



New Home Sales Below Trend But Still Outperforming Existing Homes

The Census Bureau released the monthly New Home Sales report today, showing a decrease from 719k in September (revised down from 759k initially reported) to 679k in October. While this number is below the long term trend that emerged after the Great Financial Crisis, it's still in league with the pre-covid highs.

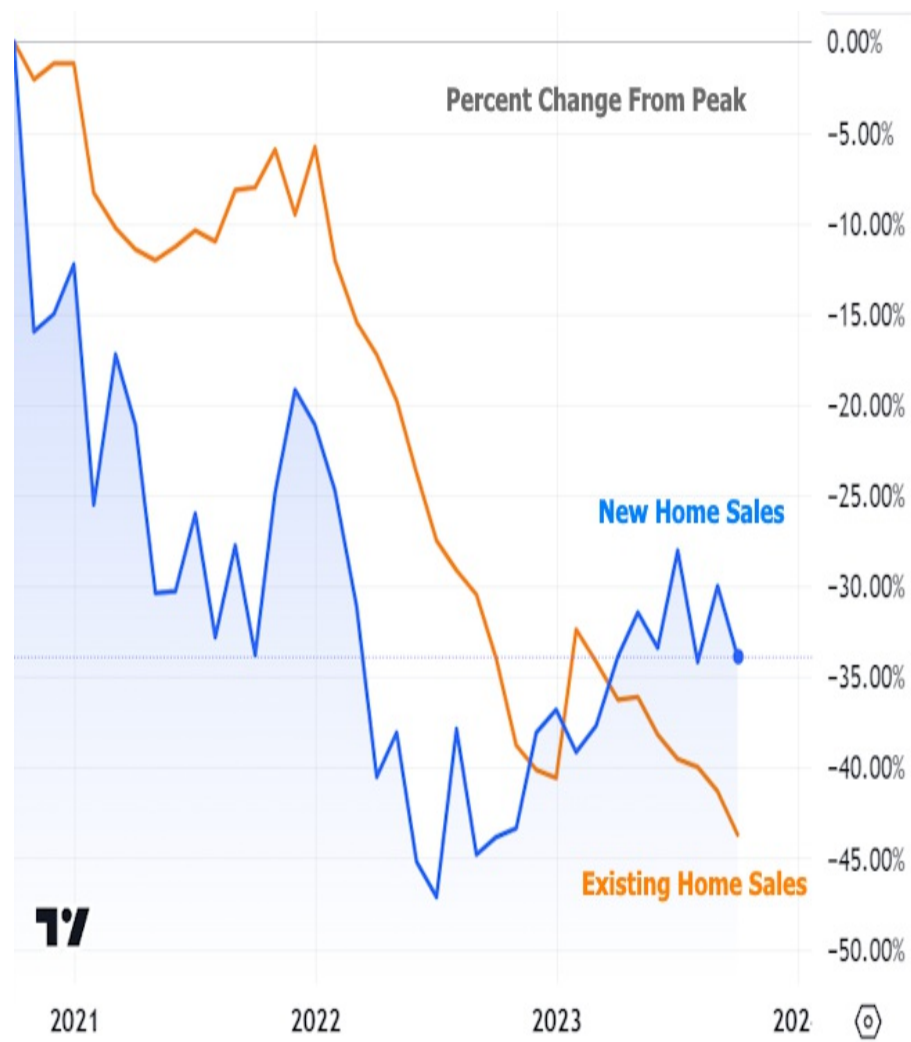


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The post-covid story for the housing market has been one of ever-dwindling inventory and its various effects. One of the most obvious effects of lower EXISTING home inventory is that NEW homes have captured a larger share of the market.

Existing homes have moved lower, almost exclusively from the peak. The divergence from New Home Sales has been especially notable since mid-2022 when rates really began skyrocketing. The following chart shows the percent change in both new and existing sales from the peak.



Perhaps most notable is the price trend during the time when sales were down more than 40%.



An inventory crunch is the only thing that could explain the juxtaposition of a sharp decline in sales and a sharp increase in values, but it's important to note the 3rd ingredient in play during the highlighted time frame above: incredibly low rates. Prices stopped accelerating almost as soon as rates began to jump.

What's the takeaway for the housing market? Today's report doesn't tell us much. Anything in the 650-750k range is fairly neutral. Additionally, the outlook may be rapidly changing to whatever extent the highest interest rates are behind us. That's a possibility that will receive more clarity with next week's economic data, but it will take several months to confirm.