

U.S. Flash

New Home Sales Data Reveal Strengthening Market

Census figures released today indicated stronger than expected new homes sales in March and prior months' data were revised upward significantly. March new home sales registered 328K at a seasonally-adjusted annual rate (SAAR) – or 32K monthly sales on a non-seasonally adjusted basis. The rates for December-February were revised upward due to an approximate 4,700 additional new home sales during this period above the prior estimates. Prior data were also revised upward last month. Although the March data reflects a 7% drop from February's pace, the extra day in February 2012 also likely contributed to the strong upward revision to a 353K SAAR sales pace versus the prior 313K estimate. Nevertheless, on a non-seasonally adjusted basis, new home sales have climbed steadily in the first quarter, which supports our assertion that record affordability is boosting new home sales.

As we wrote in our [2012 Housing Outlook](#), we believe that new home sales will continue to recover slowly, but the floor was reached last year. As new home sales improve, new home inventories continue to fall to record low levels, and at the current pace of sales, the seasonally-adjusted months' inventory stands at 5.3 months. A healthy new home sales market puts this number in the 4-month range. Given the recent revisions to the data, the average annual sales pace now only needs to increase by 14% over 2011 (350K versus 307K) to reach 4.0 months' supply by the end of the year. This pace is certainly attainable with currently high affordability and rising employment if the pace of sales accelerates throughout the year. Indeed, on a non-seasonally adjusted basis, the months' inventory is already at 4.5 months.

Low inventories of new homes will continue to stimulate new construction as demand improves. Across regions, the strongest market is the South whose months' supply has declined to 4.5 months on a seasonally-adjusted basis due to a strengthening sales pace (up above 16% over March 2011). Strong job creation, population growth and energy exploration activity are boosting sales in this region. As with March's existing home sales, new home sales in the West region also weakened significantly. Both the West and the Midwest regions, however, showed year-over-year declines in the sales pace of around 7%.

Headline Home Prices Decline, but Rate of Decline Eases

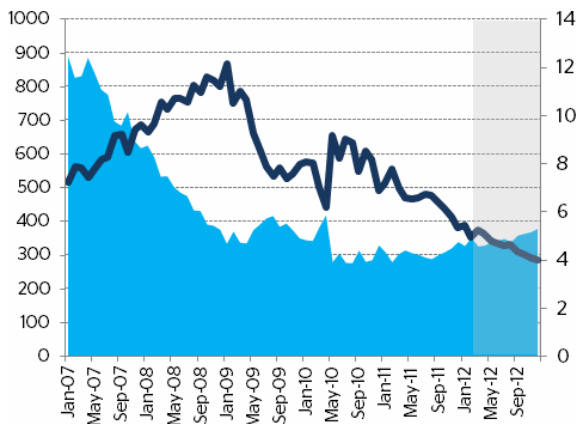
Today, the S&P/Case-Shiller Home Price Index Composite-20 index registered a downward tick on a non-seasonally adjusted basis in February; however, the year-over-year change eased to -3.5% from around -4%. On a seasonally-adjusted basis, the index registered a slight increase and suggests a stabilizing trend for home prices. We maintain that the headline price declines are driven by the elevated percentage of distressed sales in the existing home market, and thus as the percentage of non-distressed sales rises, these declines will ease. Potential sellers are beginning to perceive greater demand and an improved selling environment, as median sales prices for new and existing homes are currently both up on a year-over-year basis.

Of the major 20 cities that comprise the S&P index, the loss leader is Atlanta, which is seeing a massive 17% price decline on a year-over-year basis and exhibits no sign of moderation. Denver, Miami and Minneapolis exhibited year-over-year increases of less than 1% for the first time since late 2010, while Phoenix accelerated to over 3%, and Detroit's rising prices moderated. The year-over-year change remains negative in other cities, although the decline accelerated slightly in Chicago, Cleveland and Washington, DC.

Bottom Line:

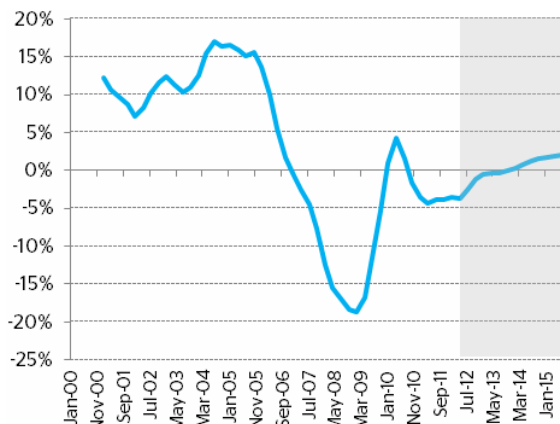
The new home sales and home price index data released today offer an improving outlook for the housing market. Prior months' new home sales were revised upward significantly, and the monthly decline of 7% is largely a product of stronger than previously estimated February sales and the seasonal adjustment process. The year-over-year increase in the rate new home sales stands at 7.5% and record high affordability is attracting qualified buyers. Along with the existing home sales data last week, the first quarter housing data have been in line with our baseline scenario and reflect gradual improvement in the housing market. Perhaps the greatest concern arises that arises from the data lies with the West region – primarily driven by California. Both existing and new home sales slowed significantly in this region; however, the pace of California's job growth strengthened in March according to the BLS' latest release and may help buffer the pace of home sales. Nevertheless, California struggles with high unemployment and many California homeowners still have elevated mortgage debt. Thus, distressed sales currently comprise nearly 50% of California sales according to industry reports.

Chart 1
New Homes Sales (SAAR) and Months' Inventory of New Homes



Source: Census / Haver Analytics, BBVA Research
 Shaded=Scenario consistent with decline to 4.0 months' supply by Dec 2012

Chart 2
S&P/Case Shiller Composite 20 Index, Quarterly Average, Year-over-year % Change



Source: S&P, Case-Shiller / Haver Analytics, BBVA Research
 Shaded = Baseline Forecast

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