

U.S. Housing Flash

New Residential Sales Free-fall in March

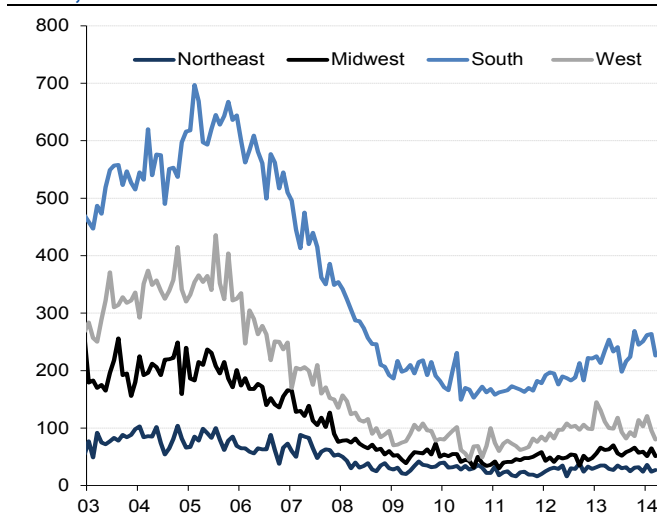
- **New home sales dip further after accelerating during the latter half of 2013**
- **Declining affordability appears to explain the drop-off in consumer demand**

The Census Bureau reported today that new home sales in March plummeted 14.5% on a MoM basis to 384,000 SAAR, the lowest level since July 2013. New home sales in the Midwest, South, and West regions declined 21.5%, 14.4% and 16.7%, respectively, while Northeast home sales picked up by 12.5%. Still, the impact of the increase is insignificant overall, as the Northeast only made up about 7% of overall sales for the month. The median number of months that home sales have been on the market has risen or remained steady each of the last five months, an indication that housing market activity has stalled after accelerating during the second half of 2013. Though the months' supply of new homes at the current sales rate rose to 6.0, the increase is mostly explained by the lower sales rate rather than the 3.2% uptick in new home inventory. Regional reports suggest that exceptionally low inventory is holding back the pace of new home sales.

Overall, the decline in housing sales can be attributed to the fall in housing affordability. Median home prices rose by 11.2% in March to \$290,000, the highest level and the biggest MoM increase since the Census Bureau started tracking new home sales in 1963. Meanwhile, mortgage rates have increased nearly a full percentage point since reaching all-time lows last March and have hovered around 4.3-4.5% thus far in 2014, further hurting affordability and hindering demand. Still, we believe housing will bounce back in 2Q14. Housing starts were up to 946K from 920K in February, and housing units under construction increased in March to the highest level since February 2009. While the new home sales figure for March was underwhelming, we look for the overall housing market to bounce back in the following months.

Graph 1

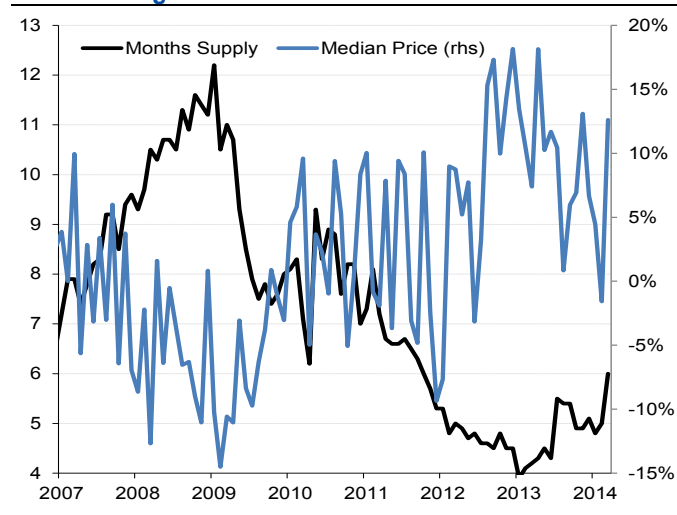
New Home Sales, by Region SAAR, Thousands



Source: U.S. Census Bureau & BBVA Research

Graph 2

Median Price and Months' Supply at Current Sales Rate YoY % Change and Ratio



Source: U.S. Census Bureau & BBVA Research

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