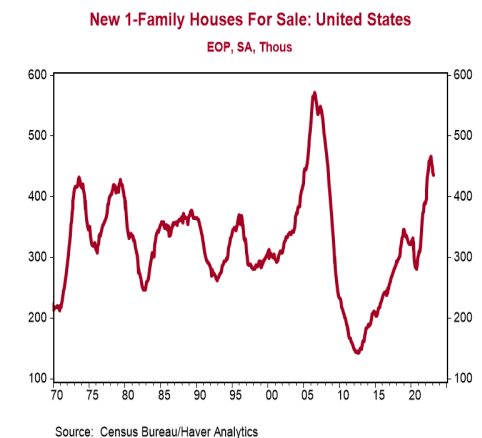
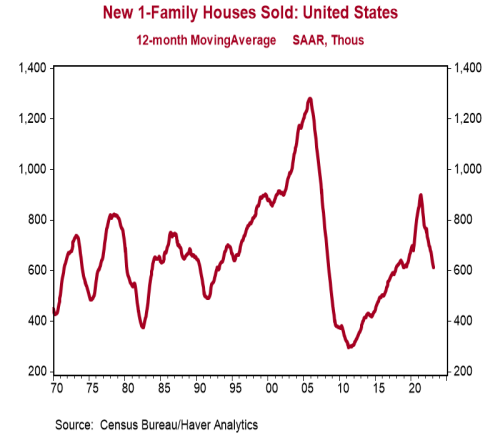


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February New Home Sales

- New single-family home sales increased 1.1% in February to a 0.640 million annual rate, lagging the consensus expected 0.650 million. Sales are down 19.0% from a year ago.
- Sales in February rose in the West and South, but fell in the Northeast and Midwest.
- The months' supply of new homes (how long it would take to sell all the homes in inventory) ticked down to 8.2 in February from 8.3 in January. The decline was due to both a faster pace of sales and a 3,000 unit drop in inventories.
- The median price of new homes sold was \$438,200 in February, up 2.5% from a year ago. The average price of new homes sold was \$498,700, down 4.5% versus last year.

Implications: New home sales rose for a third consecutive month in February, signaling that sales activity may have hit a temporary bottom. However, even with this modestly positive recent trend, sales are still down 19.0% in the past year. The main issue with the US housing market 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 in the past year amounts to a 38% 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 7.0%, financing costs remain a headwind. On top of this, given the recent instability in the banking system there is likely more volatility ahead for the housing market as lending standards are tightened further. A piece of good news is that while a lack of inventory has contributed to price gains in the past couple of years and they dipped slightly in February, in general, inventories have made substantial gains recently. The months' supply of new homes (how long it would take to sell the current inventory at today's sales pace) is now 8.2, 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. This is in contrast to the market for existing homes which continues to struggle with an inventory problem due to the difficulty of convincing current homeowners to give up the low fixed-rate mortgages they locked-in during the pandemic. Though not a recipe for a significant rebound, more inventories should help moderate new home prices and 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 labor market news this morning, initial unemployment claims fell 1,000 last week to 191,000, while continuing claims rose by 14,000 to 1.694 million. These figures are consistent with continued job gains in March.



New Home Sales	Feb-23		Jan-23	Dec-22	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	1.1%	640	633	622	632	603	-19.0
Northeast	-40.0%	21	35	29	28	31	-55.3
Midwest	-1.4%	71	72	71	71	62	-20.2
South	3.0%	415	403	386	401	381	-8.8
West	8.1%	133	123	136	131	130	-33.2
Median Sales Price (\$, NSA)	2.7%	438,200	426,500	469,900	444,867	461,900	2.5
		Feb-23	Jan-23	Dec-22	3-mo Avg	6-mo Avg	12-mo Avg
Months' Supply at Current Sales Rate (Levels)		8.2	8.3	8.7	8.4	9.0	8.8

Source: Bureau of the Census