

Economics Group

Special Commentary

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Housing Data Wrap-Up: June 2011

The Recovery Continues To Have a Tough Time Getting Going

The housing recovery continues to have a tough time gaining momentum. Sales of existing homes fell 3.8 percent during the month to a 4.81 million-unit pace, and new home sales fell 2.1 percent to a 319,000-unit pace. While both numbers were in line with expectations, early indications for this summer suggest sales and new home construction will remain on the slow track. The NAHB/Wells Fargo Home Market Index fell three points in June to 13, as both buyer and prospective buyer traffic decreased. The slide is particularly disappointing, because it casts doubt on the premise that home sales would bounce back following this spring's deluge of severe storms.

The persistent weakness in the housing market is frustrating, and we have noticed a growing tendency of many observers to jump on any bit of good news, or even not so bad news, as a reason to declare we are near a bottom. We wish this were true. Unfortunately, we still believe there are at least another couple of years of unusually tough sledding for the housing market and look for sales and new home construction to only gradually trudge higher.

Home prices are a good case in point. The latest S&P/Case-Shiller home price data show prices for the 20-city composite index falling 0.09 percent in April, while prices in the 10-city index rose 0.01 percent. Both figures were slightly better than expected, but in no way mark the end of price declines. Seasonally adjusting the S&P/Case-Shiller numbers is very difficult because of the high proportion of distressed transactions that have taken place in recent months. Lenders have slowed the pace of foreclosure sales in recent months, however, and this has given the appearance that prices are stabilizing. Once foreclosure sales pick up again, price declines will resume.

One thing that does appear certain is that foreclosure sales are destined to increase. There is still a mountain of foreclosures that must be dealt with. According to LPS Applied Analytics, there are nearly 2.2 million homes currently in foreclosure and another 1.9 million homes with mortgages more than 90 days past due. By contrast, lenders sold only about 79,000 foreclosed homes in May, leaving a great deal of work to be done. We do not expect home prices to bottom until early next year and look for an ultimate drop in the S&P/Case-Shiller Index near 40 percent.

We still believe there are at least another couple of years of unusually tough sledding for the housing market.

Foreclosure sales are destined to increase.

Table 1

Recent Housing Data

	Release	Consensus	Actual	Prior	Revised	Next Release
NAHB Sentiment Index	June	16	13	16	n/a	Jul-18
Housing Starts, Thousands of Units	May	545K	560K	523K	541K	Jul-19
Housing Permits	May	557K	612K	551K	563K	Jul-19
Existing Home Sales, Millions of Homes	May	4.80M	4.81M	5.05M	5.00M	Jul-20
Percent Change	May	-5.0%	-3.8%	-0.8%	-1.8%	Jul-20
New Home Sales, Thousands of Units	May	310K	319K	323K	326K	Jul-26
Percent Change	May	-4.0%	-2.1%	7.3%	6.5%	Jul-26
S&P Case/Shiller Composite-20	April	-0.20%	-0.09%	-0.23%	-0.26%	Jul-26

Source: Bloomberg LP, S&P, NAHB, National Association of Realtors, U.S. Dept. of Commerce and Wells Fargo Securities, LLC



The overhang of foreclosures affects the housing market in a number of ways. Existing home sales are most directly affected, as the high proportion of distressed transactions tends to drag down median and average sales prices. Falling home prices tend to make appraisals more conservative, which make it more difficult for would-be, trade-up buyers to sell their current residence, hurting sales of both new and existing homes. In addition, mortgage underwriting tends to be more stringent, with lenders requiring larger down payments, higher credit scores and a longer history of income. While all of this is good from a credit standpoint, it has had a chilling effect on home sales.

We have modestly reduced our outlook for home sales and new home construction.

We have modestly reduced our outlook for home sales and new home construction for the next 18 months. Concerns about employment prospects and the continued difficulty in securing financing will continue to weigh on home sales for the foreseeable future. The June consumer confidence report underscores this point, with plans to buy a home plummeting 1.8 points, despite the return of more typical early summer weather and continued near-record levels of housing affordability. The drop in buying plans, along with persistently high unemployment has caused us to scale back our expectations for a modest second-half rebound in sales and new home construction.

Despite the negative overall trends, there are a few bright spots. Home sales have picked up recently in a handful of markets, including the close-in suburbs surrounding Washington, D.C., San Jose, Ca. and Raleigh, N.C. All three areas have seen significantly stronger job growth during the past year and also have better overall credit quality, which has led to fewer mortgage applications being denied in these areas. Home sales and new home construction are also picking up in parts of the Northeast, which tended to be less affected by the housing bust and have seen modest job growth over the past year.

The apartment market is the one unambiguous bright spot, with demand for apartments significantly outpacing supply over the past year, leading to a 1.8 percentage point drop in vacancy rates. Plans to build new apartments are now surfacing in a number of markets, and multifamily permits have risen in recent months. We are looking for multifamily starts to jump 40 percent in 2011 from their prior year's depressed level and look for a 31 percent rise in 2012.

The bright spots are still too few and far between.

Unfortunately, the bright spots are still too few and far between to significantly move the overall sales and construction figures. We expect the housing recovery to drag on for the next couple of years as the overhang of foreclosures and bank-owned properties is gradually cleared. Home prices should stabilize by early 2012. Once prices stabilize, we should see fewer overly conservative appraisals, and lending standards may ease up a bit, particularly if job and income growth perks up. There are a lot of ifs in that forecast, however, and a return to a more normal housing market is more likely to be longer than expected rather than shorter.

Figure 1

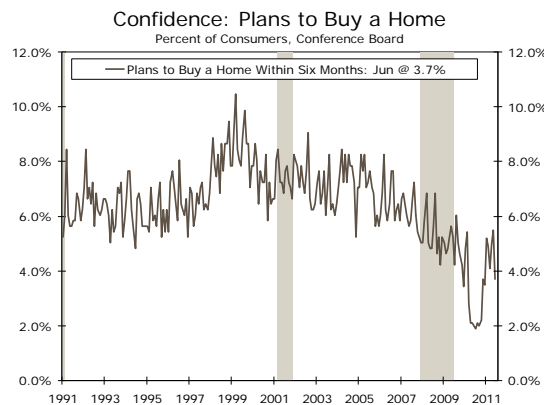
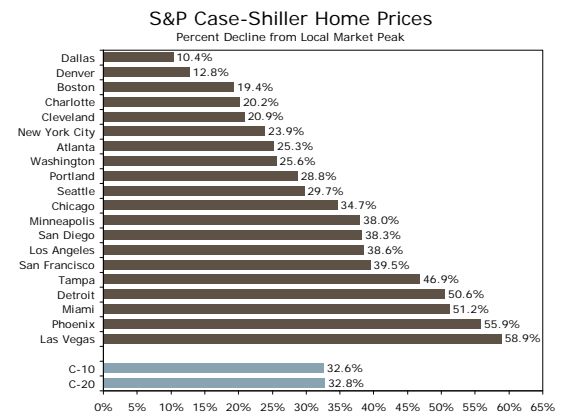


Figure 2



Source: The Conference Board, Standard & Poor's and Wells Fargo Securities, LLC

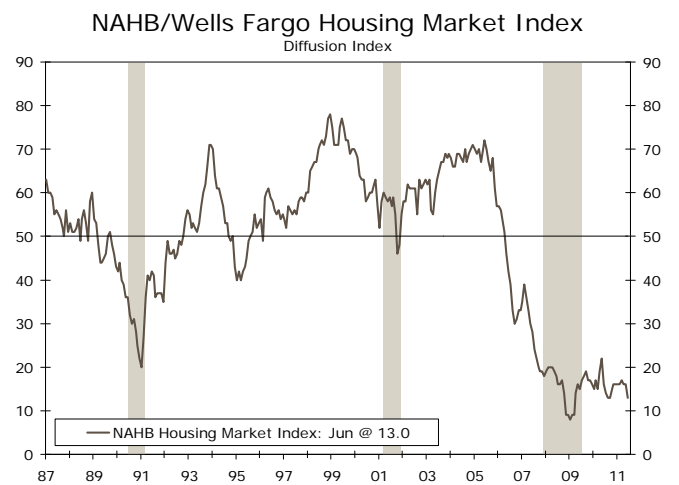
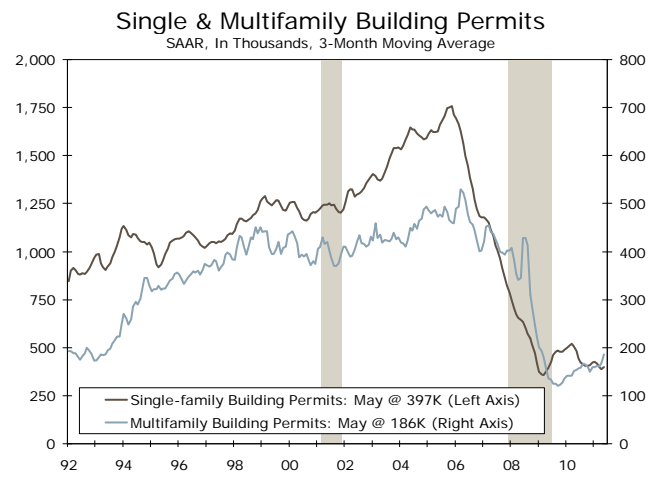
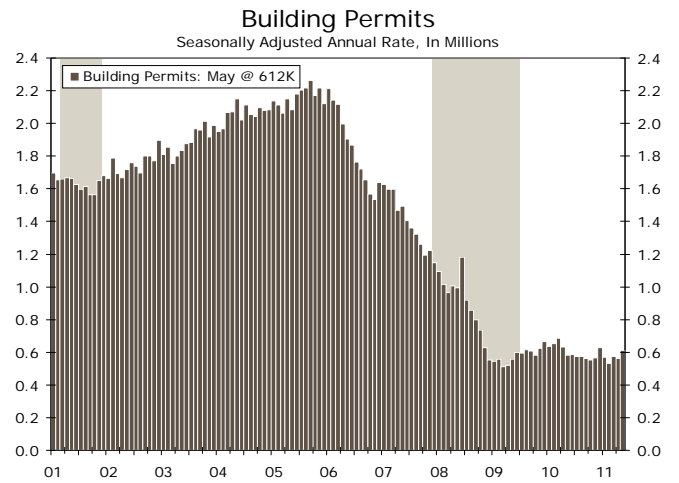
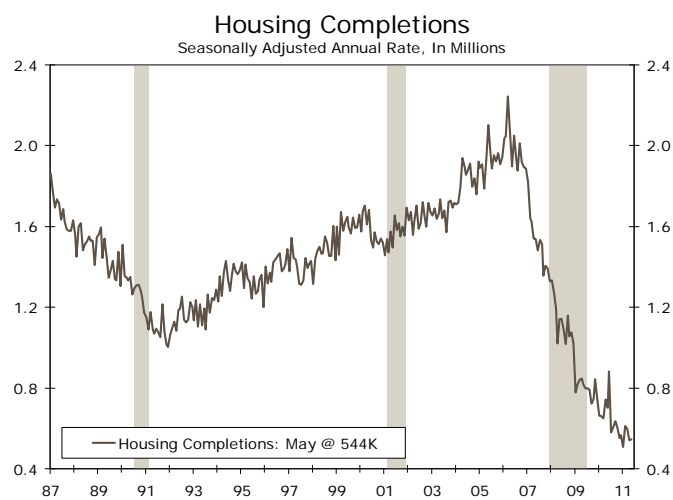
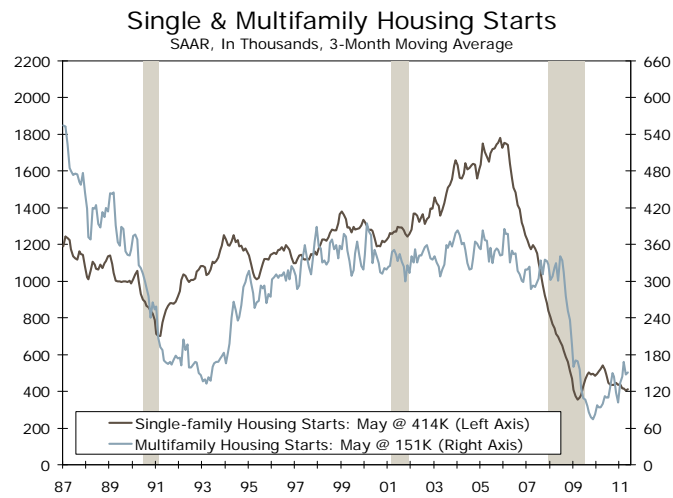
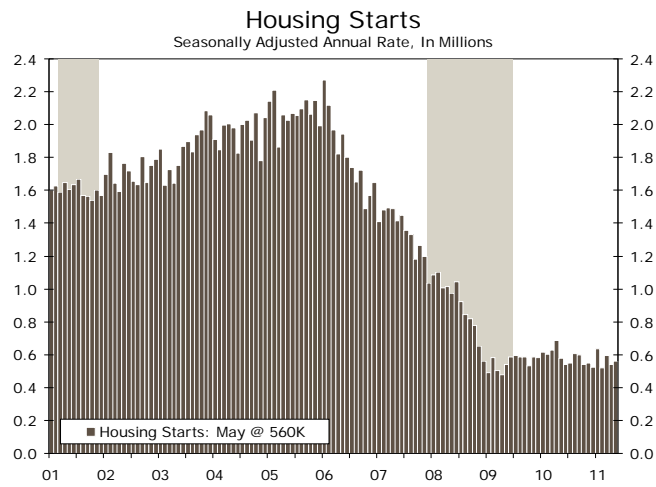
National Housing Outlook

	Forecast				
	2008	2009	2010	2011	2012
Real GDP, percent change	0.0	-2.6	2.9	2.4	2.5
Nonfarm Employment, percent change	-0.6	-4.4	-0.7	1.1	1.6
Unemployment Rate	5.8	9.3	9.6	8.9	8.5
Home Construction					
Total Housing Starts, in thousands	900.0	554.3	585.4	590.0	760.0
Single-Family Starts, in thousands	616.3	442.3	471.5	430.0	550.0
Multi-Family Starts, in thousands	283.7	112.0	113.9	160.0	210.0
Home Sales					
New Home Sales, Single-Family, in thousands	482.2	373.9	321.7	325.0	420.0
Total Existing Home Sales, in thousands	4892.0	5148.5	4917.0	5000.0	5350.0
Existing Single-Family Home Sales, in thousands	4336.7	4559.2	4310.8	4350.0	4650.0
Existing Condominium & Townhouse Sales, in thousands	555.3	589.3	606.2	650.0	700.0
Home Prices					
Median New Home, \$ Thousands	232.1	216.7	222.6	220.2	223.8
Percent Change	-4.8	-6.6	2.7	-1.1	1.6
Median Existing Home, \$ Thousands	198.1	172.5	172.7	164.6	166.5
Percent Change	-9.2	-12.9	0.1	-4.7	1.2
FHFA (OFHEO) Home Price Index (Purch Only), Pct Chg	-6.1	-4.6	-2.9	-3.8	0.9
Case-Shiller C-10 Home Price Index, Percent Change	-16.7	-12.9	2.2	-6.5	0.8
Interest Rates - Annual Averages					
Prime Rate	4.88	3.25	3.25	3.25	3.69
Ten-Year Treasury Note	3.66	3.26	3.22	3.19	3.73
Conventional 30-Year Fixed Rate, Commitment Rate	6.04	5.04	4.69	4.74	5.33
One-Year ARM, Effective Rate, Commitment Rate	5.18	4.71	3.78	3.20	3.80

Forecast as of: June 28, 2011

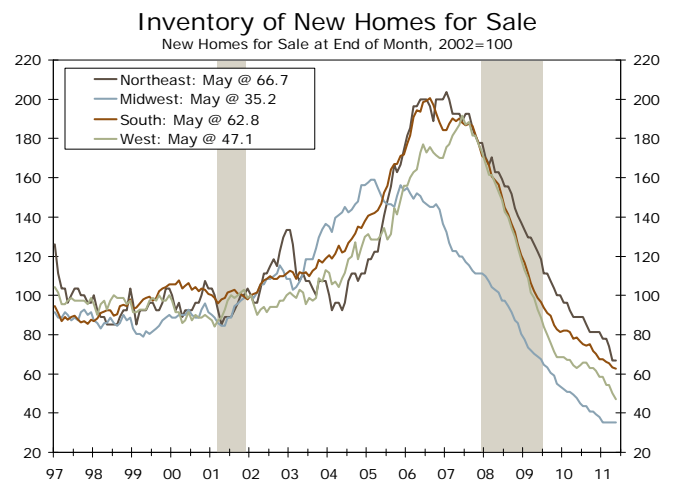
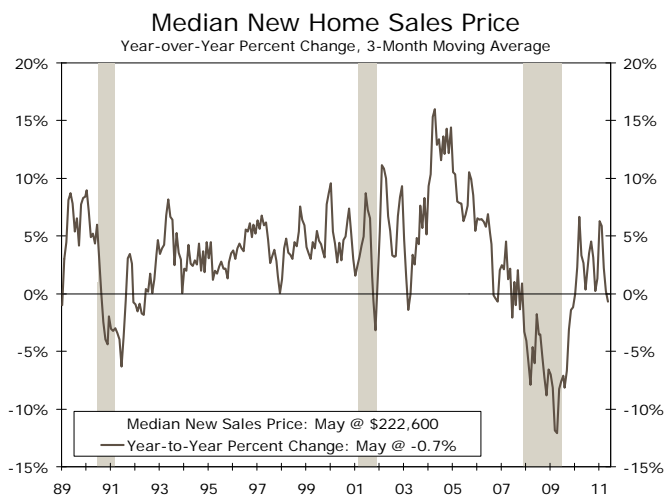
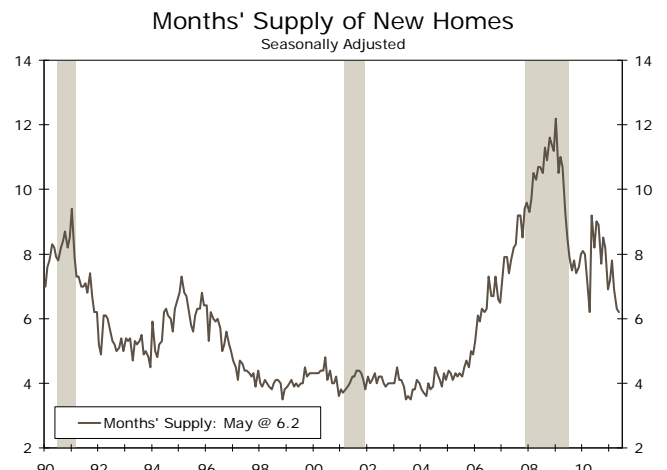
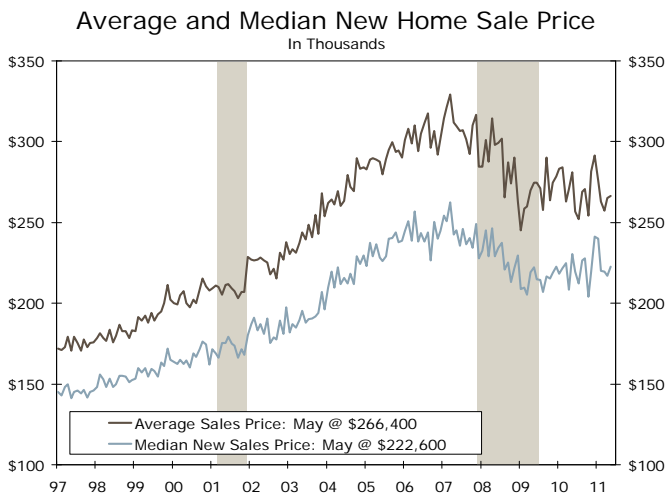
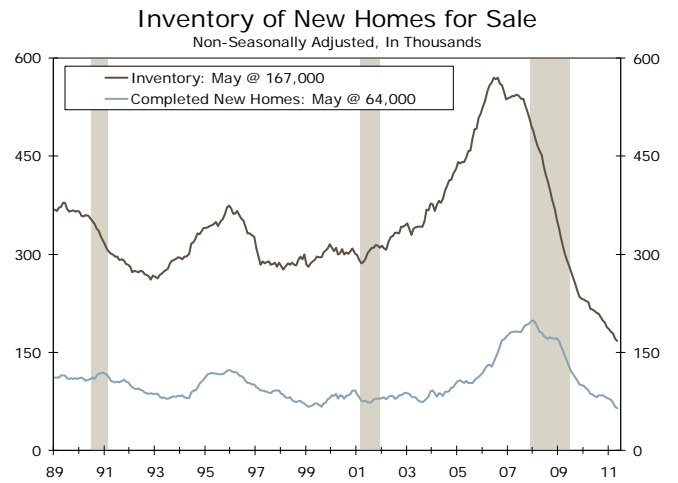
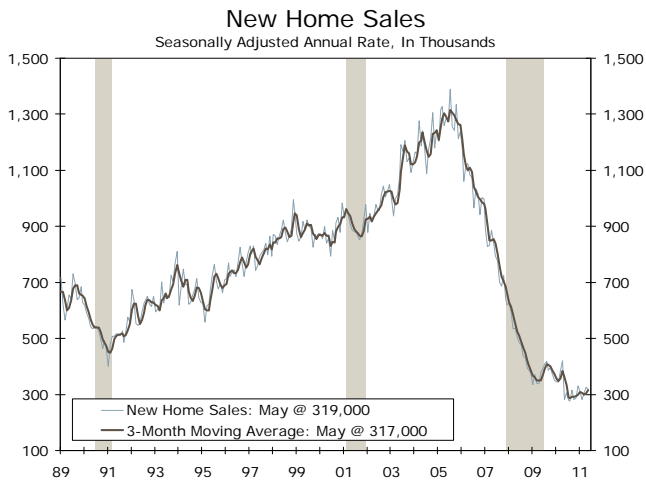
Source: Federal Reserve Board, FHFA, MBA, NAR, S&P, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

Housing Starts



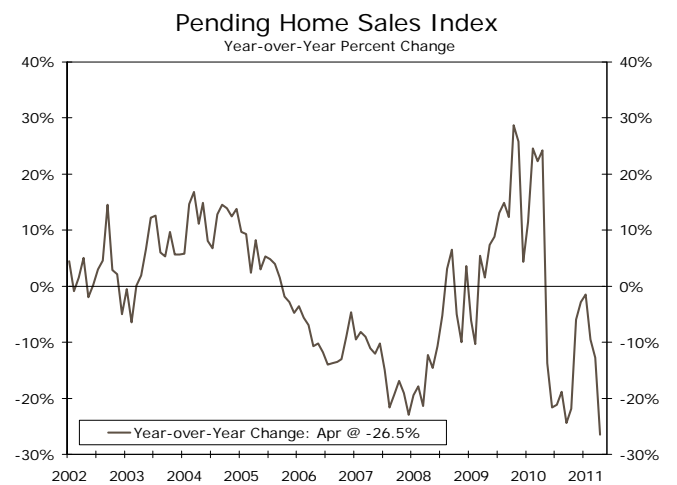
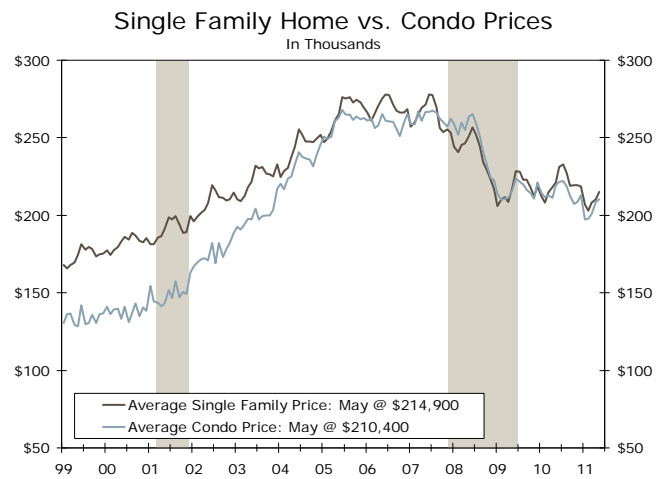
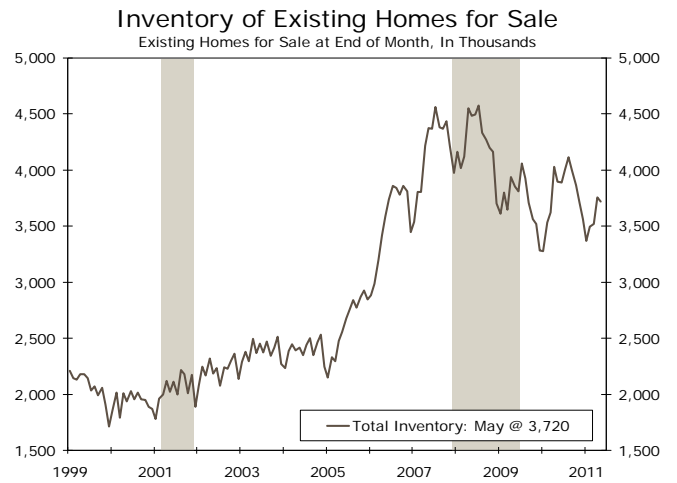
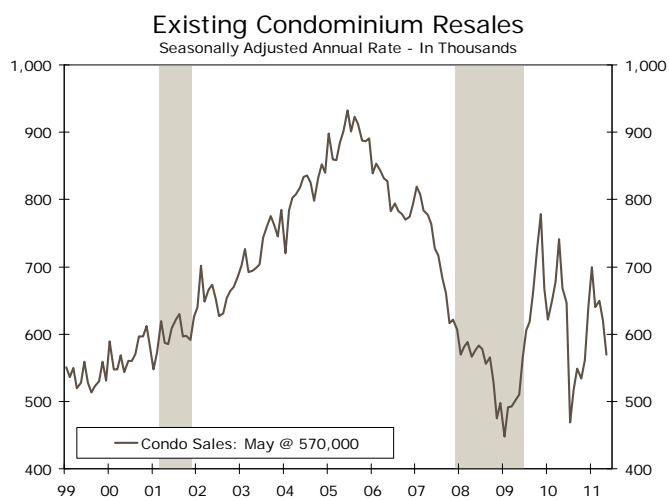
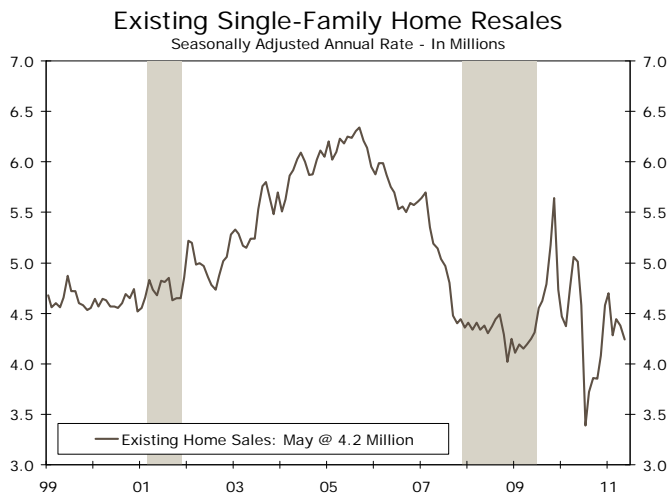
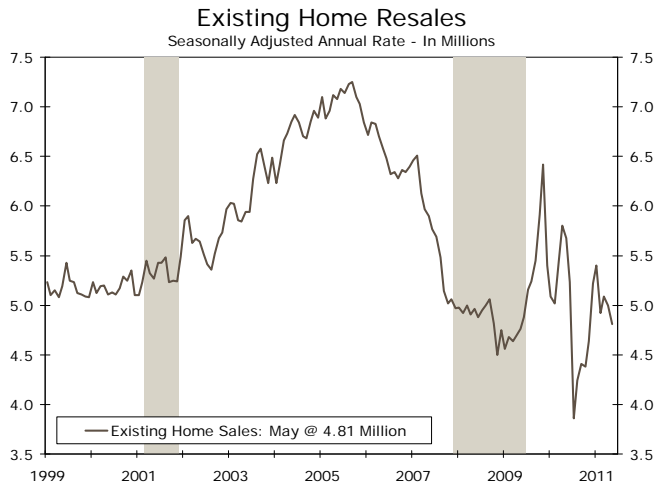
Source: NAHB, U.S. Department of Commerce and Wells Fargo Securities, LLC

New Home Sales



Source: U.S. Department of Commerce
 and Wells Fargo Securities, LLC

Existing Home Sales



Source: National Association of Realtors
and Wells Fargo Securities, LLC

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