Economics Group

Special Commentary

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 383-5635
Anika R. Khan, Economist
anika.khan@wellsfargo.com • (704) 715-0575
Joe Seydl, Economic Analyst
joseph.seydl@wellsfargo.com • (704) 715-1488

Housing Data Wrap-Up: December 2011

Better News Is Raising Hopes for the New Year

Most of the economic reports dealing with housing have shown a little more strength recently. New home sales rose 1.6 percent in November and sales of existing homes climbed 4.0 percent. New home construction also improved, with housing starts rising 9.3 percent in November. Low mortgage rates, an improving job market, and some reported easing in mortgage underwriting standards has raised hopes that the momentum will carry over into 2012. Demand does appear to be firming a bit. Pending home sales jumped 7.3 percent in November, following an upwardly revised 10.4 percent rise the previous month. The National Association of Homebuilders/Wells Fargo Housing Market Index has also risen, with more builders reporting gains in buyer traffic.

The news has not been universally positive. The latest S&P/Case-Shiller data shows price declines accelerating in October. The 20-city index fell 0.6 percent in October and has tumbled at a 6.4 percent pace over the past three months. Home prices are down 3.4 percent over the past year. Moreover, price declines have been fairly widespread, with 16 of the 20 markets surveyed reporting price declines in October. The sharp drop in home prices over the past three months should raise some caution flags for those expecting dramatic gains in 2012. Housing still faces a long and arduous road to recovery. That said, 2012 will be a better year. We have slightly increased our forecast for the next two years, which marks the first time we have raised our expectations for housing in any significant way in well over a year.

While it is nice to see the improved numbers, we continue to stress that these reports should be treated with caution. Some of the recent improvement in the reported data is due to unseasonably mild weather, which led to slightly more sales and new construction than would normally occur in the seasonally slow fall months. The seasonal adjustment process greatly exaggerates these gains. The arrival of more typical weather in January or February would bring those figures back down fairly quickly and probably leave them close to their average levels for the past year or so.

Figure 1

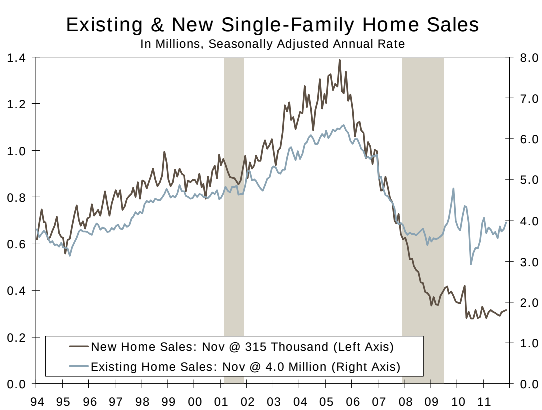
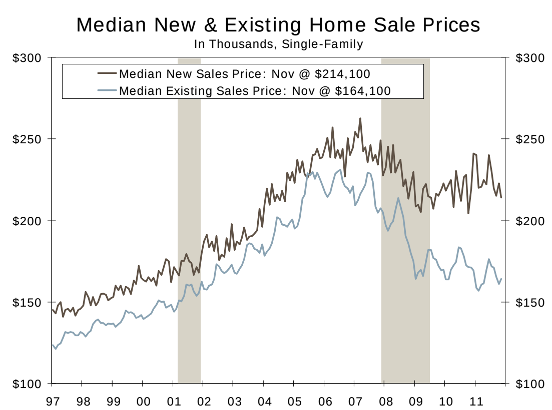


Figure 2



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

Our more upbeat view on housing is based on better reports from builders, lenders and Realtors. Builders have seen a modest uptick in buyer traffic in recent months. The NAHB/Wells Fargo Homebuilders' Index has risen for three consecutive months, marking the first three-month gain since the middle of 2009. Realtors are also seeing some firming in demand and mortgage underwriting standards have loosened a little bit. Gains in sales and new home construction have been spotty, however, with builders in the South and Midwest seeing the greatest improvement.

The South itself is a real mixed bag, with energy economies like Houston and Oklahoma City seeing relatively strong gains while Atlanta and much of South Florida are still languishing. Most of the region's larger markets are seeing modest gains, including Charlotte, Orlando, Nashville, Greenville and Huntsville. Activity in the Washington D.C. area, which picked up ahead of most other major areas, has cooled a bit. The Midwest is seeing modest gains across many of its mid-sized markets and most of the region's larger markets have bottomed. The largest gains are occurring in areas benefitting from the rebound in the automotive industry and manufacturing in general. The energy boom in the Upper Midwest is also driving gains. Energy and the high-tech sector are also the big drivers out West, with San Jose and Denver leading the way.

Activity continues to be skewed toward better locations, which tend to be clustered near key employment centers with long established amenities and infrastructure. Property prices in these infill areas sky-rocketed during the boom years, sending many would-be home buyers to the outer suburbs. With lower property prices and reduced construction costs, buyers are returning to these markets, even in hard hit areas like Tampa and Phoenix. There has been much less recovery in developments in the outer suburbs. Many of these projects were started during the latter part of the housing boom and are further out from key employment centers and retail centers. This is really evident in sprawling markets like Atlanta, where prices in the distant suburbs continue to tumble and foreclosures and negative equity remain significant hurdles to recovery.

Even with continued worries about competition from foreclosure sales, we expect single-family construction to rise 7 percent in 2012. Sales of new homes should rise nearly 15 percent. Strong demand for apartments should help boost multi-family starts by at least 25 percent in 2012. Overall starts should rise to 690,000 units, which would be the best year since 2008.

While we have raised our forecast for home sales and new home construction slightly, the same old hurdles remain in place. There is still a significant oversupply of homes in place, even though the inventory of existing homes recently fell to 2.58-million units in November, which is the lowest they have been since May 2005. New home inventories remain at a 49-year low. We believe you can add another 2 million units of shadow inventory to this total, consisting of homes in foreclosure, bank-owned properties and some percentage of homes with mortgages that are seriously delinquent and likely to go through the foreclosure process, most of which is located in a handful of long-troubled markets. The unknown number of homes in shadow inventory will continue to weigh on the housing market by encouraging appraisers to be overly conservative and by keeping mortgage underwriting tighter than it would be otherwise.

Recent Housing Data

	Release	Consensus	Actual	Prior	Revised	Next Release
NAHB Sentiment Index	December	20	21	20	19	Jan-18
Housing Starts, Thousands of Units	November	635K	685K	628K	627K	Jan-19
Housing Permits	November	635K	681K	653K	644K	Jan-19
Existing Home Sales, Millions of Homes	November	5.05M	4.42M	4.97M	4.25M	Jan-20
Percent Change	November	2.2%	4.0%	1.4%	n/a	Jan-20
New Home Sales, Thousands of Units	November	315K	315K	307K	310K	Jan-26
Percent Change	November	2.6%	1.6%	1.3%	1.3%	Jan-26
S&P Case/Shiller Composite-20	October	-3.20%	-3.40%	-3.59%	-3.54%	Jan-31

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

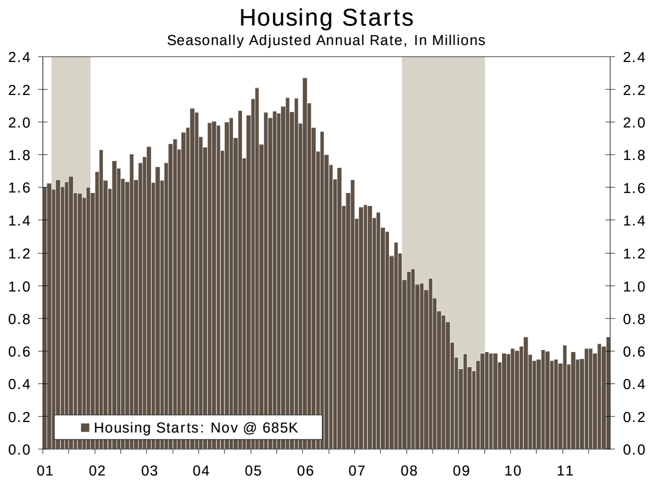
National Housing Outlook

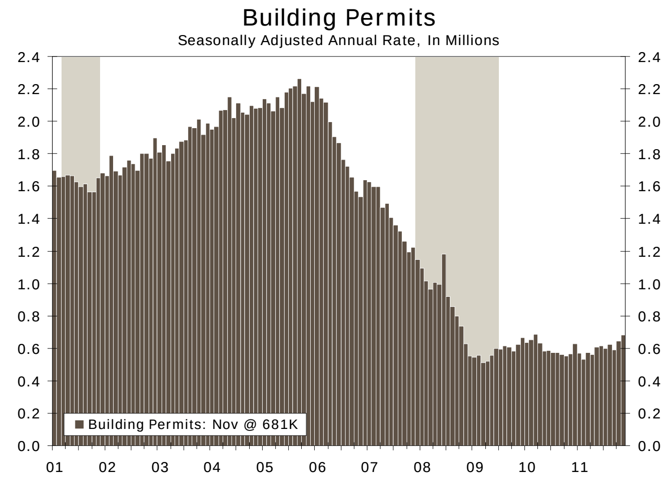
				Forecast		
	2008	2009	2010	2011	2012	2013
Real GDP, percent change	-0.4	-3.6	3.0	1.8	2.1	1.8
Nonfarm Employment, percent change	-0.6	-4.4	-0.7	1.0	1.0	1.0
Unemployment Rate	5.8	9.3	9.6	9.0	9.0	8.9
Home Construction						
Total Housing Starts, in thousands	900.0	554.0	584.9	610.0	690.0	800.0
Single-Family Starts, in thousands	616.3	442.4	471.0	428.0	460.0	530.0
Multi-Family Starts, in thousands	283.7	111.6	113.9	182.0	230.0	270.0
Home Sales						
New Home Sales, Single-Family, in thousands	482.2	374.3	321.3	305.0	350.0	410.0
Total Existing Home Sales, in thousands	4105.8	4335.0	4186.7	4731.0	5020.0	5150.0
Existing Single-Family Home Sales, in thousands	3655.0	3866.7	3707.5	4256.0	4580.0	4750.0
Existing Condominium & Townhouse Sales, in thousands	450.8	468.3	479.2	475.0	500.0	540.0
Home Prices						
Median New Home, $ Thousands	232.1	216.7	221.8	224.2	224.0	227.5
Percent Change	-4.8	-6.6	2.4	1.1	-0.1	1.6
Median Existing Home, $ Thousands	197.2	172.8	172.4	164.7	162.5	163.0
Percent Change	-9.2	-12.4	-0.2	-4.5	-1.3	0.3
FHFA (OFHEO) Home Price Index (Purch Only), Pct Chg	-7.4	-5.2	-3.0	-4.2	-2.1	-0.2
Case-Shiller C-10 Home Price Index, Percent Change	-16.7	-12.9	2.1	-3.6	-3.0	0.1
Interest Rates - Annual Averages						
Prime Rate	4.88	3.25	3.25	3.25	3.25	3.25
Ten-Year Treasury Note	3.66	3.26	3.22	2.64	2.25	2.63
Conventional 30-Year Fixed Rate, Commitment Rate	6.04	5.04	4.69	4.39	4.20	4.50
One-Year ARM, Effective Rate, Commitment Rate	5.18	4.71	3.78	3.00	3.10	3.20

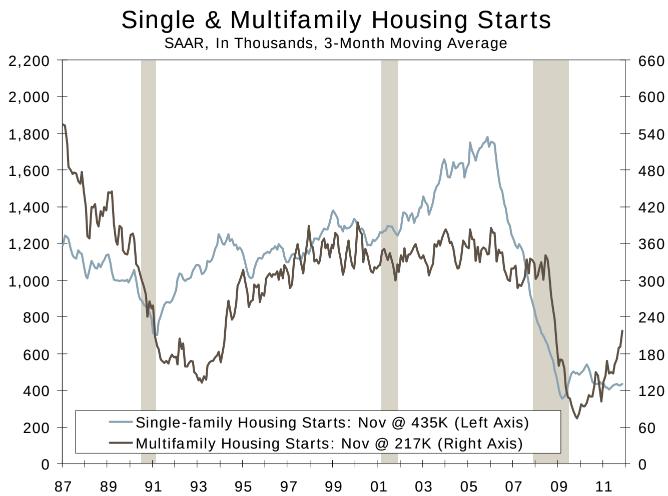
Forecast as of: December 30, 2011

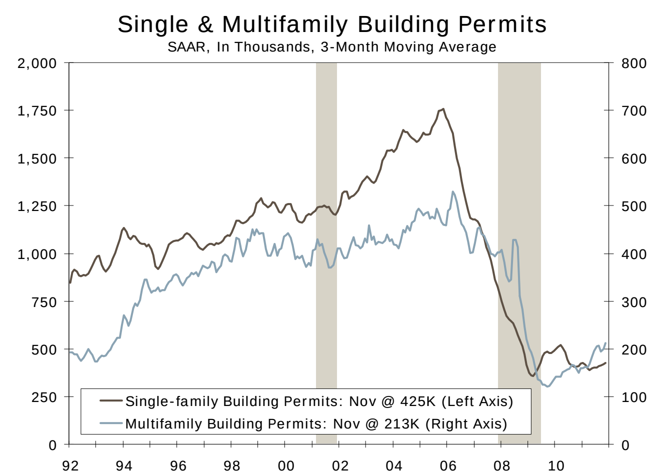
Source: Federal Reserve Board, FHFA, MBA, NAR, S&P, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

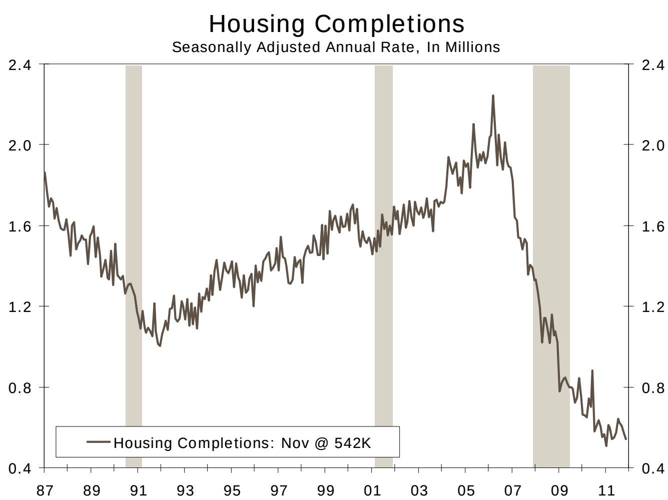
Housing Starts

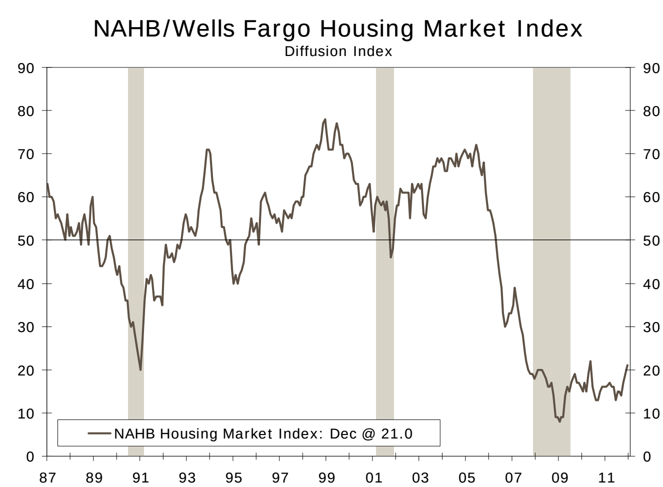








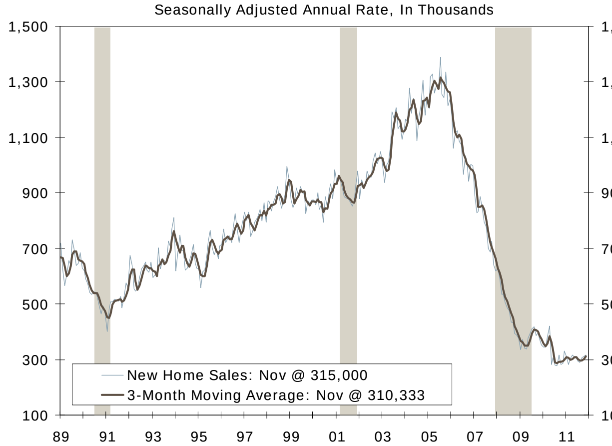




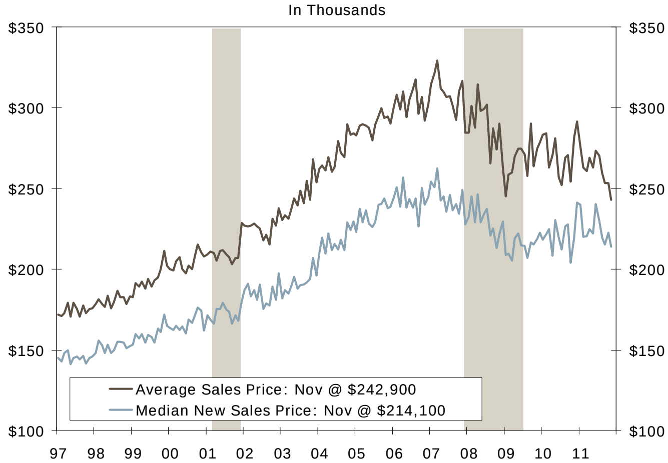
Source: NAHB, U.S. Department of Commerce and Wells Fargo Securities, LLC

New Home Sales

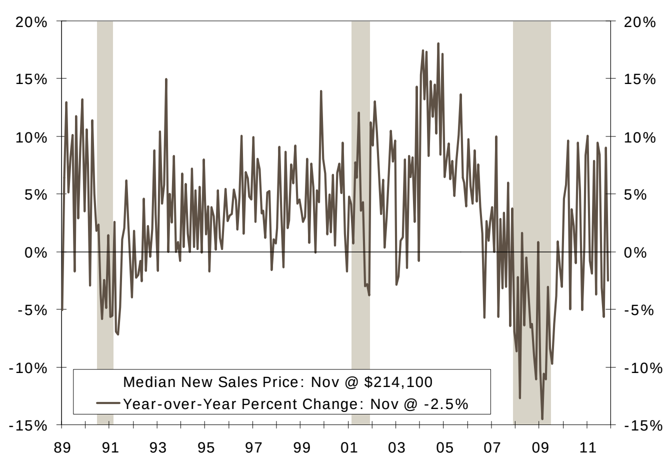
New Home Sales
Seasonally Adjusted Annual Rate, In Thousands



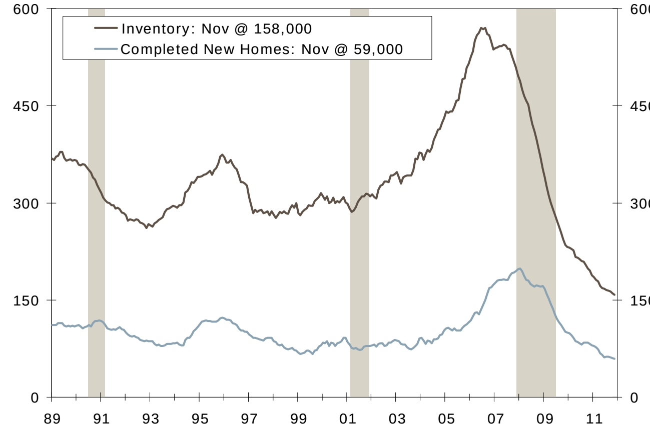
Average and Median New Home Sale Price
In Thousands



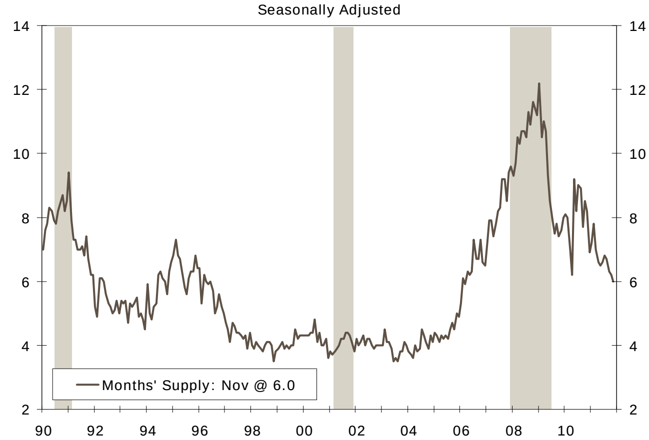
Median New Home Sales Price



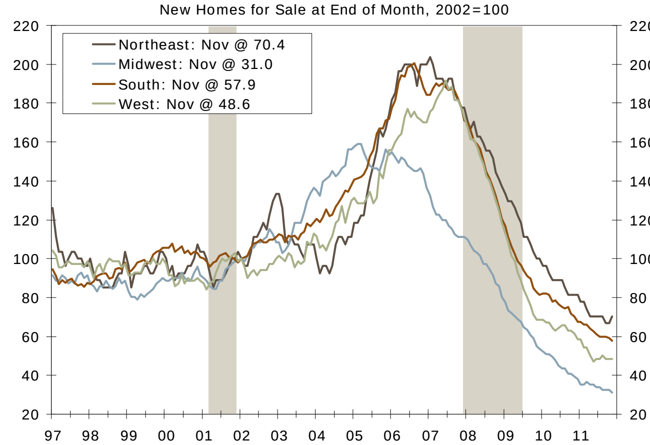
Inventory of New Homes for Sale
Non-Seasonally Adjusted, In Thousands



Months' Supply of New Homes
Seasonally Adjusted

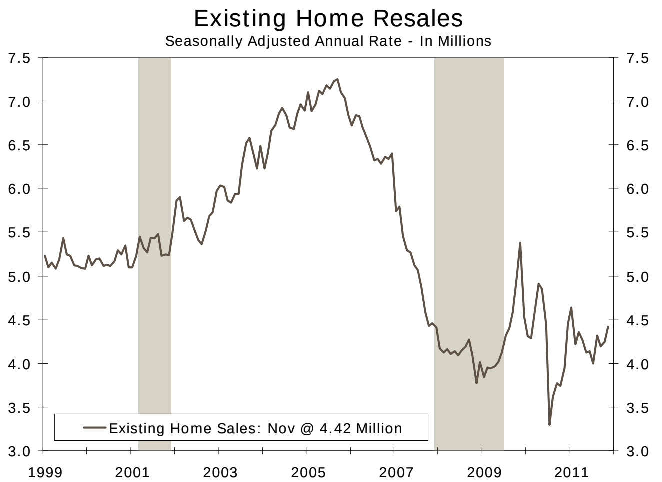


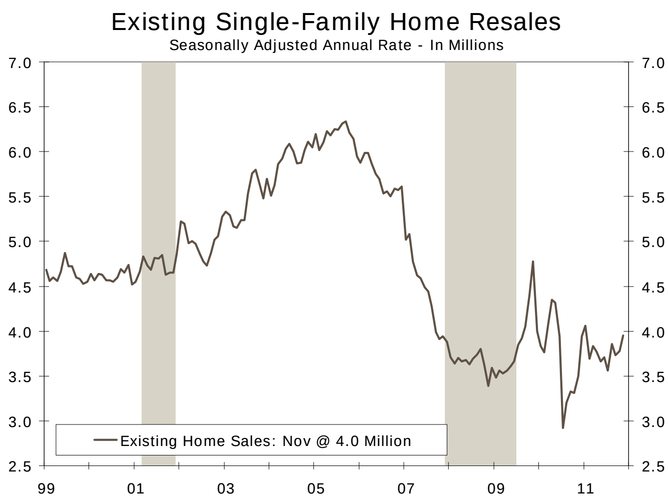
Inventory of New Homes for Sale
New Homes for Sale at End of Month, 2002=100

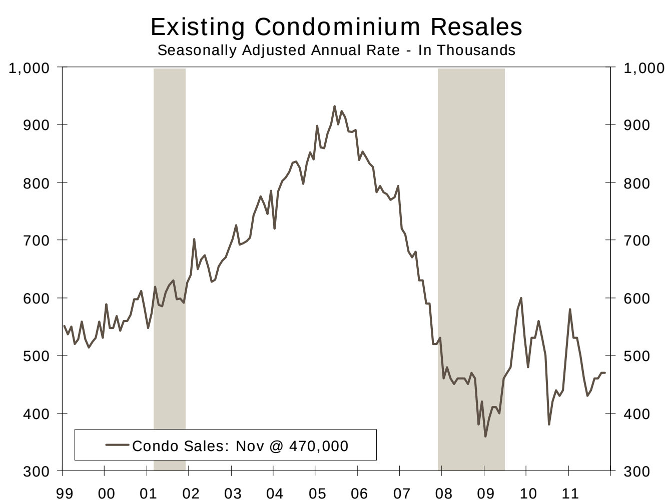


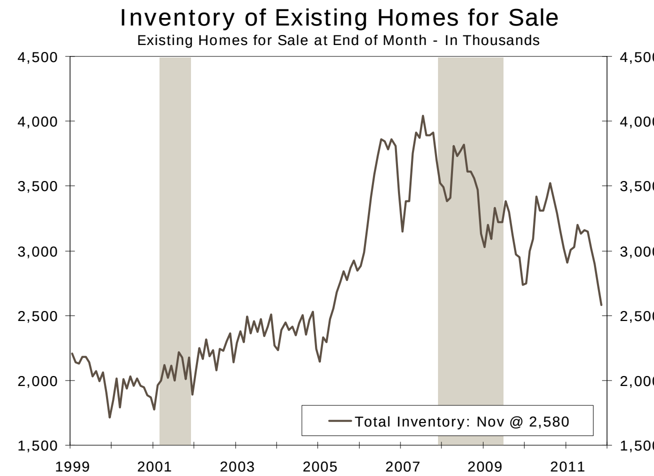
Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

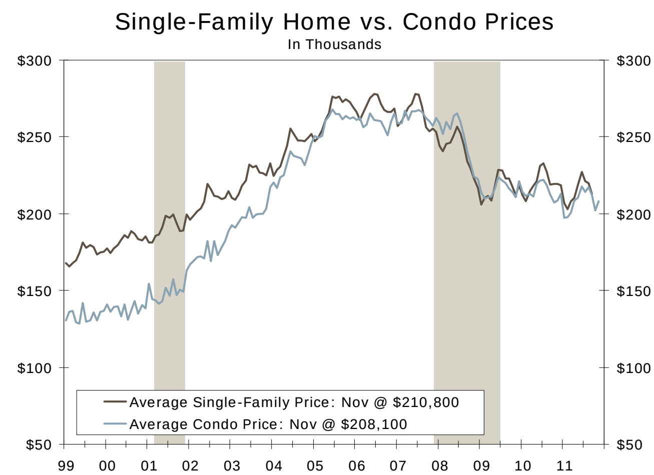
Existing Home Sales

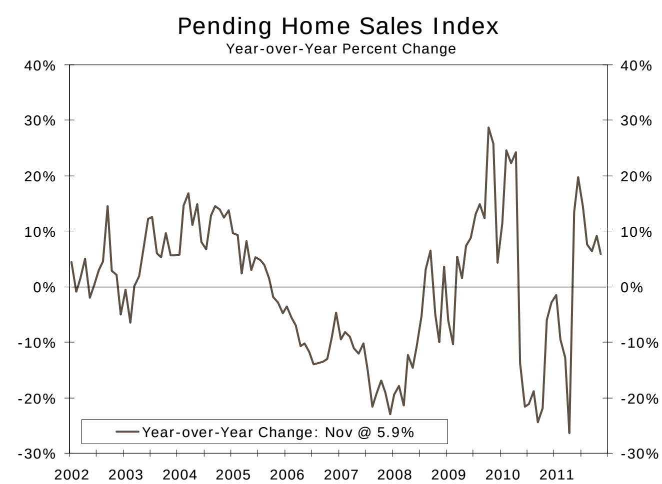












Source: National Association of Realtors and Wells Fargo Securities, LLC

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	(704) 715-0314	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
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com