

Economic Analysis

Housing Rises to New Heights in July

Amanda Augustine

- **New home sales rose 5.4% MoM in July and existing home sales were up 2.0% MoM**
- **Building permits plunged 16.3% MoM, but largely due to changes in NY permit incentives**
- **Further tightening of the housing market could impede future sales**

New home sales experienced a solid rebound in July, rising by 5.4% MoM to a 507K annual pace after plunging 7.7% MoM in June. July’s release marked the highest MoM jump this year to date. On a YoY level, sales surged 25.8%. Three out of four regions had a rise in new homes sales, with the Midwest being the weakest link. With a 16K increase, the South was the strongest on a MoM level, but the Northeast came out on top on a YoY basis with a 39.1% climb—its highest since May 2014. Strong sales brought supply down to 5.2 months in July, compared to 6.1 a year ago, indicating further tightening of the housing market.

Meanwhile, existing home sales are approaching pre-recession levels at a faster pace. Last week’s release of a 5.6M annual rate in July was the highest since February 2007. Sales have risen higher than prices in the existing homes market, with a 10.3% YoY rise in sales versus a 5.6% YoY increase in the median sales price, which was \$234,000 in July. As with new home sales, the South dominated with a 90K MoM increase in existing home sales.

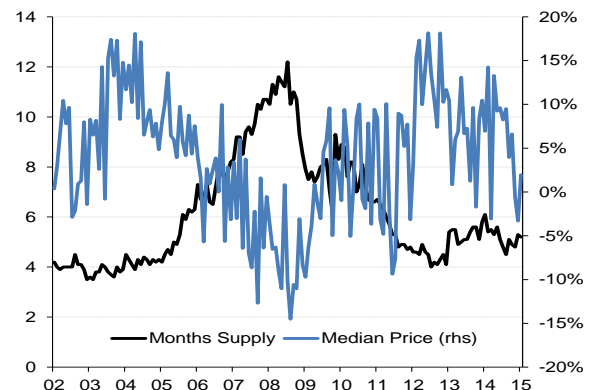
Despite this promising data, building permits for July came in lower than expected. Housing units authorized plunged 16.3% MoM, largely due to the 60.2% MoM decline in the Northeast, which is attributable to the mid-June expiration of tax incentives for real estate development in New York. The weakness in building permits is likely temporary, especially given last week’s Housing Market Index, which reported that homebuilders’ confidence was at a 10-year high this month. Housing starts were also positive, rising to 1.2M in July—their highest post-recession reading.

Chart 1
New and Existing Home Sales (YoY %Change)



Source: US Census Bureau, National Association of Realtors & BBVA Research

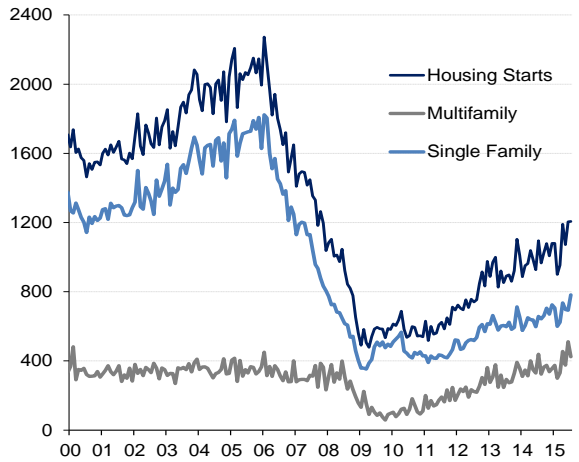
Chart 2
Months Supply and Median Price (SA, Ratio / YoY %Change)



Source: US Census Bureau & BBVA Research

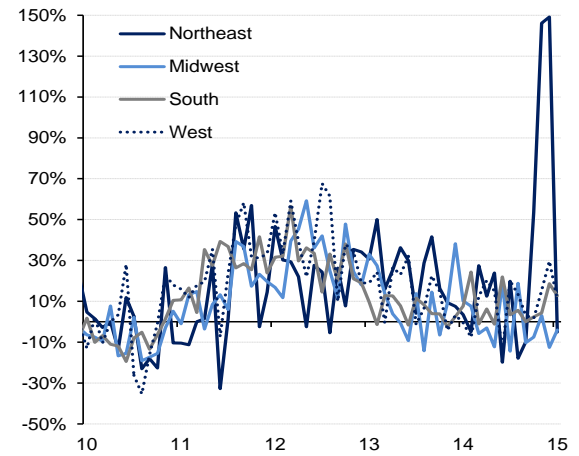
Despite temporary weakness in permits, the housing market continues to move in the right direction. Solid employment growth underpins this strong housing activity and should continue to boost consumer confidence. However, it is important to note that the tightening supply of new and existing homes is driving up prices and has the potential to constrain future sales.

Chart 3
Housing Starts, Single and Multifamily Structures (SAAR, Thous)



Source: US Census Bureau & BBVA Research

Chart 4
Building Permits by Region (YoY %Change)



Source: US Census Bureau & BBVA Research

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.