

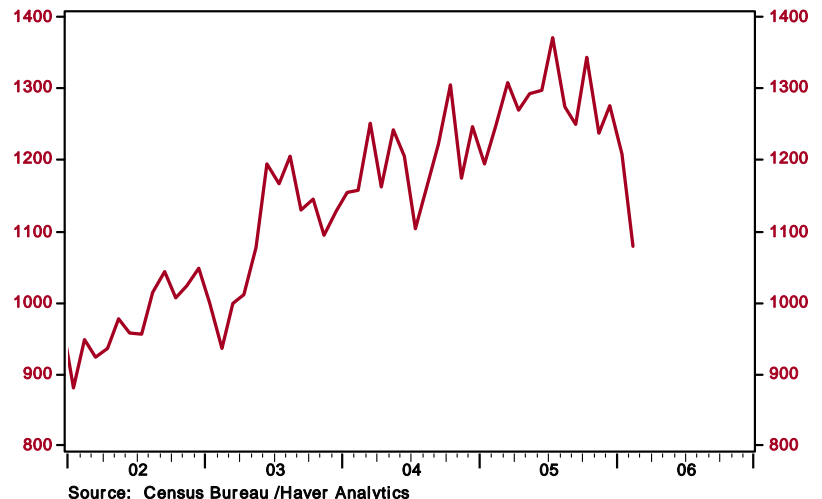
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FEBRUARY NEW HOME SALES

- New single-family home sales fell a whopping 10.5% in February, while January was revised to show a 5.3% decline instead of the originally reported 5.0% drop. New home sales are down 13.4% in the past 12 months.
- The median price of a new home has fallen 2.9% from year-ago levels. But the average price has increased by 2.6%.
- At the current sales pace, the supply of new homes jumped to 6.3 months in February, the highest level since January 1996. For comparisons sake, from 1970-2000 the inventory of new homes on the market averaged 6.4 months.

Implications: After reaching an all-time high water mark in July 2005 (1.371 million units), new single-family home sales have fallen in five out of the last seven months, culminating in a much-larger-than-expected 10.5% drop in February. This was the largest one-month drop since 1995. The February sales pace of 1.08 million units is the lowest monthly rate since May 2003, while the 3-month moving average of sales has fallen back to Q3 2004 levels. With sales retreating back to levels not seen in two or three years, the chart (attached) is starting to look ominously like a “bursting bubble.” However, new home sales are a volatile data series and the weather shifted abruptly from a better-than-normal January to a more normal February. As a result, we do not believe that recent declines signal an implosion. Rather, we suspect that housing activity is retreating back to more normal levels. Over the past ten years, one new home has been sold every year for each 300 people who live in the US. Last year, however, one new home was sold for every 231 people. There are many reasons for this acceleration – a growing number of single homeowners and smaller family size, the tearing down of older dwellings, and an increase in two home families. Low interest rates, a strong economy and favorable tax treatment have also helped. It is impossible to determine the impact of each of these factors, but with interest rates rising, it is likely that housing activity will retreat closer to its longer-run averages. If new homes sold at a rate of one per 300 people, we would expect single-family sales to stabilize near 1.0 million units per year. Despite being much lower than the peak sales of 2005, a 1.0 million pace would still be 13.7% above the 1998/1999 average.

New Single Family Home Sales
 Annual Rate in Thousands



New Home Sales <i>all data seasonally adjusted, thous.</i>	Feb-06		Jan-06	Dec-05	3-mo moving avg	6-mo moving avg	Yr over yr % ch.
	% Ch	Level					
New Single Family Homes Sales	-10.5%	1080	1207	1275	1187	1232	-13.4
Northeast	12.7%	71	63	70	68	71	-13.4
Midwest	5.2%	182	173	207	187	190	1.1
South	-6.4%	575	614	663	617	637	-9.6
West	-29.4%	252	357	335	315	334	-27.8
Months Supply at current sales rate	18.9%	6.3	5.3	4.8	5.5	5.1	43.2
Median Sales Price (\$, NSA)	-1.6%	230,400	234,200	236,800	233,800	237,267	-2.9
Average Sales Price (\$, NSA)	3.3%	296,700	287,200	289,200	291,033	293,450	2.6

Source: U.S. Census Bureau