

U.S. Data Review

- New home sales: moderately disappointing results in April
- Consumer confidence: inflation expectations weigh on consumers; views on labor market improve sharply

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New Home Sales

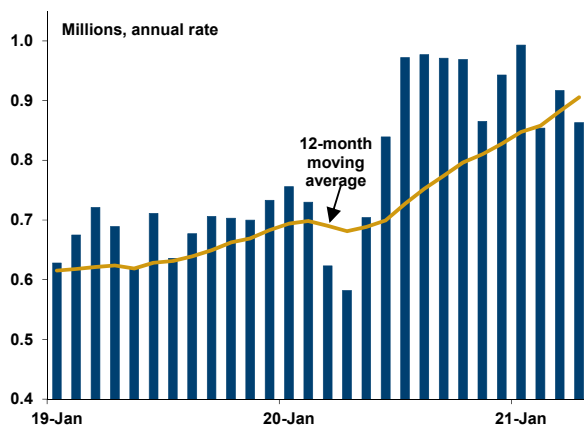
Sales of new homes fell 5.9 percent in April to 863,000 homes (annual rate), close to the consensus expectation of a decline of 7.0 percent, but softer in an absolute sense. The change occurred from net downward revisions in the prior three months (sales from January to March were 3.9 percent lighter than first reported). Benchmark revisions for 2016 to 2020 also were published with the report, but the changes were small (down modestly 2016-2019; slightly higher in 2020). On balance, the market for new homes continues to perform well, although it has cooled somewhat from the spurt in activity in the second half of last year and around the turn of the year (chart, below left).

The decline in April was broad-based geographically, as three of four regions posted declines ranging from 8.2 percent in the South to 13.7 percent in the Northeast. Only sales in the West registered an increase (7.9 percent).

Various factors likely played a role in April, including higher prices, modestly higher interest rates, light inventories, and a possible dose of statistical noise. On the price front, the average cost of a new home surged 8.7 percent (20.8 percent year-over-year) after hints of cooling in the prior two months. One should interpret this measure cautiously, as it is not seasonally adjusted and it incorporates homes at varying price points and in different markets. However, other measures of home prices (FHFA, Case-Shiller; both published today) also suggest notable price pressure. (The FHFA index, for example, rose 1.4 percent in March, the 10th consecutive increase in excess of 1.0 percent.) Tight inventories in some markets also could be playing a role (see below), as could statistical noise. Month-to-month volatility in the economic statistics should be expected.

With construction and demand relatively strong, inventories increased 3.9 percent in April. The pickup, along with the drop in sales, led to an increase in the months' supply of homes available for sale from 4.0 to 4.4 months, but the number was still low by historical standards (chart, right). For example, the months' supply averaged 5.8 months in 2019 and 6.2 months in 2018.

New Home Sales



Source: U.S. Census Bureau via Haver Analytics

Months' Supply of Unsold Homes



Source: U.S. Census Bureau via Haver Analytics

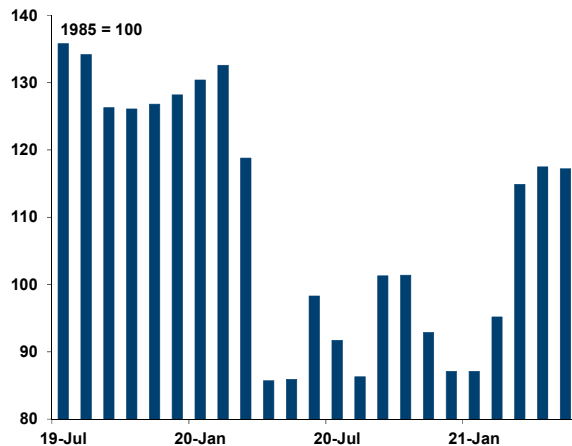
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Consumer Confidence

The Conference Board's index of consumer confidence slipped 0.3 index point (0.3 percent) in May from a downwardly revised level in the prior month. The downward adjustment of 4.2 index points (3.5 percent) to the April reading was somewhat tempered by upward revisions to results earlier in 2021, but confidence, while improved, has yet to regain its pre-Covid footing (the level of the confidence index in May is 11.6 percent below the reading of 132.6 in February 2020).

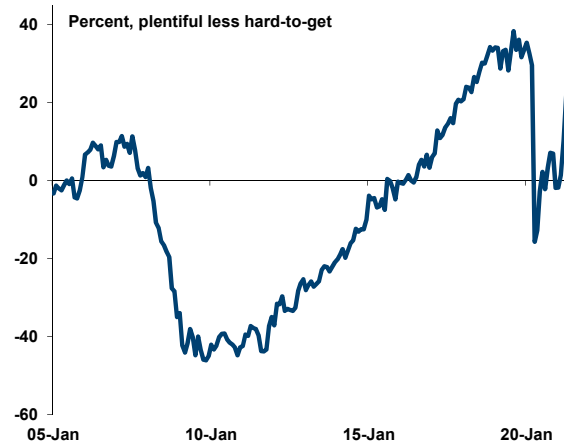
Concerns about the inflation outlook could be driving the restrained performance in confidence. The survey asks about respondents' views on inflation 12 months from now, and the reading on expected inflation ticked up to 6.5 percent from 6.2 percent in April, matching the recent high in February. By comparison, the expected rate of inflation averaged 5.6 percent last year and 4.6 percent in 2019. In contrast to views on the inflation outlook, attitudes regarding the labor market improved sharply in May. The share of survey participants indicating that jobs were plentiful surged 10.5 percentage points to 46.8 percent, the best reading since the onset of the virus and comparable to readings in early 2020 (Jan/Feb average of 46.9 percent). In addition, the share indicating that jobs were hard-to-get slipped 2.5 percentage points to 12.2 percent. The net reading (plentiful less hard-to-get) of 34.6 percent was 13 percentage points higher than the prior months result and compared favorably to readings before Covid. The latest reading also was elevated from a longer-term perspective.

Consumer Confidence



Source: The Conference Board via Haver Analytics

Labor Market Assessment*



* The share of survey respondents reporting that jobs are plentiful less the share indicating that jobs are hard to get.

Source: The Conference Board via Haver Analytics