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Consumer Strategies

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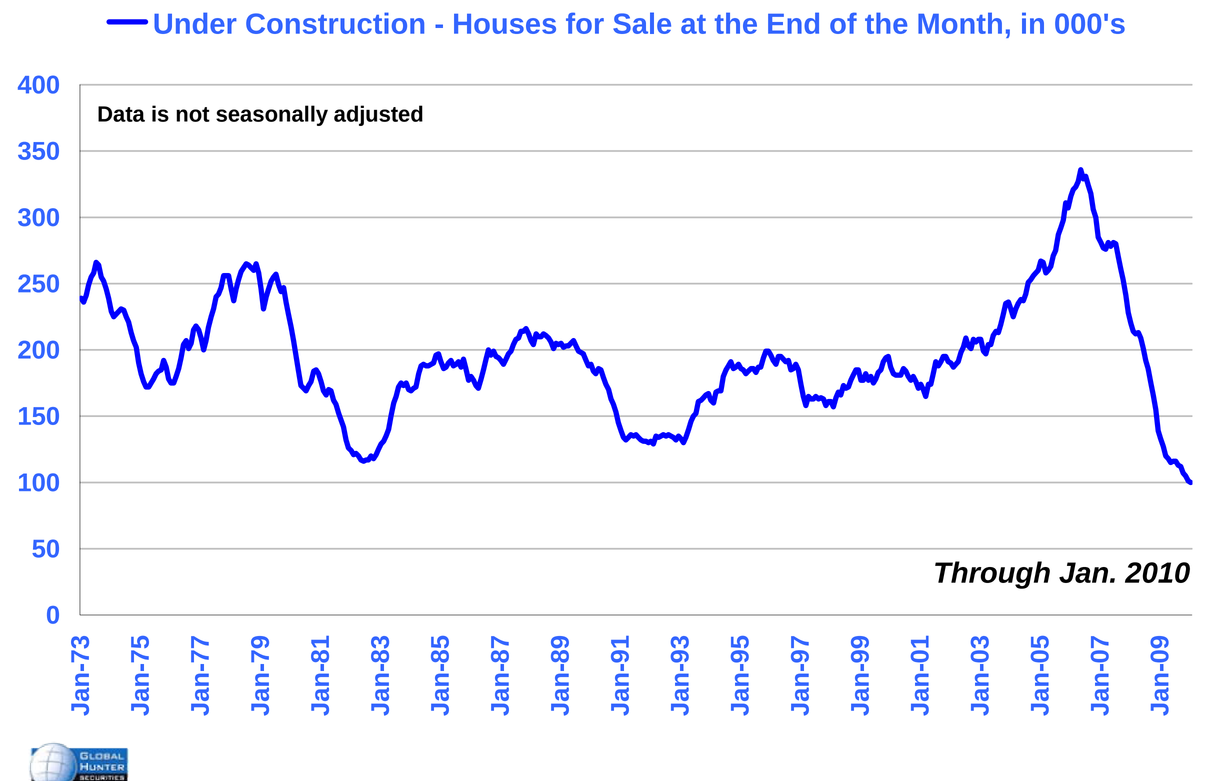
GHS Consumer Strategies: January 2010 New Home Sales: Four False Bottoms and a Bottle of Rum

KEY OBSERVATIONS:

- **The new home pipeline broke a long time ago and the plumbers can't fix it.** We have no problem with the challenges posed by the cold weather and storms during December and January because:
  1. We are looking at the not seasonally adjusted data.
  2. We are looking at deeply rooted trends in the unadjusted data.
  3. Regions not affected by stormy weather did not in January exhibit improvements from January 2009.
- **New houses for sale and under construction hit an all-time low in January.** The all-time low for new homes available for sale yet still under construction occurred in January 2010, hitting 100,000 units compared to the long-term average of 195,000 units, and compared to the post-2000 period average of 218,000.
- **Months supply is on the march.** The number of months of supply of new homes, seasonally adjusted is growing again, hitting 9.1 months in January 2010 after easing below 8 months for the period of July 2009 to November 2010. Depending on conditions in the new home sales market during the summer of 2010, then it would be possible for months supply to increase again towards the 10 months level, in our view. Not seasonally adjusted, the January 2010 months supply rose to 11.1 from 9.8 in December, but down significantly from the 14.3 months indicated in January 2009.
- **The real number of homes sold in January 2010 was 21,000.** The not seasonally adjusted number of new homes sold in January 2010 was a very weak 21,000 units compared to 24,000 units sold in January 2009. The average number of new homes sold, per month, since January 2009, stood at 30,000 units with the peak of 38,000 in July 2009. The West was not severely challenged by storms or snow during January, although weather was an issue in certain areas. The West generated 5,000 new homes sold in January compared to the same number one year ago. The Midwest, which is a large area, was somewhat hit by typical winter storms (but nothing extraordinary like the upper Middle Atlantic and lower Northeast). The Midwest cranked out 3,000 new home sales compared to the same number one year ago. Thus, we are inclined to believe that the overall trend year-over-year is rather flat.
- **The pipeline seems to be confirming another false bottom.** The second chart on the next page (which is the relationship of total new homes for sale and those still under construction and thus needing labor and materials – contributions to economic activity) suggests to us that the recent improvement in the pipeline was unfortunately a false rebound, thus giving us a new false bottom. Since the collapse began collapsing, we now have four major false turning points, with the latest the most promising and therefore the most disappointing – as we expected based on our views of the residential construction cycle.

MARKET CONCERNS:

The important number is 2012, according to conversations with our industry sources. Our conversations with industry sources from building materials suppliers and those directly involved in construction at new home sites all support our thesis that the new home market does not bottom out until 2012. This means that the ordinary cyclical bounce from construction employment will hardly occur, and certainly occur on too small a basis to lift enough of the many drifting job-boats. This is a negative for market volatility since the broader markets have exhibited increasing volatility since late October 2009, and much more so since January 2010. New labor market disappointments should trigger new episodes of selling within the context of a low volume market. Volatility is worsened by low trading volume, thus the connection between housing and jobs and markets is easy enough to understand and should be considered a risk factor for the foreseeable future, in our view.



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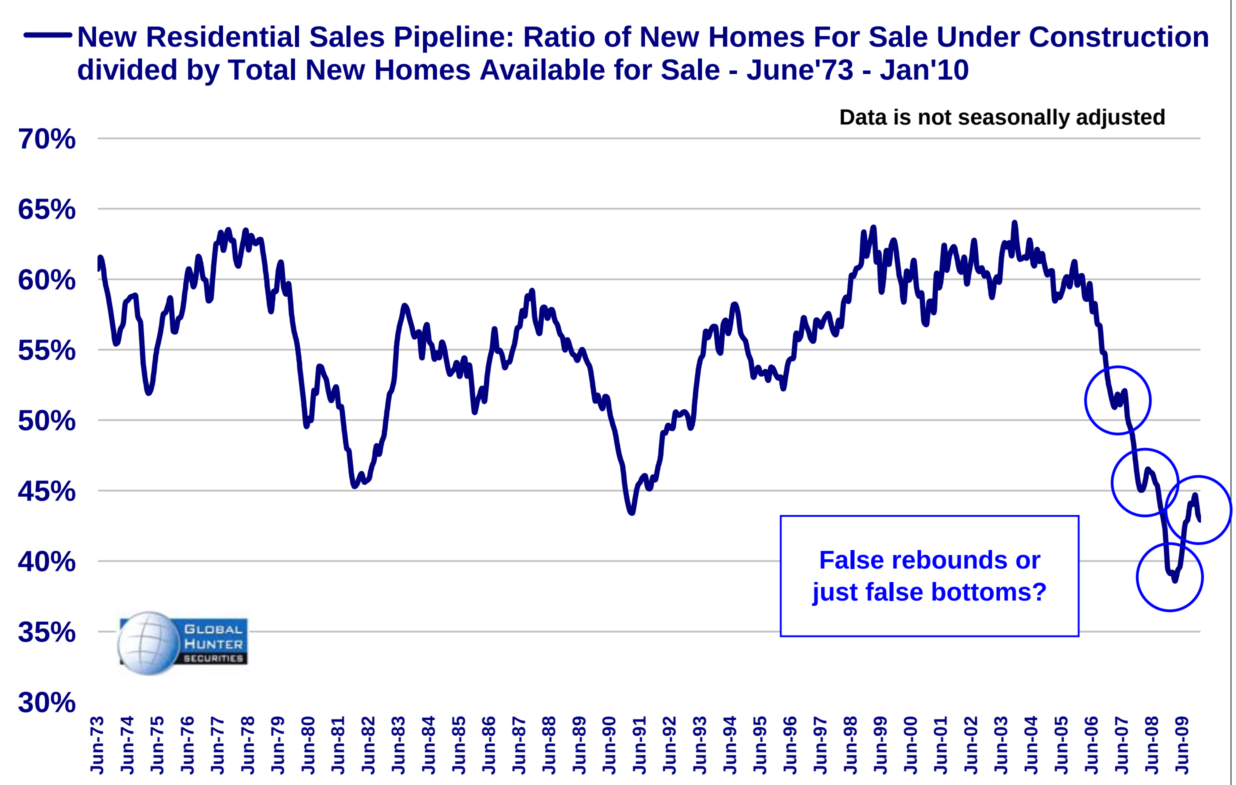

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