

U.S. Data Review

- New home sales: a lost edge; perhaps needed cooling

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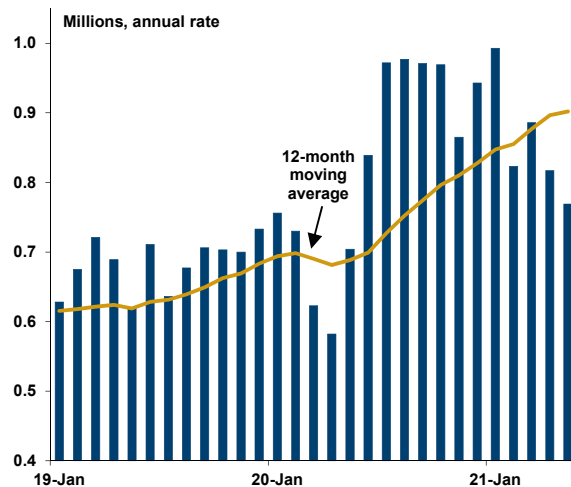
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New Home Sales

Sales of new homes fell 5.9 percent in May, a marked contrast to an expected increase of 0.2 percent. In addition, results in the prior three months were revised lower, with total sales over this span 4.1 percent lighter than previously believed. The combined results left total sales at 769,000 units, notably softer than the consensus estimate of 865,000. Sales were still above the pre-pandemic peak, but only marginally so (756,000 in January 2020), and they were well shy of readings close to 1.0 million in late 2020 and January of this year (chart, left).

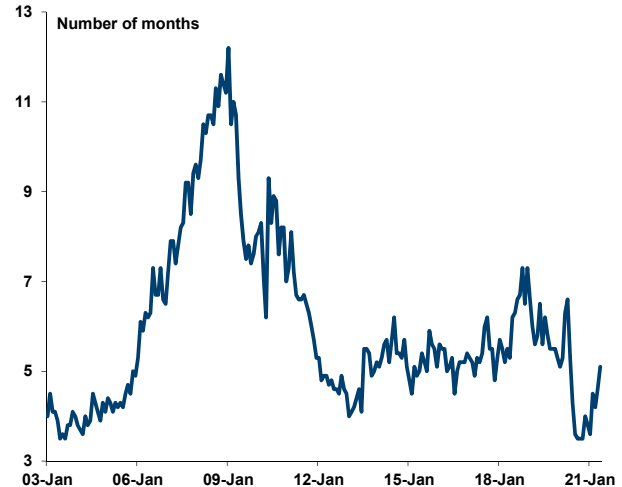
The softness in home sales (also apparent in the market for existing homes) seems to be the result of two factors: a limited number of homes for sale and elevated prices. The inventory situation, while tight, is not severe, as the months' supply of homes is within the range evident during most of the previous expansion (albeit the low end of the range; chart, right). Prices seem to be the more pressing issue in this market. The median price of new homes sold in May totaled \$374,400, up 18.1 percent from the same month last year. The magnitude of the change is striking, as it matches the fastest pace seen in 2004, when the housing bubble was inflating. Some of the increase most likely reflects a shift in the composition of sales (activity in more expensive locations or in larger-size homes), but the supply-demand imbalance is a factor as well. Slower sales in the current environment might be viewed as a positive development, as the easing might lessen the price pressure and preempt the issuance of risky loans and a wave of mortgage defaults down the road.

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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