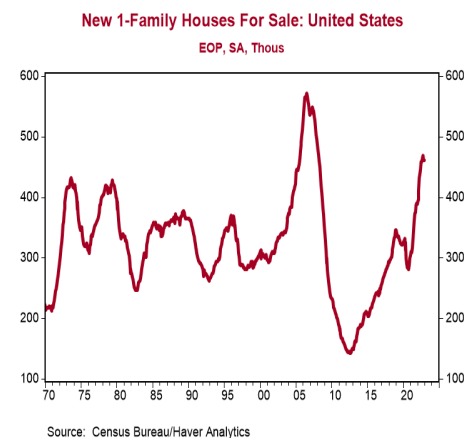
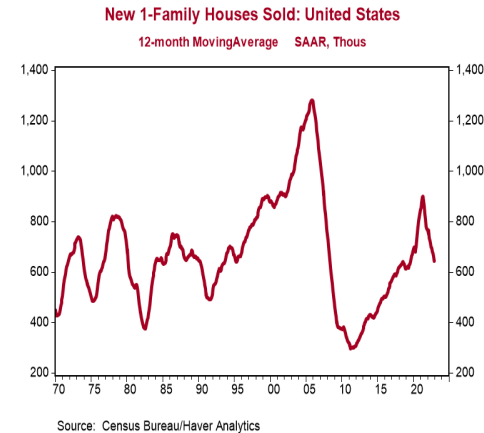


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## December New Home Sales

- New single-family home sales increased 2.3% in December to a 0.616 million annual rate, narrowly beating the consensus expected 0.612 million. Sales are down 26.6% from a year ago.
- Sales in December rose in the Midwest and South, but fell in the Northeast and West.
- The months' supply of new homes (how long it would take to sell all the homes in inventory) fell to 9.0 in December from 9.2 in November. The decline was entirely due to a faster pace of sales. Inventories remained unchanged in December.
- The median price of new homes sold was \$442,100 in December, up 7.8% from a year ago. The average price of new homes sold was \$528,400, up 7.6% versus last year.

**Implications:** New home sales fell 26.6% in the twelve months ending in December 2022, the largest calendar-year drop since the 2008 housing bust. However, the recent trend in sales has been modestly positive, with activity rising for the third consecutive month in December and signaling that sales activity may have hit a temporary bottom. The main issue this year has been declining affordability, with potential buyers getting squeezed by both higher prices and rapidly rising mortgage rates. Assuming a 20% down payment, the change in mortgage rates and home prices since December 2021 amount to a 59% increase in monthly payments on a new 30-year mortgage for the median new home. No wonder sales have slowed down! With 30-year mortgage rates currently sitting near 6.5%, financing costs remain a headwind. However, it's important to note that mortgage rates have recently fallen roughly 100 basis points from the peak. Given that new home sales are a timelier indicator of the housing market, because they are calculated when contracts are signed, it's not surprising we are seeing signs of life in today's report while sales of existing homes (which are counted when contracts are closed) continue to struggle. Another piece of good news is that while a lack of inventory has contributed to price gains in the past couple of years, inventories have made substantial gains versus a couple of year ago. The months' supply of new homes (how long it would take to sell the current inventory at today's sales pace) is now 9.0, up significantly from 3.3 early in the pandemic. Most importantly, the supply of completed single-family homes has begun to rise quite rapidly as builders finish more units and rising cancellation rates on purchases leave potential buyers with more options. Though not a recipe for a significant rebound, the combination of moderating mortgage rates and more inventories should continue to put a floor under sales activity. One problem with assessing housing activity is that the Federal Reserve held interest rates artificially low for more than a decade. With rates now in a more normal range, the sticker shock on mortgage rates for potential buyers is very real. However, we have had strong housing markets with rates at current levels in the past, and homebuyers will eventually adjust, possibly by looking at lower priced homes. In manufacturing news this morning, the Kansas City Fed index, a measure of factory sentiment in that region, rose to a still weak -1 in January from -4 in December. Look for further weakness in the national ISM Manufacturing index reported next week.



New Home Sales <i>All Data Seasonally Adjusted, Levels in Thousands</i>	Dec-22		Nov-22	Oct-22	3-mo	6-mo	Yr to Yr
	% Ch	Level			moving avg	moving avg	% Change
<b>New Single Family Homes Sales</b>	<b>2.3%</b>	<b>616</b>	602	598	605	593	-26.6
<b>Northeast</b>	<b>-19.4%</b>	<b>29</b>	36	41	35	31	-21.6
<b>Midwest</b>	<b>35.2%</b>	<b>73</b>	54	49	59	59	-14.1
<b>South</b>	<b>6.5%</b>	<b>392</b>	368	383	381	377	-17.5
<b>West</b>	<b>-15.3%</b>	<b>122</b>	144	125	130	126	-49.6
<b>Median Sales Price (\$, NSA)</b>	<b>-3.7%</b>	<b>442,100</b>	459,000	491,300	464,133	464,767	7.8
		<b>Dec-22</b>	<b>Nov-22</b>	<b>Oct-22</b>	<b>3-mo Avg</b>	<b>6-mo Avg</b>	<b>12-mo Avg</b>
<b>Months' Supply at Current Sales Rate (Levels)</b>		<b>9.0</b>	9.2	9.4	9.2	9.4	8.4

Source: Bureau of the Census