



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wachovia.com • 704-383-5635

Existing Home Sales Surged in November

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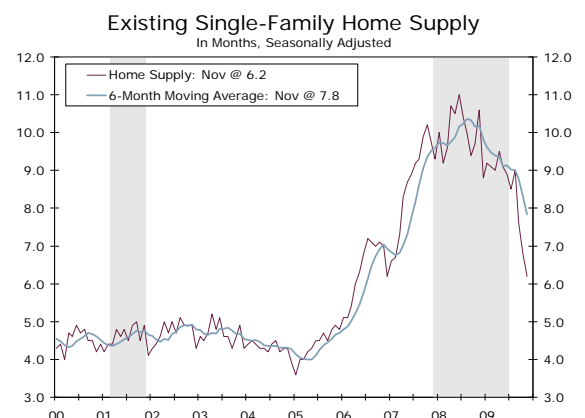
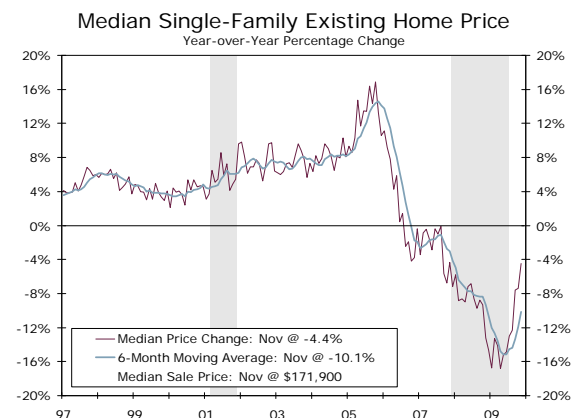
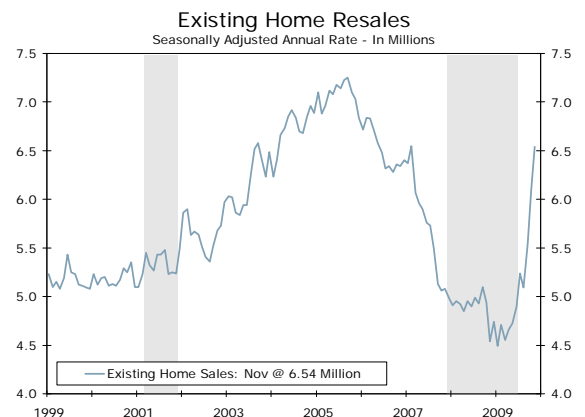
Sales of existing homes surged 7.4 percent in November to a 6.54 million unit annual rate. The increase was widely expected, as the pending home sales data and anecdotal reports from realtors suggested that a substantial number of buyers rushed into the market to buy homes ahead of what was thought to be the end of the first-time home buyers' tax credit. The tax credit was subsequently extended through April 2010 and expanded to bring in more trade-up buyers. Early reports for December suggest the extension will have little immediate effect. Transactions were pulled forward into November which will likely lead to a payback in December and January before another resurgence in sales ahead of the tax credit's expiration in April.

The National Association of Realtors reported that 51 percent of existing home sales in November were first-time purchases. First-time purchases accounted for 50 percent of purchases in October. The fall months are typically a slower time for home buying, as schools have already begun their new year and fewer families are likely to move. The tax credit, which required buyers to close by November 30, led to more activity during this slow period, which sent the annual sales rate soaring to its highest level since February 2007. In effect, sales did not fall as much as they usually do in November, which translated into a large seasonally-adjusted increase. On a non-seasonally adjusted basis sales actually declined 5.2 percent.

The exaggerated impact of the seasonal adjustment process means the housing market is nowhere near as healthy as it was the last time home sales were this strong. That finding should not surprise anyone. In addition to generous incentives to first-time home buyers, a large proportion of November's sales were either foreclosure sales or short sales. Distressed transactions accounted for one-third of sales in November. The high proportion of distressed sales and first-time purchases pulled down both the average and median sales prices. The median price of a home sold in November was \$172,600, down 4.3 percent from a year ago. The average price was down 3.0 percent to \$216,400.

More Time Will Be Needed for the Housing Market to Heal

While today's numbers make it look like the housing market has made an incredible amount of progress there has been less healing than meets the eye. The inventory of unsold homes, for example, is reported to have fallen to just 6.5 months, which is the lowest since December 2006. That seemingly normal level is primarily the result of the exaggerated sales pace for November. If you take the current level of inventory and compare it to the total sales for the year, which we estimate at 5.163 million units, you get a much more believable 8.2-month supply



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wachovia.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wachovia.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(612) 667- 0168	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economist	(704) 715-9660	adam.york@wachovia.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com

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