

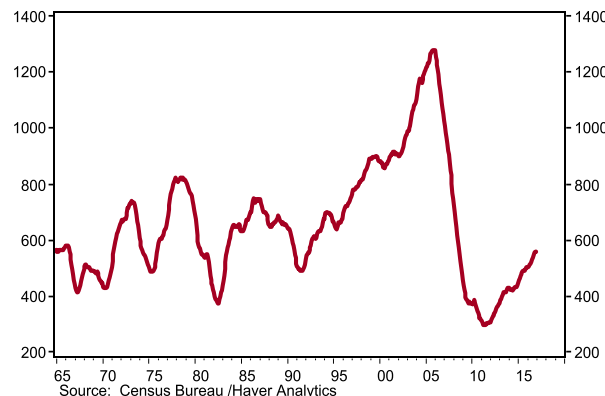
December New Home Sales

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elss – Economist

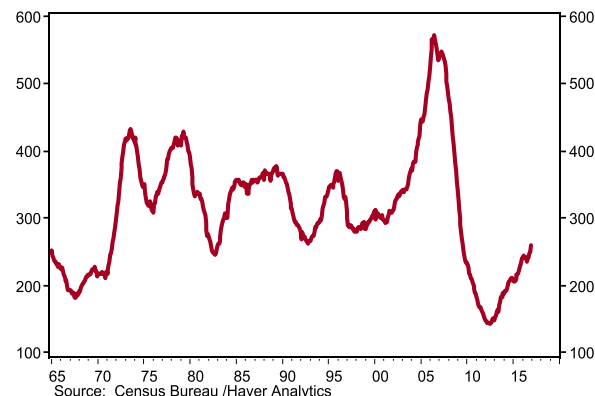
- New single-family home sales declined 10.4% in December to a 536,000 annual rate, falling well below the consensus expected pace of 588,000. Sales are down 0.4% from a year ago.
- Sales fell in the Midwest, South, and West, but increased in the Northeast.
- The months' supply of new homes (how long it would take to sell the homes in inventory) rose to 5.8 months in December from 5.0 in November. The gain in the months' supply was due to both a slower sales pace and an increase in inventories of 10,000 units.
- The median price of new homes sold was \$322,500 in December, up 7.9% from a year ago. The average price of new homes sold was \$384,000, up 7.2% versus last year.

Implications: Despite December's weak headline number, new home sales in calendar 2016 were the highest since 2007. Sales fell 10.4% in December and are now down 0.4% versus a year ago, illustrating the "fits and starts" recovery of the past several years. Despite an increase of 10,000 in the inventory of unsold homes, this should not impede future home construction. Most of this gain was due to an increase in the number of homes that have yet to begin construction. Inventories still remain very low by historical standards (see chart to right), and builders are not keeping up with the demand for new homes. With only 5.8 months of supply, there is plenty of room to increase construction. Going forward, we expect housing to remain a positive factor for the economy. First, employment gains continue and wage growth is accelerating. Second, the mortgage market is starting to thaw. Third, the homeownership rate remains depressed as a larger share of the population is renting, leaving plenty of potential buyers as conditions continue to improve. Unlike single-family homes which are counted in the new home sales data, multi-family homes (think condos in cities) are not counted. So a shift back toward single family units will also serve to push reported sales higher. Look for overall gains in home sales in the year ahead as these factors combine to drive expansion, and any headwind created by an increase in mortgage rates is offset by expectations of faster future economic growth. In other recent housing news, the FHFA index, which measures prices for homes financed by conforming mortgages, increased 0.5% in November and is up 6.1% in the past year, very close to the 6.2% gain in the year ending in November 2015. On the employment front, initial unemployment claims jumped 22,000 last week to 259,000, most likely due to volatility from the Martin Luther King Day holiday weekend. Continuing claims rose 41,000 to 2.100 million. Despite the rise, these figures continue to suggest solid job growth in January.

New 1-Family Houses Sold: United States
 12-month Moving Average SAAR, Thous



New 1-Family Houses For Sale: United States
 SA, Thous



New Home Sales	Dec-16		Nov-16	Oct-16	3-mo	6-mo	Yr to Yr
	% Ch	Level					
<i>All Data Seasonally Adjusted, Levels in Thousands</i>							
New Single Family Homes Sales	-10.4%	536	598	571	568	576	-0.4
Northeast	48.4%	46	31	35	37	34	48.4
Midwest	-41.0%	49	83	68	67	70	-29.0
South	-12.6%	285	326	329	313	327	0.0
West	-1.3%	156	158	139	151	145	2.0
Median Sales Price (\$, NSA)	4.3%	322,500	309,200	301,800	311,167	309,100	7.9
		Dec-16	Nov-16	Oct-16	3-mo Avg	6-mo Avg	12-mo Avg
Months' Supply at Current Sales Rate (Levels)		5.8	5.0	5.2	5.3	5.2	5.2

Source: Bureau of the Census