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October New Home Sales

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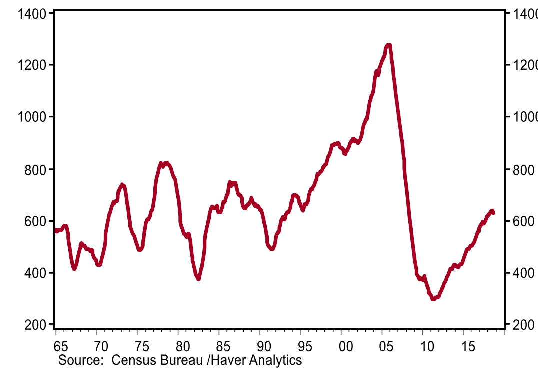
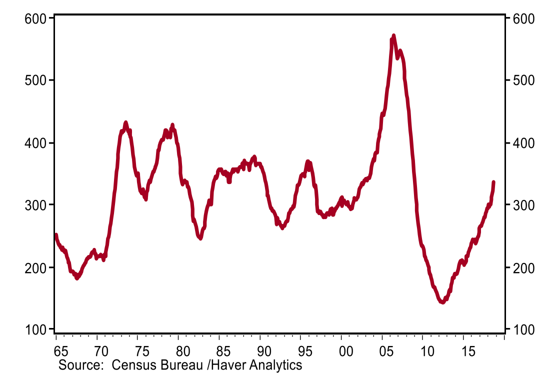
- New single-family home sales declined 8.9% in October to a 544,000 annual rate, well below the consensus expected 575,000. Sales are down 12.0% from a year ago.
- Sales fell in all the major regions in October.
- The months' supply of new homes (how long it would take to sell the homes in inventory) rose to 7.4 months in October from 6.5 months in September. The increase was due to both the slower pace of sales and a 14,000 unit gain in inventories.
- The median price of new homes sold was $309,700 in October, down 3.1% from a year ago. The average price of new homes sold was $395,000, up 0.3% versus last year.





Implications: There's no way to sugarcoat it, today's report on new home sales was disappointing all the way around. Sales fell unexpectedly in October to the slowest pace since 2016, with every major region posting declines. As a result, sales are now down 12% from a year ago. Another sign of worry is the build-up in un-sold inventories which are up 17.5% in the past year. This trend plus the recent slowing in the pace of sales has led to a rapid increase in the months' supply of homes which now sits at 7.4 months, up from 5.6 months a year ago and the highest reading since 2011 in the aftermath of the great recession. Despite all of this we continue to believe that a rebound in the housing market is still on the horizon. Why? First, based on 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. That means that 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, many analysts are pointing the finger at rising interest rates as the prime culprit behind 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. Household financial obligations are still hovering near the lowest share of disposable income since the early 1980s so an extra 100 basis points on a mortgage shouldn't be enough to keep buyers permanently out of the market. On a final note, remember that new home sales data can be noisy as evidenced by the 44,000-upward revision to September's sales pace. Looking forward, a similar upward revision to today's number is possible and we expect a rebound in sales later in the fourth quarter. In other news this morning, the Richmond Fed index, which measures mid-Atlantic factory sentiment, fell to a still elevated 14 in November from 15 in October. This signals continued optimism from the factory sector.

New Home Sales	Oct-18		Sep-18	Aug-18	3-mo	6-mo	Yr to Yr
All Data Seasonally Adjusted, Levels in Thousands	% Ch	Level			moving avg	moving avg	% Change
New Single Family Homes Sales	-8.9%	544	597	591	577	601	-12.0
Northeast	-18.5%	22	27	33	27	31	-46.3
Midwest	-22.1%	60	77	67	68	71	-16.7
South	-7.7%	313	339	336	329	344	-11.6
West	-3.2%	149	154	155	153	155	-1.3
Median Sales Price ($, NSA)	-3.6%	309,700	321,300	323,800	318,267	318,250	-3.1
		Oct-18	Sep-18	Aug-18	3-mo Avg	6-mo Avg	12-mo Avg
Months' Supply at Current Sales Rate (Levels)		7.4	6.5	6.4	6.8	6.3	5.9

Source: Bureau of the Census