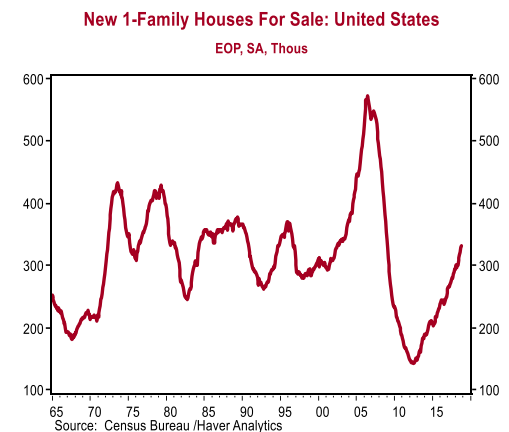
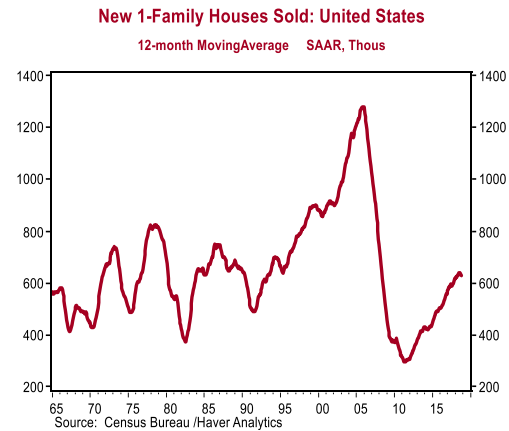


November New Home Sales

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- New single-family home sales increased 16.9% in November to a 657,000 annual rate, easily beating the consensus expected 570,000. Sales are down 7.7% from a year ago.
- Sales rose in the Northeast, Midwest and South, but fell in the West.
- The months' supply of new homes (how long it would take to sell the homes in inventory) fell to 6.0 months in November from 7.0 months in October. The decline was due entirely to the faster pace of sales. Inventories rose 2,000 units in November.
- The median price of new homes sold was \$302,400 November, down 11.9% from a year ago. The average price of new homes sold was \$362,400, down 6.7% versus last year.

Implications: We finally got numbers for new homes sales in November, and it looks like the wait was worth it. After a steady downward trend since March and an all-around disappointing report in October, new home sales surged 16.9% in November, the largest monthly percentage gain since 1992. This brought November's sales pace back in line with the Q1 average, erasing the decrease in activity we've seen so far in 2018. The big increase in sales also helped reverse the recent upward trend in the months' supply of homes, which fell to 6.0 months in November after hitting 7.0 in October, which was the highest reading since the housing sector hit rock bottom in 2011 in the aftermath of the Great Recession. It's important to remember that new home sales are volatile, and it's too early to tell if this truly marks a reversal in the direction of sales. However, we continue to think that the fundamentals for the housing market remain solid. First, relative to population, the number of new home sales remains well below where it should be according to history. Using the ratio of sales to the US population from 1995 for example, well before the beginning of the housing bubble, shows that new home sales should be at a pace of around 820,000 annualized. So even a partial reversion to the mean bodes well for sales over the coming years. Second, the labor market continues to strengthen, and wages are rising which should underpin demand. Finally, mortgage rates peaked in November and have since retreated, boosting affordability. Bottom line, we expect sales in 2019 to outpace 2018. In other recent housing news, pending home sales, which are contracts on existing homes, slipped 2.2% in December after dropping 0.9% in November. These results suggest a continued decline in existing home sales (counted at closing) for January. On the price front, the national Case-Shiller index was up 0.4% in November and is up 5.2% from a year ago, a smaller gain than the 6.1% increase in the year ending in November 2017. Similarly, the FHFA index, which measures prices for homes that have a conforming mortgage, rose 0.4% in November and is up 5.8% from a year ago, a smaller gain than the 6.8% increase in the year ending in November 2017. In employment news this morning, initial jobless claims rose 53,000 last week to 253,000, after hitting the lowest level since 1969 the week before. This increase was most likely due to seasonality issues from MLK Day as well as temporary effects on private federal contractors due to the government shutdown. Meanwhile, continuing claims rose 69,000 to 1.78 million. However, this was paired with yesterday's ADP employment report which showed an increase of 213,000 in private payrolls. Put it all together, and we are forecasting an increase in nonfarm payrolls of 163,000 for tomorrow's jobs report, a partial payback from December's blowout number of 312,000, but a healthy gain nonetheless. Finally, On the manufacturing front, the Chicago PMI, which measures manufacturing sentiment in that region, fell to a still healthy 56.7 in January from 63.8 in December. We're looking for the national ISM to come in at 54.0 for January, still in the healthy range.



New Home Sales <i>All Data Seasonally Adjusted, Levels in Thousands</i>	Nov-18		Oct-18	Sep-18	3-mo moving avg	6-mo moving avg	Yr to Yr % Change
	% Ch	Level					
New Single Family Homes Sales	16.9%	657	562	613	611	609	-7.7
Northeast	100.0%	46	23	27	32	33	15.0
Midwest	30.5%	77	59	77	71	70	-2.5
South	20.6%	374	310	346	343	343	-0.8
West	-5.9%	160	170	163	164	163	-25.9
Median Sales Price (\$, NSA)	-7.0%	302,400	325,100	330,300	319,267	319,533	-11.9
		Nov-18	Oct-18	Sep-18	3-mo Avg	6-mo Avg	12-mo Avg
Months' Supply at Current Sales Rate (Levels)		6.0	7.0	6.3	6.4	6.3	5.9

Source: Bureau of the Census