

## October 2018 New and Existing Home Sales, Sept. House Prices, FedSpeak, Q3 Profits

### *New Home Sales Are Falling Hard*

- New Home Sales fell by 8.9 percent in October, to a 544,000 unit annual rate.
- Existing Home Sales increased by 1.4 percent in October, to a 5,220,000 unit annual rate.
- Q3 Real GDP growth unchanged at 3.5 percent in second estimate.

The housing market is cooling rapidly. Housing affordability is taking a hit as mortgage rates increase and labor and materials costs increase for new construction. New home sales fell hard by 8.9 percent in October, down to a 544,000 unit annual rate, the weakest annualized rate since March 2016. Sales were down in all four Census regions. The months' supply of new homes available for purchase increased again, to 7.4 months' worth. This will put builders back on their heels and result in fewer housing starts at year end, and also weigh on Q4 GDP. Existing home sales for October increased by 1.4 percent to a 5.22 million unit rate. Despite the modest October gain, the trend in existing home sales has been down since November 2017. In October, existing home sales in the Northeast gained 1.5 percent. The Midwest eased by 0.8 percent. The South increased by 1.9 percent. The West showed the largest percentage gain, up 2.8 percent. The months' supply of existing homes for sale notched down to 4.3 months' worth. Over the 12 months ending in October, the median sale price of an existing home increased by 3.8 percent, not accounting for size and quality changes.

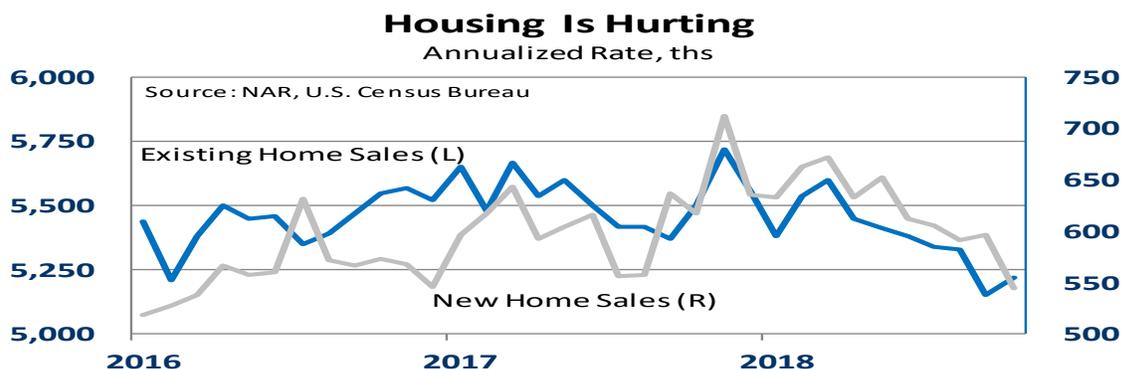
According to the Case-Shiller U.S. National Home Price Index, house prices were up in September by 5.5 percent over the previous 12 months. That was the smallest year-over-year gain since December 2016. Among the cities in the Case-Shiller 20-City Composite Home Price Index, only Las Vegas is showing double digit year-over-year gains, up 13.5 percent in September. Previously hot West Coast markets are coming down to earth. Western markets are still generally showing stronger price gains than eastern markets.

Third quarter real GDP growth was unrevised in the second estimate, up 3.5 percent on an annualized basis. Corporate profits were strong in Q3, up by \$76.0 billion nominally, compared with a \$65.0 billion increase in Q2. 2018Q3 nominal corporate profits were 10.3 percent above 2017Q3. We believe profits are vulnerable in 2019 as labor costs and interest rates increase.

The Advance Economic Indicators Report points to a wider trade gap in October. The strong dollar and cooling global demand are key culprits. The trade war between the U.S. and China is skewing the trade data as companies on both sides of the Pacific try to time their shipments according to expected changes in tariffs.

Recent comments by Federal Reserve Vice-Chair Richard Clarida and Chicago Fed President Charles Evans are consistent with a 25 basis point increase in the fed funds rate at the conclusion of the upcoming FOMC meeting over December 18/19. The implied probability of a December 19 rate hike is up to 83 percent. A December fed funds rate hike will put upward pressure on home mortgage rates.

**Market Reaction:** U.S. equity markets opened with gains. The 10-year Treasury bond yield is up to 3.07 percent. NYMEX crude oil is down to \$51.12/barrel. Natural gas futures are down to \$4.41/mmbtu.



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