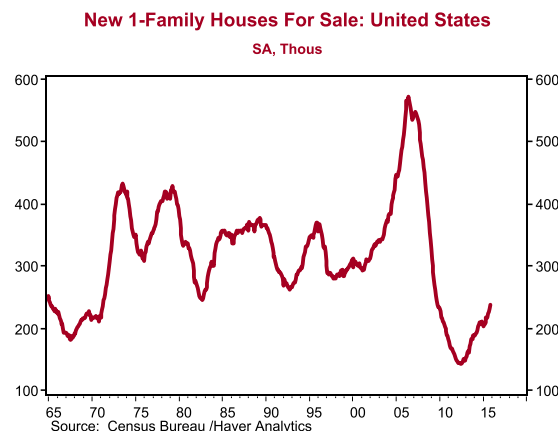
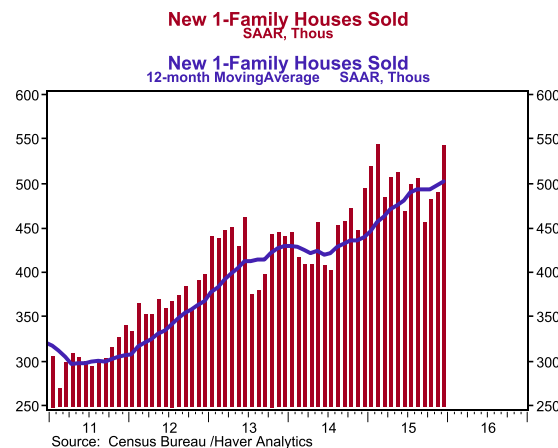


December New Home Sales

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- New single-family home sales increased 10.8% in December to a 544,000 annual rate, coming in well above the consensus expected pace of 500,000. Sales are up 9.9% from a year ago.
- Sales rose in all major regions.
- The months' supply of new homes (how long it would take to sell the homes in inventory) fell to 5.2 months in December from 5.6 months in November. The drop in the months' supply was all due to a faster sales pace. Inventories rose by 6,000 units.
- The median price of new homes sold was \$288,900 in December, down 4.3% from a year ago. The average price of new homes sold was \$346,400, down 7.3% versus last year.

Implications: The US housing market continues to surprise to the upside, with today's report making 2015 the best year for new home sales since 2007. New home sales jumped 10.8% to a 544,000 annualized pace in December, the second highest level since the economic recovery started and up 9.9% versus last year. This strength corroborates last week's existing home sales data, which showed a similar jump. It looks like employment gains and the beginning of a thaw in mortgage finance are starting to have a positive effect. However, home sales data are volatile from month to month and even though the trend is positive sales remain at depressed levels relative to where they should be. Why? First, the homeownership rate remains depressed as a larger share of the population is renting. Second, buyers have shifted slightly from single-family homes, which are counted in the new home sales data, to multi-family homes (think condos in cities), which are not counted in this report. We think this will change gradually over the next few years and new home sales will continue on an upward trend. In addition, the details of today's report show why there's plenty of room for more home construction. Although the inventory of new homes rose 6,000 in December, it remains very low by historical standards (see chart to right). Moreover, the gain in inventories has been led by homes where construction has yet to begin. We won't be concerned about inventories in the new home market until we see a surge in unsold homes where construction has been completed, and that's not even on the radar. Although new home prices show some slippage from a year ago, that's probably due to a shift in the mix of homes sold toward lower-priced units as the market improves, not a reflection of actual price declines for particular homes. Other recent reports show acceleration in home prices. The Case-Shiller index increased 0.9% in November and is up 5.3% from a year ago. That's faster than the 4.6% gain in the twelve months ending in November 2014. The gains in the past year have been led by Portland, San Francisco, and Denver. Meanwhile, the FHFA index, which measures prices for homes financed with conforming mortgages, increased 0.5% in November and is up 5.9% from a year ago. In the year ending in November 2014, FHFA prices were up 5.4%. Accelerating price gains are due to the relatively sluggish pace of homebuilding. Although construction has rebounded in the past five years, it's still below fundamentals based on population growth and scrappage. As a result, expect further healthy home price gains in 2016-17. On the factory front, the Richmond Fed index, which measures mid-Atlantic manufacturing sentiment, fell to +2 in January from +6 in December. We expect the national ISM index to rebound in January, but remain (temporarily) below 50.



New Home Sales <i>All Data Seasonally Adjusted, Levels in Thousands</i>	Dec-15		Nov-15	Oct-15	3-mo moving avg	6-mo moving avg	Yr to Yr % Change
	% Ch	Level					
New Single Family Homes Sales	10.8%	544	491	482	506	497	9.9
Northeast	20.8%	29	24	34	29	28	-6.5
Midwest	31.6%	75	57	59	64	61	38.9
South	0.4%	273	272	273	273	278	0.0
West	21.0%	167	138	116	140	130	21.9
Median Sales Price (\$, NSA)	-2.7%	288,900	297,000	296,600	294,167	297,717	-4.3
		Dec-15	Nov-15	Oct-15	3-mo Avg	6-mo Avg	12-mo Avg
Months' Supply at Current Sales Rate (Levels)		5.2	5.6	5.6	5.5	5.4	5.2

Source: Bureau of the Census