



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • 704.383.5635
 Anika Khan, Economist
anika.khan@wellsfargo.com • 704.715.0575

Housing Starts Rise Modestly In July

Housing starts rose 1.7 percent in July, which was less than expected. Starts of single family homes fell 4.2 percent, while multi-family starts jumped 32.6 percent from their slow June pace.

Payback is Tough

Homebuilders continue to struggle with the after-effects of the homebuyer tax credit. Buyer traffic, as tracked by the NAHB/Wells Fargo Home Builders Index has fallen back to the levels that persisted before the tax credit was implemented, particularly in the West and South, where the bulk of new home construction takes place. The dearth of actual and potential buyers has led to a sharp pullback in new construction, with starts falling 19.6 percent over the past three months. Most of the drop has been in single family homes, where starts are off 23.4 percent.

Housing Starts Will Likely Linger Near Current Levels

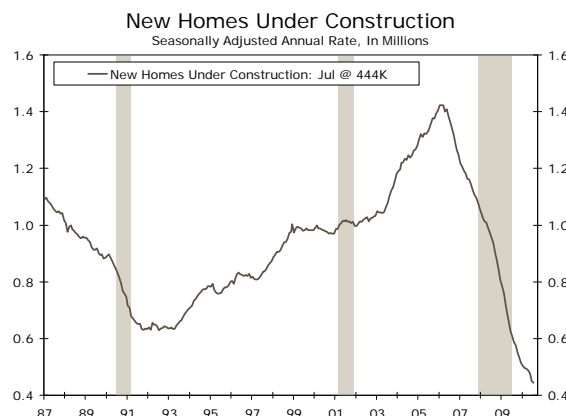
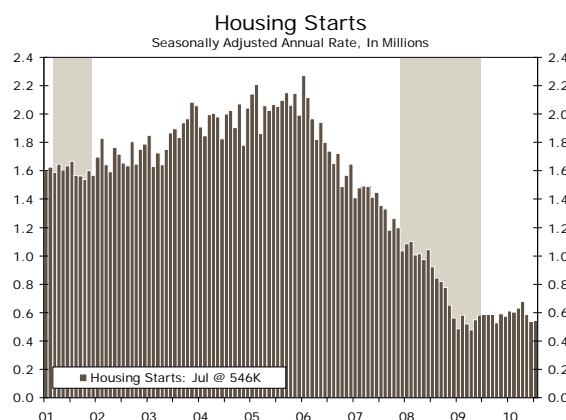
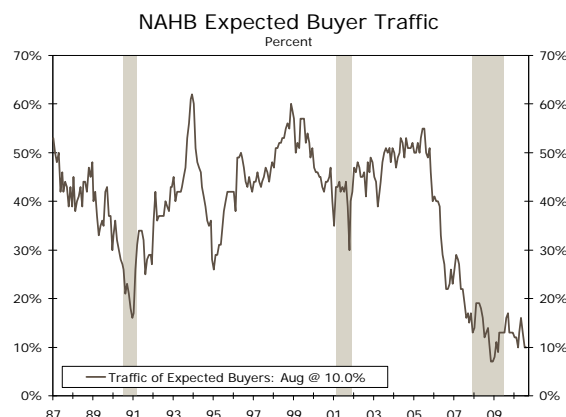
We expect housing starts to linger near their current levels for the next few months. The tax credits likely pulled demand forward into the first half of the year and the recent slide in underlying economic growth will likely restrain demand for new homes. Oversupply also remains a problem, although most of the inventory is in existing homes. Builders have done a good job of clearing out their inventories and the unprecedented low levels of construction over the past two years mean inventories will likely get even leaner in coming months.

Single family starts fell 4.2 percent in July, with the largest drops occurring in the West and South. Single family starts tumbled 14.7 percent in the West and fell 5.8 percent in the South. These two regions typically account for close to three-quarters of the new single family homes built in the United States. By contrast, single family starts rose modestly in the Midwest and Northeast, climbing 8.8 percent and 6.3 percent, respectively. Starts of multi-family homes jumped 32.6 percent in July, but the gain merely made up for the prior month's drop. Starts of condominiums, townhomes and apartments remain near all-time lows.

Housing permits fell 3.1 percent in July, with permits for new single family homes falling 1.2 percent and permits for new multi-family projects tumbling 8.0 percent. Permits for new single family homes are running slightly below the current pace of construction, suggesting that we will see little to no improvement in construction over the next few months. Multi-family permits have perked up a bit, however, with new apartment construction beginning to show signs of life in parts of the South.

The Housing Recovery Will Be an Agonizingly Long Slog

The weakness in new home construction following the expiration of homebuyer tax credit is not surprising. We have consistently maintained one of the most conservative forecasts for home construction and do not see a genuine sustained recovery beginning until early 2011. Housing starts are not expected to rise back above the key 1.0 million-unit pace until 2012.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.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	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A, Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2010 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

