

Economic Analysis

February Shows Signs of Healing Housing Market

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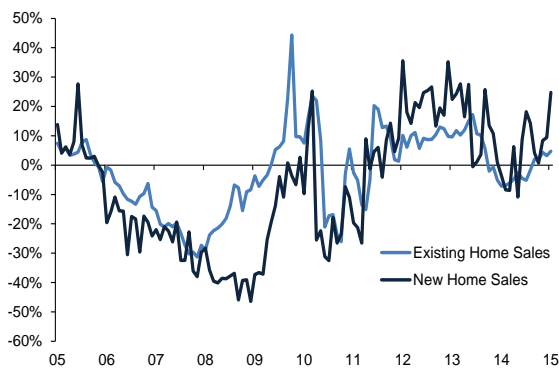
- **New home sales unexpectedly surge to a 7-year high**
- **Existing home sales tick up, but not close to pre-recession levels**
- **The South saw especially strong total sales, despite unusual winter weather**

Despite signs of heavy weather-related impacts in February, both the existing and new home sale releases showed positive momentum going into the critical spring selling season. Although existing home sales fell below expectations, rising slightly to a rate of 4.88 million, new home sales were far above consensus, at an annualized pace of 539,000.

Existing home sales have been volatile throughout the past few months but continue to show signs of a soft housing market that has not yet recovered to pre-recession levels. This is partly due to the effect of shrinking supply leading to rising home prices, leaving buyers with less affordable options. At the current pace of sales, there is merely a 4.6 month supply of existing homes on the market; whereas, a 6-month supply is considered to be healthy. As a result of scarce supply, February's sales prices rose at the fastest rate in a year, with the median existing-home price at \$202,600, 7.5% higher than one year prior.

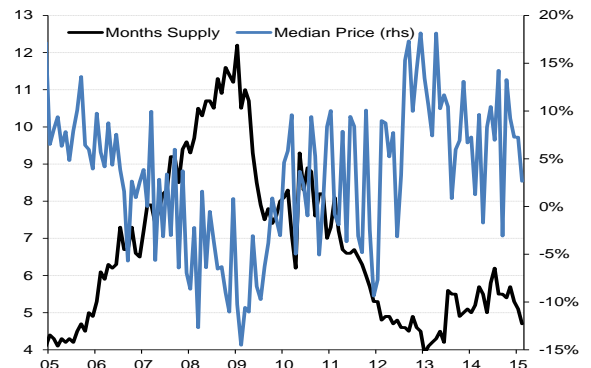
The surge in February's new home sales for the third consecutive month proved that there's a light at the end of the tunnel, breaking the dreary pattern of weak housing data, but not coming close to pre-recession levels. On the bright side, January's new home sales were upwardly revised, marking the first two readings above 500,000 since April/May 2008. Despite weak income growth, harsh winter weather, and rising home prices, buyers were out in full force especially in the South and Northeast. The South is by far the largest region for new homes, making up 59% of sales. However, the surge in sales comes at the expense of inventory, which should serve to encourage more construction activity in the building of new homes, provided that home builders are able to have easier access to credit. The arrival of new homes on the market could help bring sales closer to historical norms.

Chart 1
New and Existing Home Sales SAAR YoY % Change



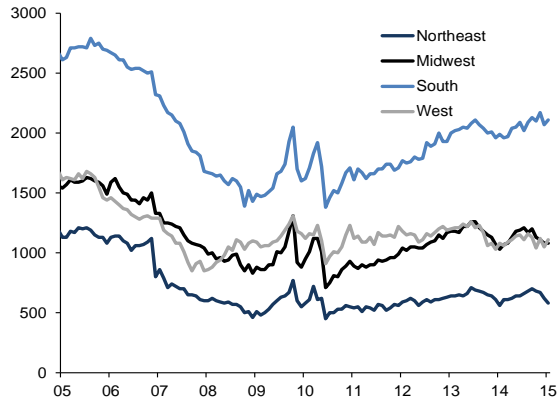
Source: US Census Bureau, BBVA Research

Chart 2
Median Sales and Months' Supply at Current Sales Rate, New Homes (YoY % Change, Ratio)



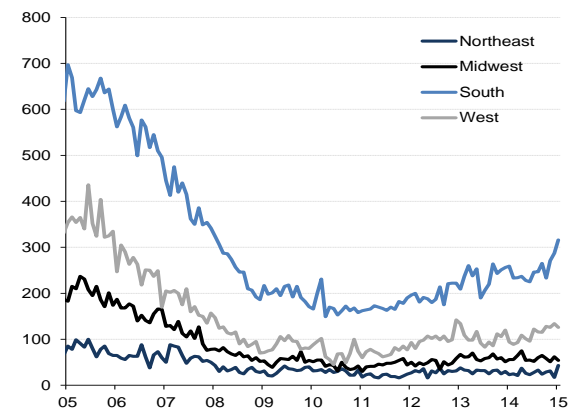
Source: US Census Bureau, BBVA Research

Chart 3
Existing Home Sales, by Region
SAAR, Thousands



Source: National Association of Realtors, BBVA Research

Chart 4
New Home Sales, by Region
SAAR, Thousands



Source: US Census Bureau, BBVA Research

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