



# Economics Group

**Mark Vitner, Senior Economist**  
[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • 704.383.5635  
**Anika Kahn, Economist**  
[anika.kahn@wellsfargo.com](mailto:anika.kahn@wellsfargo.com) • 704.715.0575

## New Home Sales Bounce Off Their Revised May Low

***New home sales rose 23.6 percent in June but the increase came with substantial net revisions to the previously published data. Total June sales net of revisions would have been just 268,000.***

### Expiring Tax Credits Continue to Muddle the Housing Market

New home sales bounced back 23.6 percent in June, following a 36.7 percent plunge in May. The absolute level of new home sales remains exceptionally low at just 330,000 units. May's new home sales were revised down from a previously published 300,000 units to just 267,000, and new home sales in April were revised down by 24,000 homes.

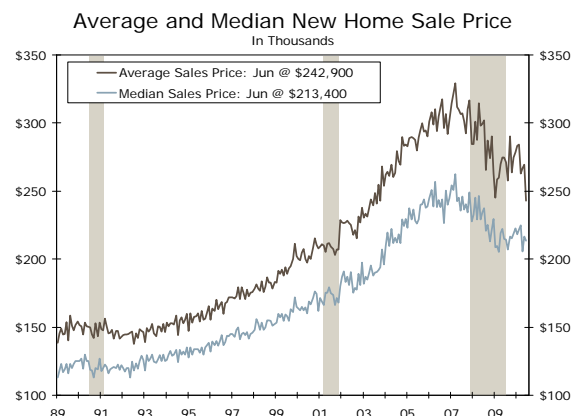
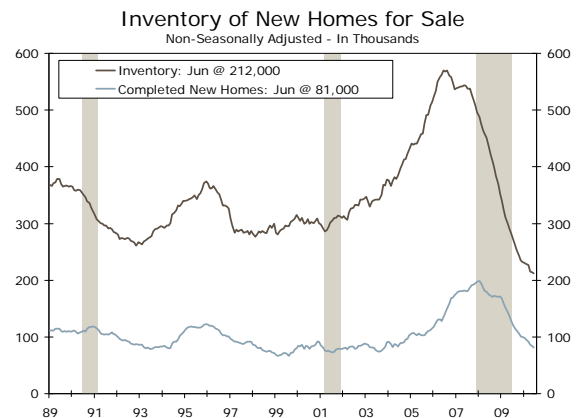
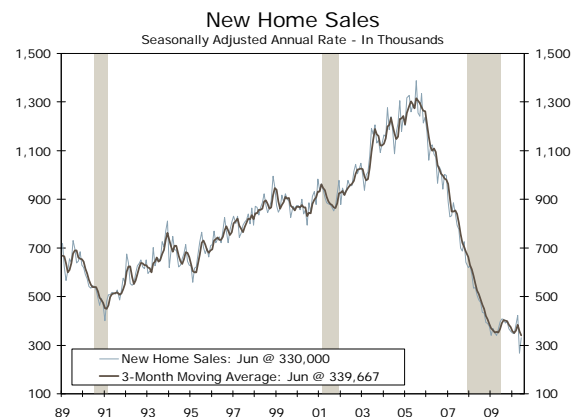
The new home sales data provide a clear example of how tax incentives can distort economic activity. Sales experienced a mini-boom in March and April and were crushed in May and June. Looking at sales on a three-month moving average provides a better assessment of the state of the housing industry and shows sales averaging a 339,700-unit pace. We expect sales to come in roughly in line with that pace in July and August and look for a modest recovery in sales to begin later this year, as lower home prices and lower mortgage rates begin to entice buyers back into the market. A strong recovery in the housing market will not occur, however, until we see consistent gains in employment and income.

### June's Sales Gain Was More of a Technical Bounce

New home sales rose in the Northeast (46.4 percent), the South (33.1 percent), and the Midwest (20.5 percent). Sales fell 6.6 percent in the West. The large gains in the seasonally-adjusted figures provide an exaggerated sense of improvement. Sales have fallen to such low levels that a given percentage increase reflects much less volume than the same percentage decrease. The larger percentage decline in May makes this case even more dramatically. Sales fell by 155,000 units from April to May but rose by just 63,000 units in June.

While the sales figures are incredibly muddled by the tax credits, there is plenty of important information in this report. Builders continue to do a great job of clearing out inventory. The number of completed homes available for sale at the end of June fell to just 81,000 homes, which is the lowest level for this series since October 2003. The overall inventory of new homes fell to 212,000 units, with 100,000 new homes currently under construction and 31,000 homes not having been started yet. Despite the drop in new home inventories, completed homes are remaining on the market for a relatively long 12.4 months.

Prices of new homes fell in June, with the median price of a new home slipping 1.4 percent to \$213,400 and the average price falling 9.8 percent to \$242,900. The larger drop in the average price reflects the lack of activity in sales of higher priced homes. Sales of homes priced \$400,000 and above accounted for just 9 percent of overall sales. The bulk of sales continue to be in the \$150,00 to \$300,000 range, which accounts for 55 percent of overall sales.



## 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
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wellsfargo.com

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