

US NEW HOME SALES TUMBLE– LOOK FOR A REBOUND AS BUYERS JUMP TO LOCK IN RATES

**U.S new home sales tumbled 8% m/m in January to an annualized 593k, with a concentration of declines in the South (-50k) and the Northeast (-12k) while sales rose in the Midwest and West (Chart 1)*

New home sales are counted at initial contract signing (unlike existing home sales, which are counted at contract closing), so the run-up in mortgage rates in late January is likely **to be only partly reflected in January's sales; look for them to be more fully reflected in February*

**We continue to forecast sustained gains in new home sales as demand increases with building economic momentum and as new construction adds to the tight existing supply of for-sale homes*

The new home sales data are notoriously volatile from month to month and subject to substantial revisions, so sales in the South are likely to rebound or be revised higher in subsequent reports after the outsized January decline (Chart 2).

To determine the likely impact of the recent run-up in mortgage rates on home sales, the Taper Tantrum of May 2013, in which mortgage rates rose a full percentage point, is instructive. Around the start of Taper Tantrum, new home sales initially fell and then surged as buyers sought to lock in low mortgage interest rates. Sales then receded in subsequent months before recovering (Chart 3). A similar response may be taking place again. Mortgage interest rates have settled around 4.3%, 60 basis points above 2017 lows, but they remain very low by historical standards and household finances are in better shape. Accordingly, the higher rates should have a more muted and limited adverse impact.

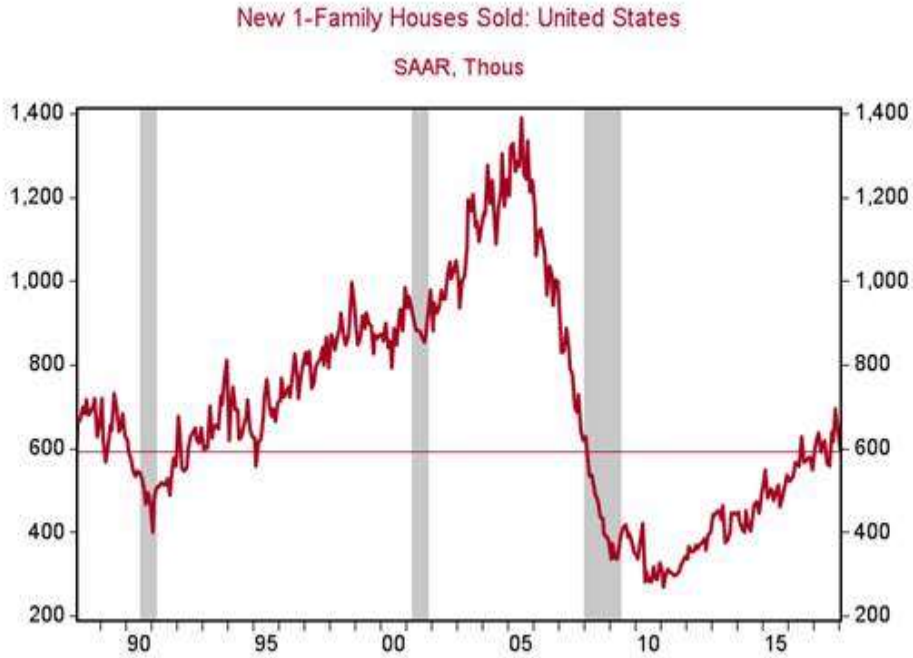
The increase in rates has not dampened builder confidence – they remain confident about current and future sales, and more concerned about supply-side constraints such as the shortage of lots and labor, and increasing building material prices (Chart 4).

Looking beyond recent volatility, new residential construction has been insufficient relative to demand in recent years, especially in some markets. Based on the price distribution of new homes sold, the supply of homes on the lower end are in especially chronic short supply, preventing younger first-time homebuyers from entering the market (see Chart 5). The share of new homes sold under \$400k has fallen sharply since the 2000s, by more than one would expect in light of the healthy gains in employment and disposable incomes, even after accounting for inflation.

As the new homes market continues to increase as a share of total housing activity, its implication for broader economic activity is more significant than existing home sales, which have dominated the economic expansion to date. New home sales increase demand for building materials and supplies and deliveries and raise the demand for a wide array of construction jobs, electronics, appliances, and furniture. We expect the housing market to make a sustained contribution to economic growth in the medium term.

26 February 2018

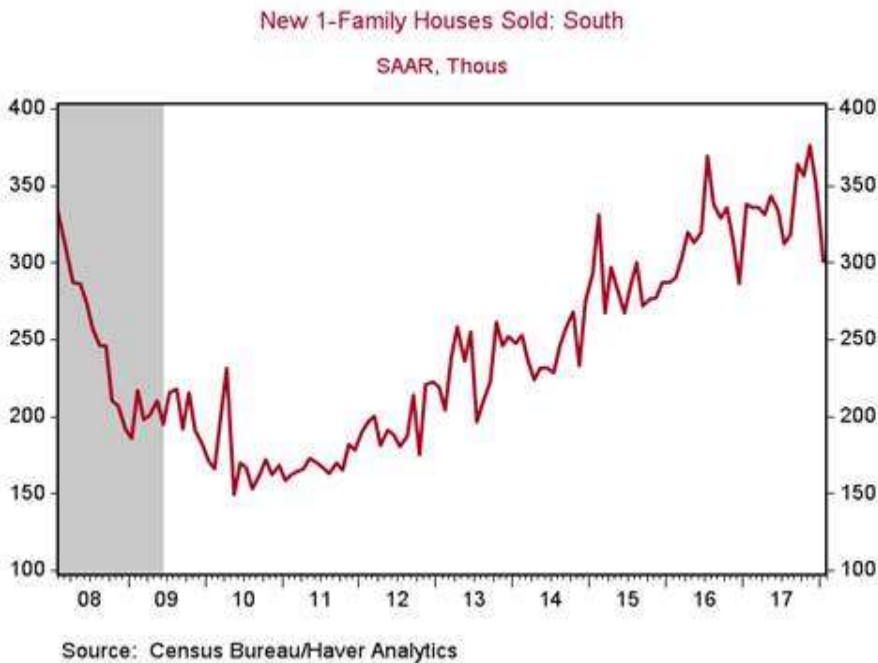
Chart 1: U.S. New Single-Family Home Sales



Source: Census Bureau/Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics

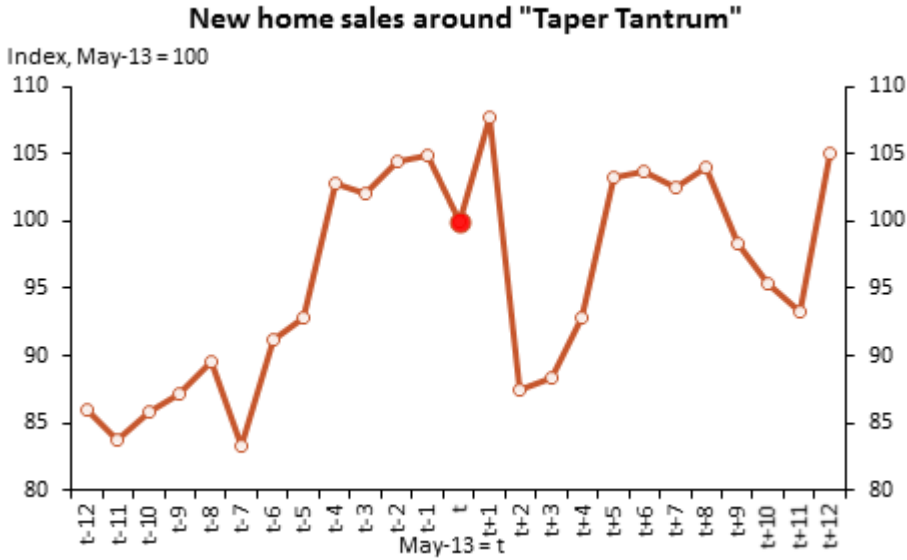
Chart 2: New Single-Family Home Sales in the South



Source: Census Bureau/Haver Analytics

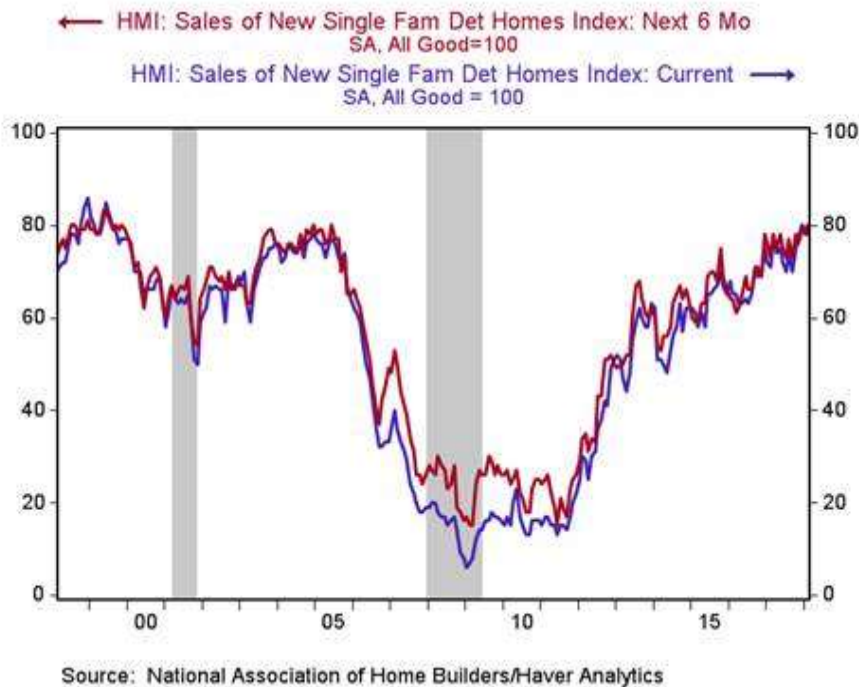
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 3: New Home Sales Around “Taper Tantrum”



Source: Monthly data. Source: Census Bureau and Berenberg Capital Markets

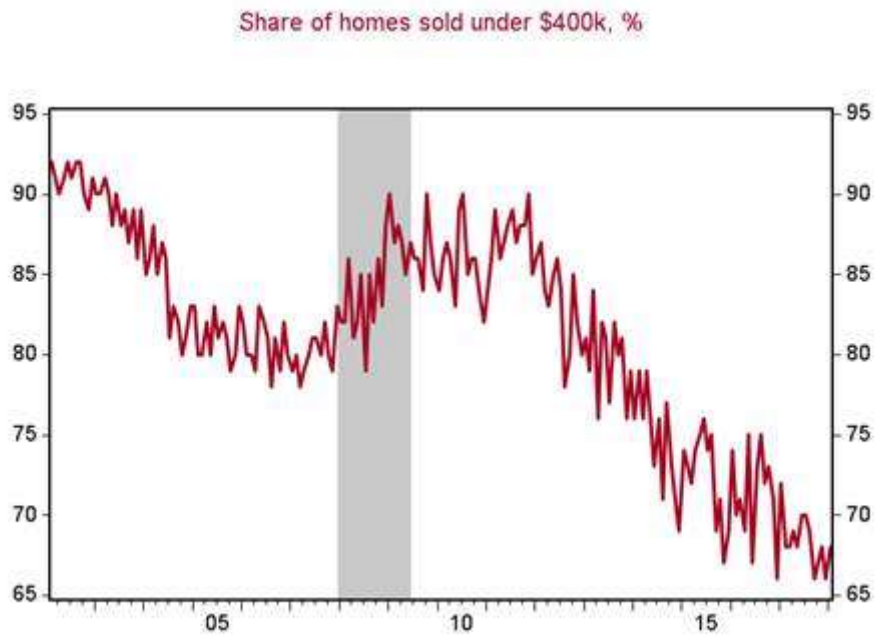
Chart 4: Home Builders’ Perceptions of Current and Future New Single-Family Home Sales



Source: National Association of Home Builders/Haver Analytics

Source: Monthly data. Source: National Association of Home Builders and Haver Analytics

Chart 5: Share of New Homes Sold Under \$400k



Source: Haver Analytics

Source: Monthly data. Source: Census Bureau and Haver Analytics

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