

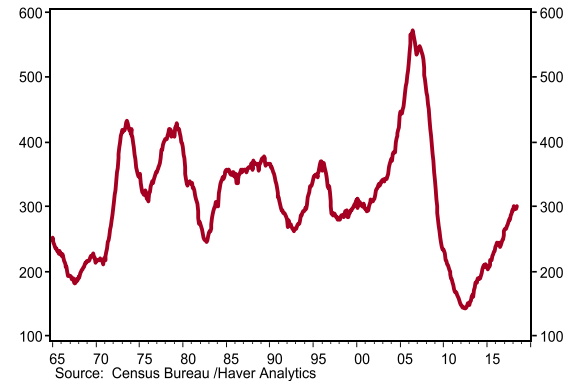
June New Home Sales

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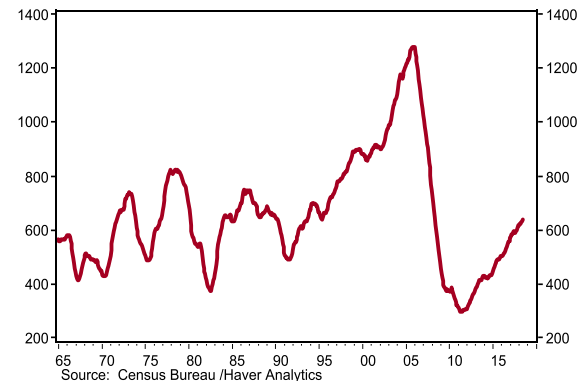
- New single-family home sales declined 5.3% in June to a 631,000 annual rate, well below the consensus expected 668,000. Sales are up 2.4% from a year ago.
- Sales fell in the Midwest, South and West, but rose in the Northeast
- The months' supply of new homes (how long it would take to sell the homes in inventory) rose to 5.7 months in June from 5.3 months in May. The increase was due to both the slower pace of sales and a 5,000 unit increase in inventories.
- The median price of new homes sold was \$302,100 in June, down 4.2% from a year ago. The average price of new homes sold was \$363,300, down 2.0% versus last year.

Implications: New home sales disappointed in June, falling more than even the most pessimistic forecast. That said, this by no means signals the end of the recovery in the housing market. Yes, sales dropped to a 631,000-annualized rate and, paired with downward revisions to prior months, resulted in a 1.5% decline in the Q2 sales pace versus the Q1 average. But a look at the first six months of 2018 versus the same period in 2017 shows new home sales are still up a healthy 6.4% from a year ago. And even with the large drop in June, sales were still 2.4% higher than in June 2017. Some analysts may fret about the months' supply of new homes hitting its highest level in over a year at 5.7 months as a sign weakening buyer demand. They will point to the fact that, unlike with existing homes, the inventory of new homes has been expanding and is up 10.3% from a year ago. However, the inventory of completed new homes is still very low by historical standards, and almost all of the gain in inventory over the past two years has been in homes that have yet to be started or ones under construction (e.g. not completed homes waiting for a buyer, a better gauge of demand). For perspective, completed homes currently represent the smallest share of inventories since the government began tracking this data back in 1999. So, what the data really shows is the months' supply of completed homes is just 1.1 months, demonstrating the lack of physical options buyers actually face. Prior to the end of the housing bubble, sales of new homes were typically about 15% of all home sales. They fell to around 6.5% of sales at the bottom of the housing bust, and now have recovered to 11%. In other words, there's still plenty of room for growth in new home sales, and, as they continue to trend higher, it will help alleviate the supply problems that have pushed up the median age of homes in the U.S. from 31 years in 2005 to 37 years in 2015, the most recent data available. This means room for home building to grow as well. Looking forward, we expect further growth over the next few years, though month-to-month volatility, as always, should be expected. Our advice? Focus on the trend, not short-term swings. In other recent housing news, the FHFA index, which measures prices for homes financed by conforming mortgages, increased 0.2% in May and is up 6.5% versus a year ago, a little below the 6.9% gain in the twelve months ending May 2017. On the manufacturing front, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, fell slightly to a still robust 20 in July from 21 in June, signaling continued optimism from manufacturers in that region.

New 1-Family Houses For Sale: United States
SA, Thous



New 1-Family Houses Sold: United States
12-month Moving Average SAAR, Thous



| New Home Sales | Jun-18 | | May-18 | Apr-18 | 3-mo moving avg | 6-mo moving avg | Yr to Yr % Change |
|--|--------|---------|---------|---------|-----------------|-----------------|-------------------|
| | % Ch | Level | | | | | |
| <i>All Data Seasonally Adjusted, Levels in Thousands</i> | | | | | | | |
| New Single Family Homes Sales | -5.3% | 631 | 666 | 641 | 646 | 651 | 2.4 |
| Northeast | 36.8% | 52 | 38 | 35 | 42 | 40 | 20.9 |
| Midwest | -13.4% | 71 | 82 | 93 | 82 | 83 | 7.6 |
| South | -7.7% | 361 | 391 | 346 | 366 | 359 | 8.1 |
| West | -5.2% | 147 | 155 | 167 | 156 | 169 | -15.0 |
| Median Sales Price (\$, NSA) | -2.5% | 302,100 | 309,700 | 314,800 | 308,867 | 319,800 | -4.2 |
| | | Jun-18 | May-18 | Apr-18 | 3-mo Avg | 6-mo Avg | 12-mo Avg |
| Months' Supply at Current Sales Rate (Levels) | | 5.7 | 5.3 | 5.6 | 5.5 | 5.5 | 5.5 |

Source: Bureau of the Census