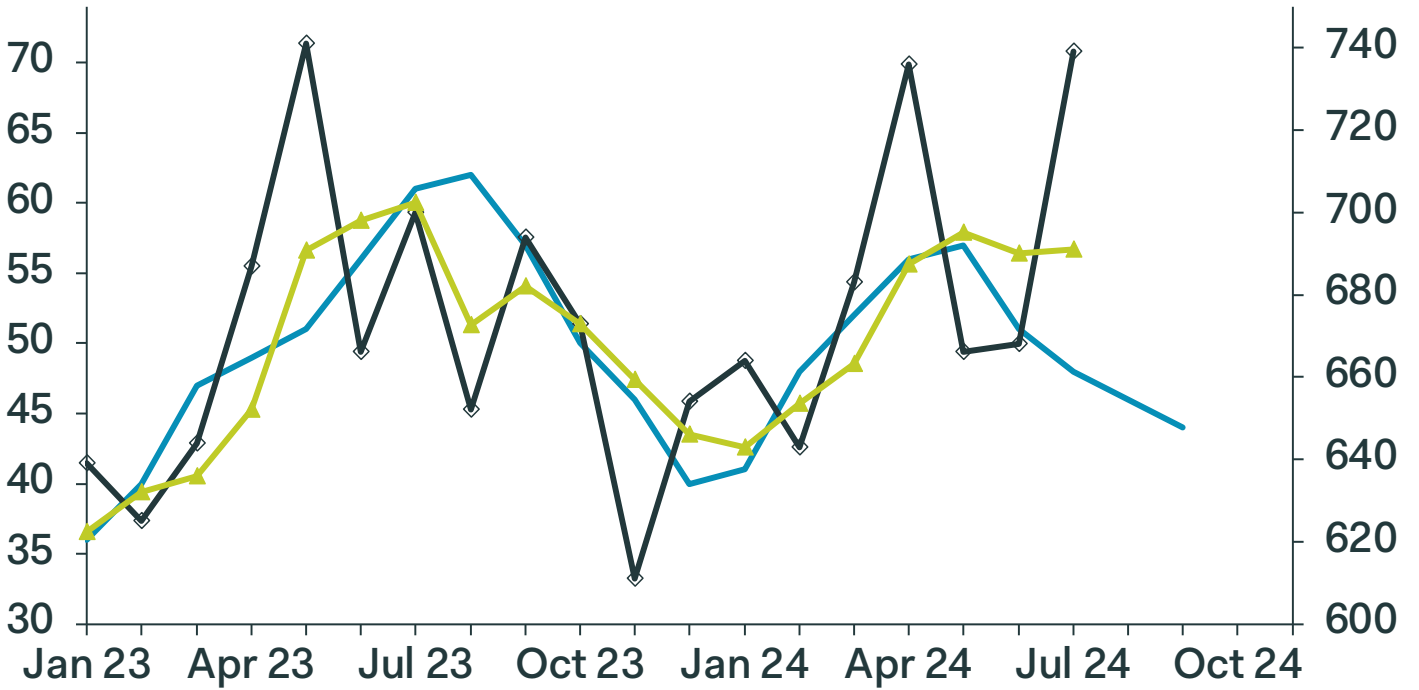
Seasonally adjusted median new home prices rose by nearly 3% last month. But this series is also volatile and prices are down year-over-year. That's a stark contrast with the continued positive year-over-year growth in prices for existing homes. The overhang of new homes for sale following the construction boom in recent years means it will be hard for

prices now to rise, even if demand holds up. The longer this overhang remains, the more likely it is that homebuilders start cutting prices.

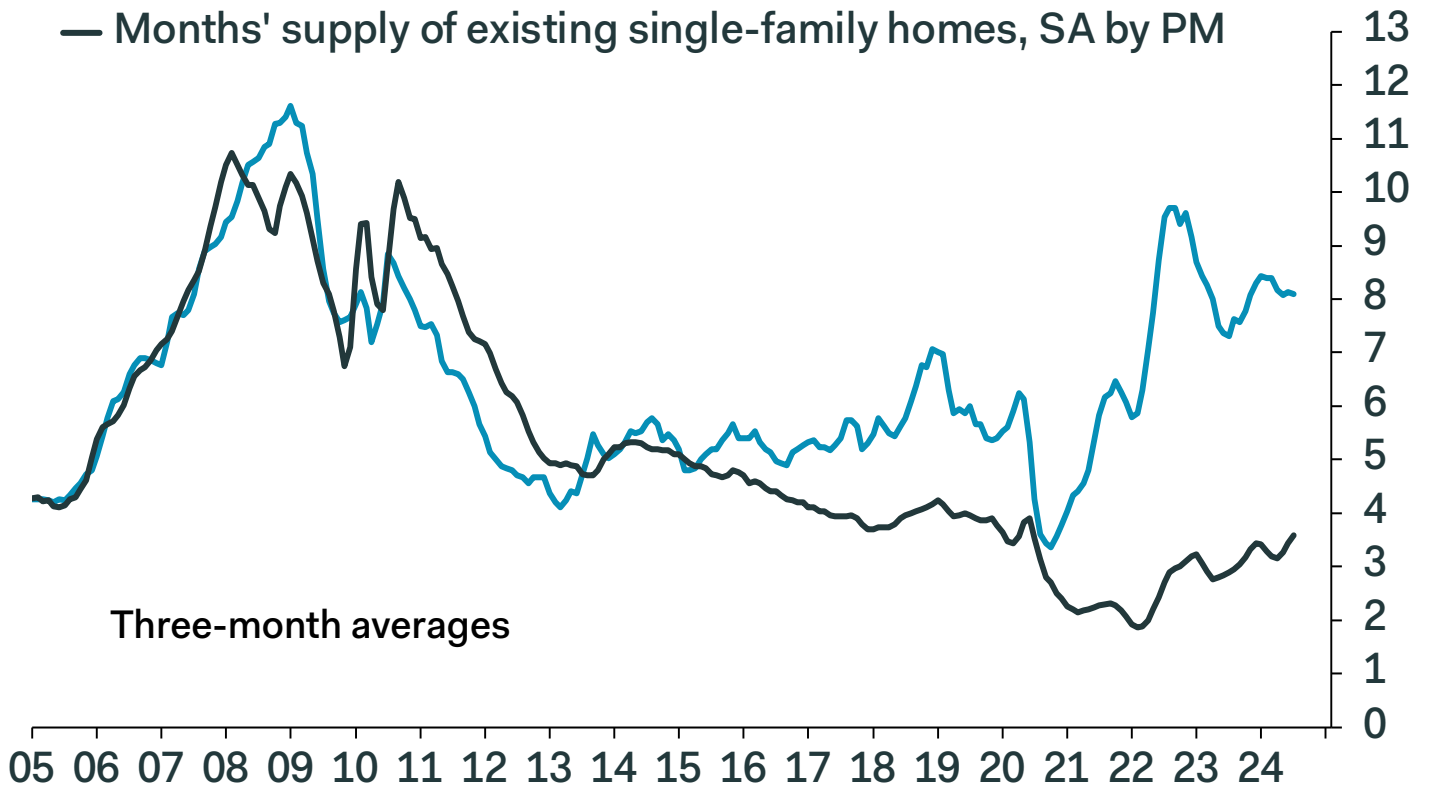
— MBA purchase index, re-adjusted by PM, adv. one month (Left)
—◆— New home sales, thousands annualized (Right)



- NAHB survey, current sales index, advanced one month (Left)
- ◇— New home sales, K annualized (Right)
- ▲— New home sales, three-month average (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)

