

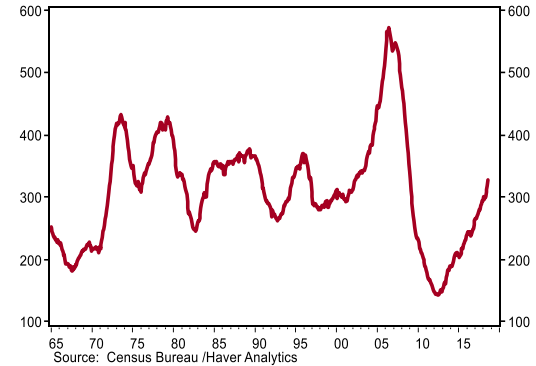
September New Home Sales

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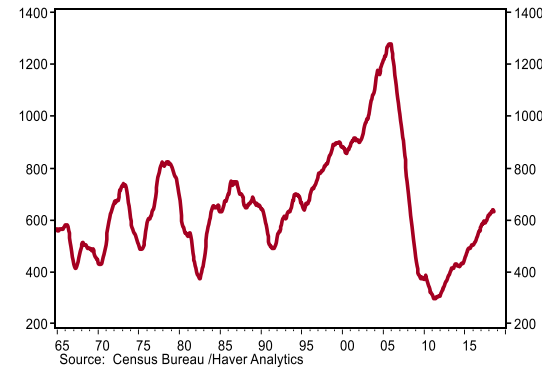
- New single-family home sales declined 5.5% in September to a 553,000 annual rate, well below the consensus expected 625,000. Sales are down 13.2% from a year ago.
- Sales fell in the Northeast, West and South, but rose in the Midwest.
- The months' supply of new homes (how long it would take to sell the homes in inventory) rose to 7.1 months in September from 6.5 months in August. The increase was due to both the slower pace of sales and a 9,000 unit gain in inventories.
- The median price of new homes sold was \$320,000 in September, down 3.5% from a year ago. The average price of new homes sold was \$377,200, down 0.6% versus last year.

Implications: New home sales continued to disappoint in September, coming in below even the most pessimistic forecast to settle at the slowest pace in nearly two years. Further, sales were revised down for the prior three months, making September the fourth consecutive month of declining sales. Notably, today's decline in new home sales was relatively broad-based across the country unlike recent data on housing starts and sales of existing homes where weakness has been concentrated in the South due to Hurricane Florence. Typically, we would look at the year-ago comparison to shed light on the more important trend in sales growth. However, the 13.2% year-over-year decline in today's report is artificially large due to the rebound in sales in September of last year, which represented a return to normal after Hurricane Harvey held back activity in August. At the moment, the best way to gauge sales growth is to look at the first nine months of 2018 versus the same period in 2017. This less volatile measure shows that year-to-date new home sales are still up 3.4% from a year ago, consistent with our view that the broader upward trend remains intact. Some analysts may point to the months' supply hitting its highest level since 2011, at 7.1 months in September, as a sign of waning demand. It's true that the inventory of new homes is up 16.8% from a year ago, but almost all of the gain is in homes that have yet to be started or are still under construction. The inventory of completed new homes (a better gauge of buyer demand) is still below average by historical standards. In fact, the months' supply of completed homes is also relatively low at 1.6 months, demonstrating a continued lack of physical options for potential buyers. In other words, there's still plenty of room for growth in both home building and new home sales. And as we expect both measures move higher, it will help alleviate the supply problems that have pushed up the median age of homes in the U.S. from 31 years in 2005 to 37 years in 2016, according to the most recent data available from the 2016 American Community Survey. Finally, we know some analysts blame rising interest rates for slowing home sales but we do not believe rates at current levels or even higher will have a long-term detrimental effect. The US has had strong periods of homes sales with much higher rates than exist today. Looking forward, expect further distortions in October due to Hurricane Michael followed by a rebound in sales in the fourth quarter as a whole. In other recent housing news, the FHFA index, which measures prices for homes financed by conforming mortgages, increased 0.3% in August. The FHFA index is up 6.1% from a year ago, slightly slower than the 6.9% gain in the year ending in August 2017. On the manufacturing front, the Richmond Fed index, which measures mid-Atlantic factory sentiment, fell to a still elevated 15 in October after hitting 29 in September, its highest level on record (dating back to 1993).

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



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



New Home Sales	Sep-18		Aug-18	Jul-18	3-mo	6-mo	Yr to Yr
	% Ch	Level			moving avg	moving avg	% Change
<i>All Data Seasonally Adjusted, Levels in Thousands</i>							
New Single Family Homes Sales	-5.5%	553	585	603	580	607	-13.2
Northeast	-40.6%	19	32	24	25	31	-51.3
Midwest	6.9%	77	72	68	72	76	4.1
South	-1.5%	318	323	343	328	345	-11.4
West	-12.0%	139	158	168	155	155	-15.8
Median Sales Price (\$, NSA)	0.3%	320,000	319,200	329,700	322,967	318,417	-3.5
		Sep-18	Aug-18	Jul-18	3-mo Avg	6-mo Avg	12-mo Avg
Months' Supply at Current Sales Rate (Levels)		7.1	6.5	6.2	6.6	6.2	5.8

Source: Bureau of the Census