May 27, 2010

## *Economics Group*

WELLS FARGO SECURITIES

Special Commentary

**Mark Vitner, Senior Economist**
mark.vitner@wellsfargo.com • 704.383.5635

# Housing Data Wrap-Up: May 2010

### Home Sales Got a Last-Minute Boost from Tax Credits

The April housing data show sales of new and existing homes received a significant boost from the extended tax credits to selected first-time and trade-up homebuyers. Sales of new homes surged 26.9 percent in March relative to the previous month and another 14.8 percent in April. That is when buyers needed to have purchase contracts signed in order to qualify for the $8,000 homebuyer tax credit. Sales of existing homes, which reflect closings, rose more modestly, climbing 7.0 percent in March and 7.6 percent in April. Buyers have until June 30 to close on their purchased homes, which means existing home sales should continue to benefit from the program over the next two months.

Questions are surfacing as to what the ending of the homebuyers' tax credit will mean for sales, construction and home prices during the second half of the year. There is little doubt that the tax credit have pulled some sales forward and first-time homebuyers are reported to have accounted for a large share of sales. The bounce in sales has helped builders clear out inventories, with inventories of new homes falling to their lowest level since 1968.

***Questions are surfacing as to what the ending of the home-buyer tax credits will mean for sales, construction and home prices during the second half of the year.***

The surprising strength in new home sales in April, particularly on homes that have not yet been started, has raised hopes that the bounce back in sales might persevere beyond the June 30 tax credit expiration date. We doubt it. Builders have been able to reduce cycle times by streamlining their offerings, which has enabled them to continue writing contracts a little later than they would have otherwise. Many builders have been able to write contracts through mid-April and still deliver new homes by the end of June. The sharp drop in mortgage applications for the purchase of a home in May supports this notion, as does the recent run-up in prices for many key building materials. The rush to sign contracts and complete homes ahead of the tax credit deadline will likely lead to a sharp correction in sales, construction and prices in the second-half of the year.

**April 2010 Housing Data**

| | Release | Consensus | Actual | Prior | Revised | Next Release |
|---|---|---|---|---|---|---|
| NAHB Sentiment Index[1] | May-17 | 20.0 | 22.0 | 19.0 | - | Jun-15 |
| Housing Starts, Thousands of Units | May-18 | 650K | 672K | 626K | 635K | Jun-16 |
| Housing Permits | | 680K | 606K | 685K | - | |
| Existing Home Sales, Millions of Homes | May-24 | 5.62M | 5.77M | 5.35M | 5.36M | Jun-22 |
| Percent Change | | 5.1% | 7.6% | 6.8% | 7.0% | |
| New Home Sales, Thousands of Units | May-26 | 425K | 504K | 411K | 439K | Jun-23 |
| Percent Change | | 3.4% | 14.8% | 26.9% | 29.9% | |
| S&P Case/Shiller Composite-20[2] | May-25 | 2.50% | 2.35% | 0.64% | 0.66% | Jun-29 |

[1]April-2010 Data [2]March-2009 Data

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

***Sales of existing homes have gotten less of an immediate boost from tax credits.***

Sales of existing homes have gotten less of an immediate boost from tax credits, with sales rising 7.0 percent in March and 7.6 percent in April. Existing home sales are tallied at closing and the deadline to close on homes and qualify for the tax credit is June 30. The latest pending home sales data show gains of 8.3 percent in February and 5.3 percent in March. Pending home sales likely rose further in April, which is when contracts needed to be signed to qualify for the tax credit. Sales will likely remain robust right up until the June 30 closing deadline, but we may not see the same spike in sales that we saw last fall, when sales got a boost from what people thought would be the end of the tax credit during what is usually a slow period for home sales. The net result was a huge spike in seasonally adjusted sales. On a non-seasonally adjusted basis, sales actually declined in November.

The June 30 deadline means any rush in sales to qualify for the credit will result in less of a distortion in the seasonally adjusted numbers, which are already looking for an increase in existing home sales at this time of year. Moreover, the two-step process for qualifying for the tax credit may help avert a rush of closings right at deadline.

***Once the tax credit program ends, home sales are likely to retest the lows.***

Once the tax credit program ends, home sales are likely to retest the lows hit following what was originally thought to be the end of the first-time homebuyers' tax credit last fall. Mortgage applications for the purchase of a home fell 9.5 percent during the first week of May, 27.1 percent during the second week, and 3.3 percent this past week. The slide in purchase applications has been sharper and more immediate than it was last fall, suggesting the pullback in sales and new construction could be greater than many currently expect. Purchase applications have tumbled a cumulative 36.3 percent over the past three weeks, falling to their lowest level since 1997. By contrast, purchase applications fell around 34 percent last fall.

***Buying plans for new and existing homes fell back to their lows hit late last year.***

The latest Consumer Confidence report provided another piece of corroborating evidence. Buying plans for new and existing homes fell back to their lows hit late last year, which provided an early warning of the sharp pullback in sales that occurred late last year and in early 2010. Both drops have occurred amid sharply lower interest rates. Consumers appear to be more interested in refinancing their current mortgage rather than purchasing a new home.

Our forecast for home sales and new home construction has actually increased slightly from one month ago. Sales and starts from previous months were revised slightly higher, which means the arithmetic works out to a slightly higher number for the year. The longer run trend is very much the same, however, with a modest recovery gradually taking hold during the latter part of this year and housing starts gradually inching up toward a 1 million-unit pace by the end of 2011 but totaling just 840,000 units for the year as a whole. We look for starts to rise to about 1 million units in 2012. Housing prices are expected to decline a little further over the course of 2010, with a bottom being reached in either late 2010 or early 2011. Prices should rise modestly thereafter.

**Figure 1**

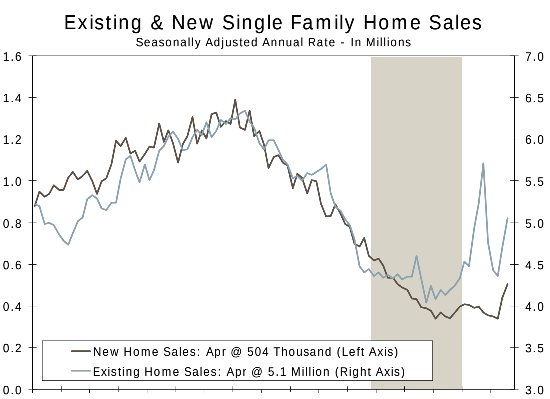
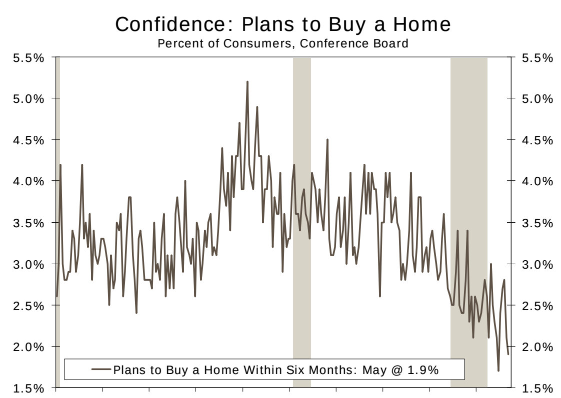



**Figure 2**




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

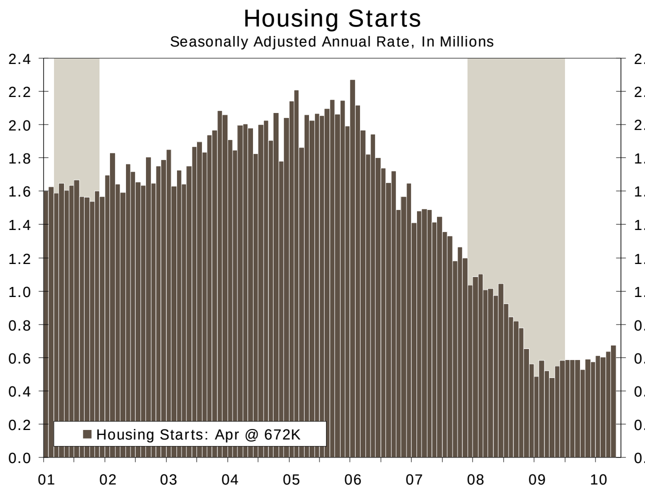
## National Economic & Financial Outlook

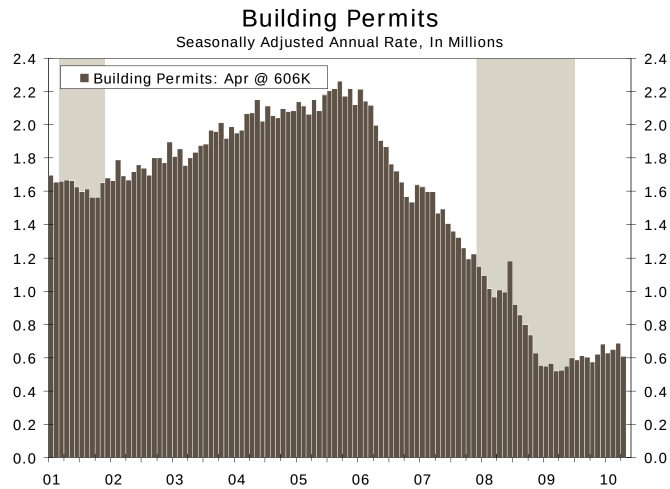
| | Actual | | | | Forecast | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Real GDP, percent change | 2.7 | 2.1 | 0.4 | -2.4 | 3.0 | 2.5 |
| Nonfarm Employment, percent change | 1.8 | 1.1 | -0.6 | -4.3 | -0.5 | 1.1 |
| Unemployment Rate | 4.6 | 4.6 | 5.8 | 9.3 | 9.9 | 9.5 |
| Home Construction | | | | | | |
| Total Housing Starts, in thousands | 1811.9 | 1341.8 | 900.0 | 554.3 | 650.0 | 840.0 |
| Single-Family Starts, in thousands | 1473.6 | 1035.8 | 616.3 | 442.3 | 510.0 | 630.0 |
| Multi-Family Starts, in thousands | 338.3 | 306.1 | 283.7 | 112.0 | 140.0 | 210.0 |
| Home Sales | | | | | | |
| New Home Sales, Single-Family, in thousands | 1049.3 | 768.7 | 481.3 | 371.9 | 410.0 | 520.0 |
| Total Existing Home Sales, in thousands | 6517.6 | 5674.7 | 4892.0 | 5157.9 | 5300.0 | 6080.0 |
| Existing Single-Family Home Sales, in thousands | 5711.7 | 4959.2 | 4337.5 | 4566.7 | 4660.0 | 5400.0 |
| Existing Condominium & Townhouse Sales, in thousands | 805.9 | 715.5 | 554.5 | 591.3 | 640.0 | 680.0 |
| Home Prices | | | | | | |
| Median New Home, $ Thousands | 243.1 | 243.7 | 230.4 | 214.5 | 210.0 | 212.0 |
| Percent Change | 3.8 | 0.3 | -5.5 | -6.9 | -2.1 | 1.0 |
| Median Existing Home, $ Thousands | 221.9 | 215.5 | 195.8 | 172.5 | 169.9 | 171.6 |
| Percent Change | 2.0 | -2.9 | -9.2 | -11.9 | -1.5 | 1.0 |
| FHFA (OFHEO) Home Price Index, Percent Change | 7.3 | 1.9 | -2.9 | -4.0 | -1.5 | 1.4 |
| Case-Shiller C-10 Home Price Index, Percent Change | 7.4 | -4.4 | -16.7 | -12.9 | -3.2 | 1.7 |
| Interest Rates - Annual Averages | | | | | | |
| Prime Rate | 7.96 | 8.05 | 5.08 | 3.25 | 3.30 | 4.10 |
| Ten-Year Treasury Note | 4.80 | 4.63 | 3.66 | 3.26 | 3.50 | 4.00 |
| Conventional 30-Year Fixed Rate, Commitment Rate | 6.41 | 6.34 | 6.04 | 5.04 | 5.00 | 5.50 |
| One-Year ARM, Effective Rate, Commitment Rate | 5.54 | 5.56 | 5.18 | 4.71 | 4.90 | 5.30 |

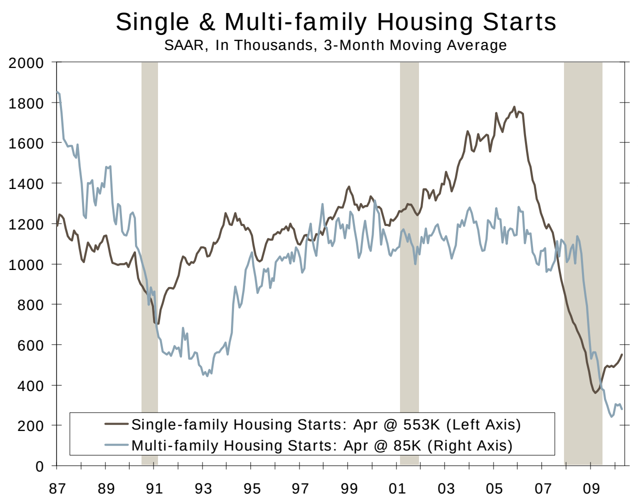
Forecast as of: May 20, 2010

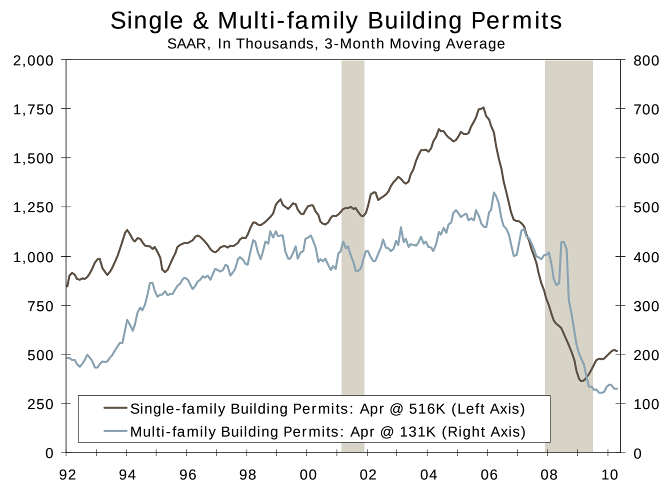
Source: Federal Reserve Board, FHFA, MBA, NAR, S&P Corp, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

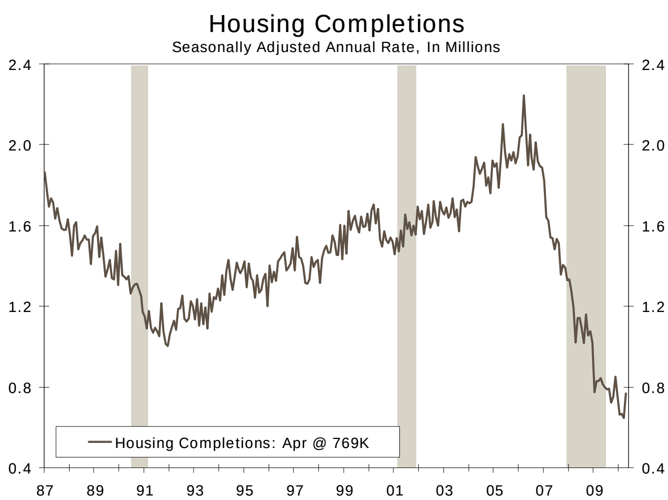
## Housing Starts

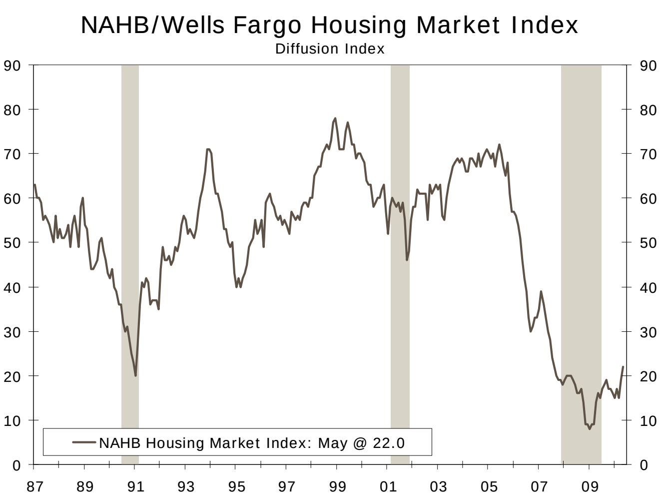


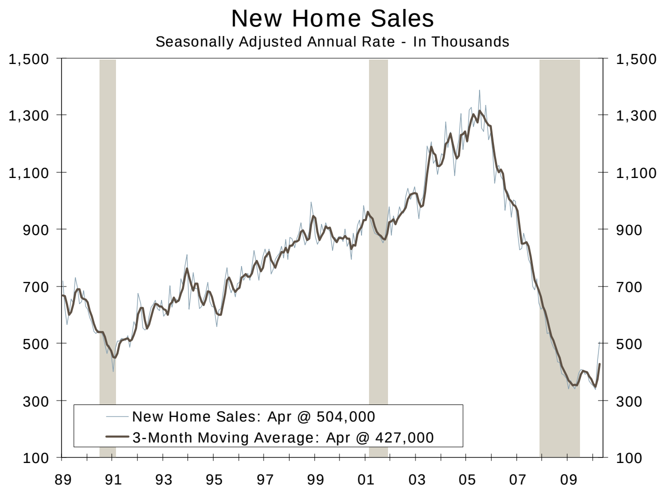



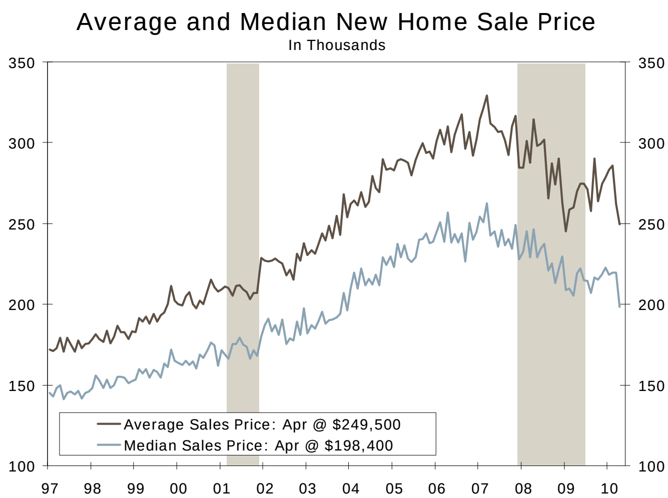



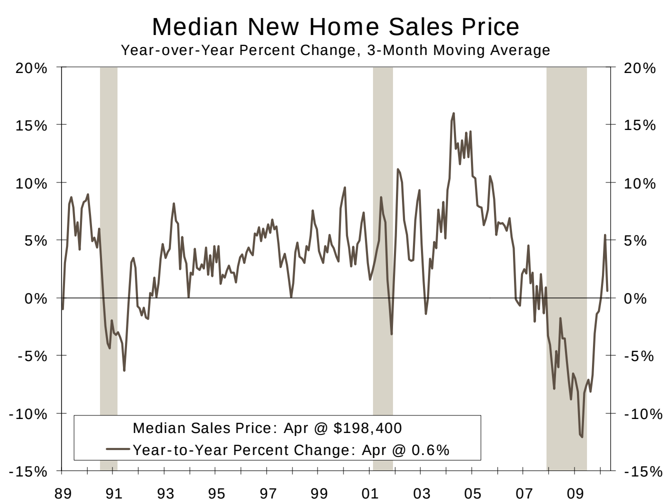



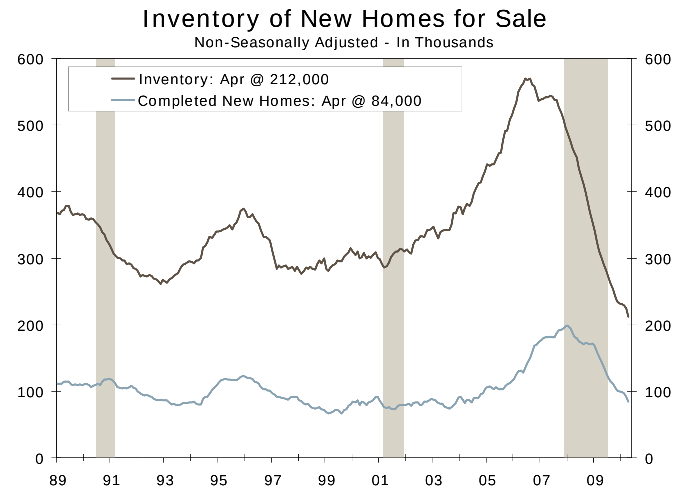

Source: NAHB, U.S. Department of Commerce and Wells Fargo Securities, LLC

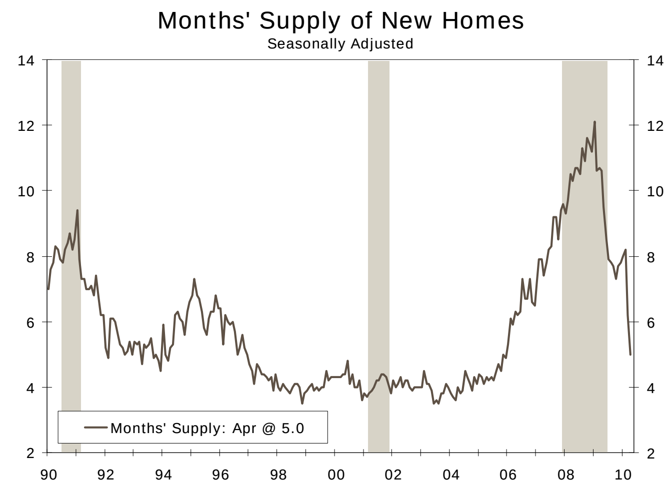
## New Home Sales

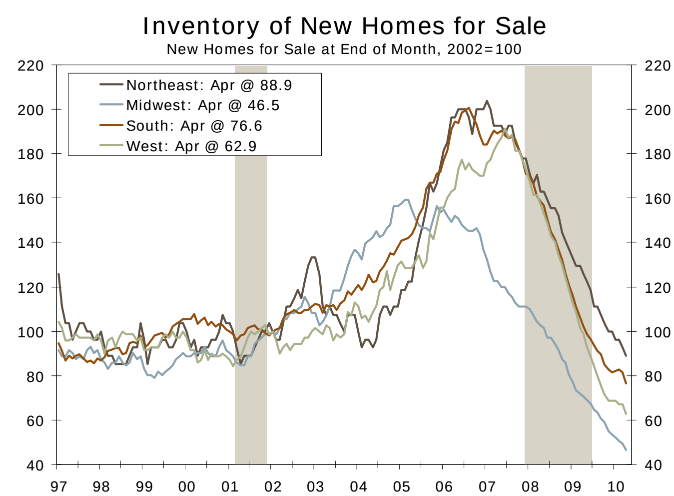


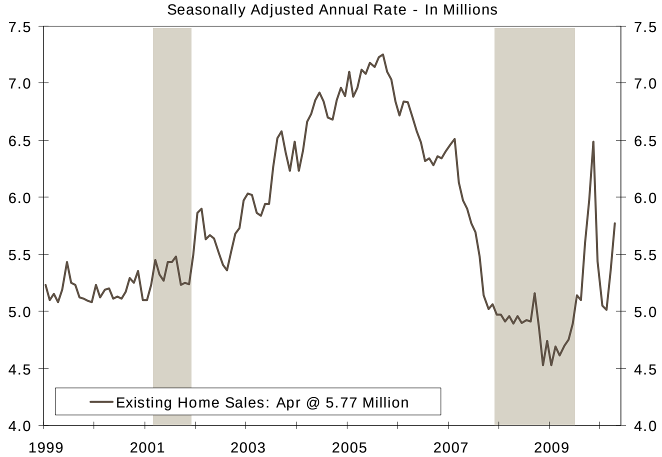



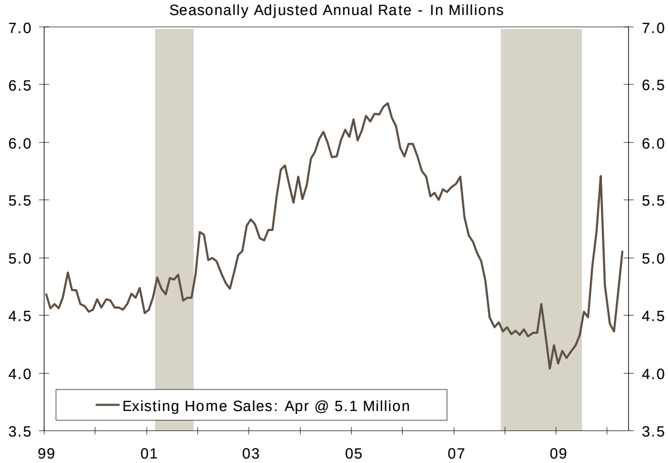

Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

## Existing Home Sales

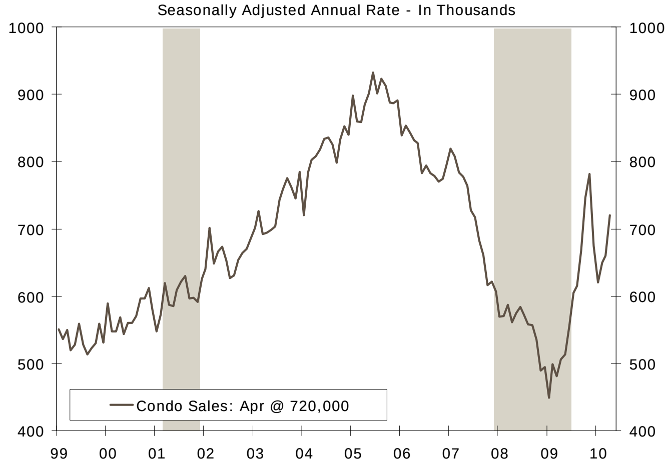
### Existing Home Resales
Seasonally Adjusted Annual Rate - In Millions



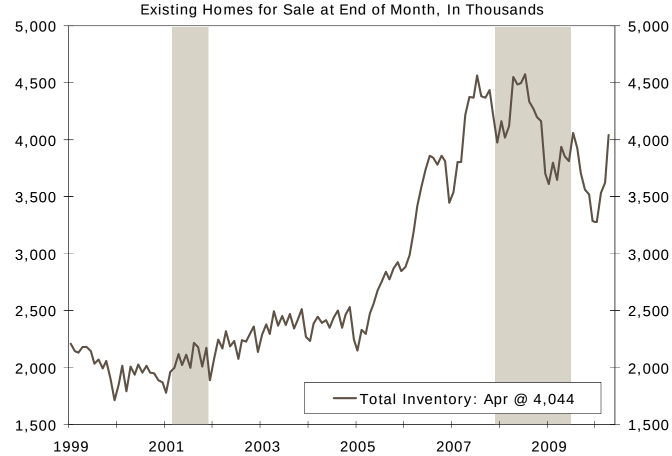

### Existing Single-Family Home Resales
Seasonally Adjusted Annual Rate - In Millions



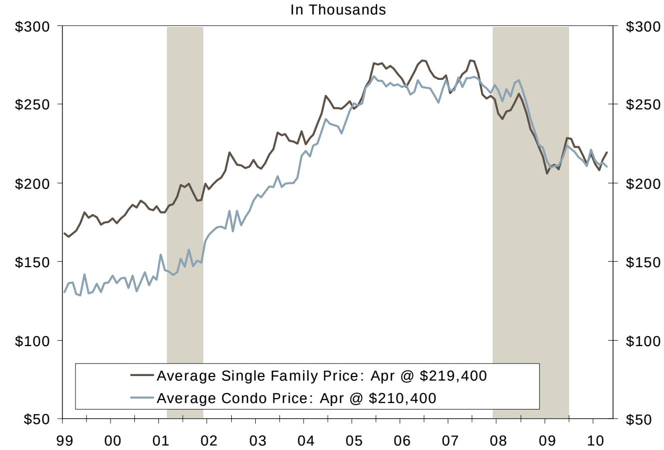

### Existing Condominium Resales
Seasonally Adjusted Annual Rate - In Thousands



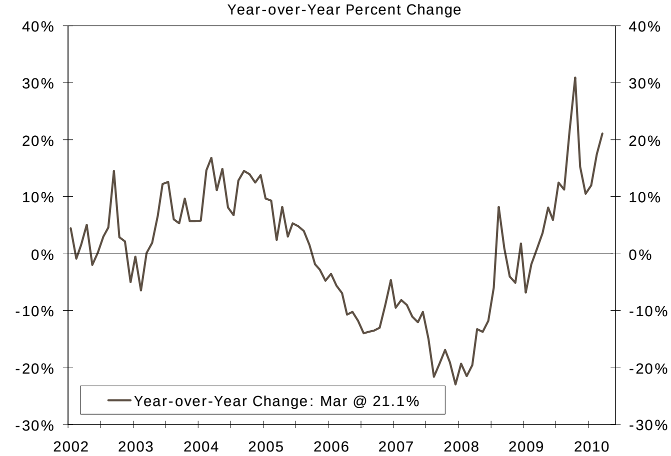

### Inventory of Existing Homes for Sale
Existing Homes for Sale at End of Month, In Thousands




### Single Family Home vs. Condo Prices
In Thousands




### Pending Home Sales Index
Year-over-Year Percent Change




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<br>(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 |
| Kim Whelan | Economic Analyst | (704) 715-8457 | kim.whelan@wellsfargo.com |
| Yasmine Kamaruddin | Economic Analyst | (704) 374-2992 | yasmine.kamaruddin@wellsfargo.com |





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