



Economics Group

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End of Tax Credit May Have Distorted New Home Sales

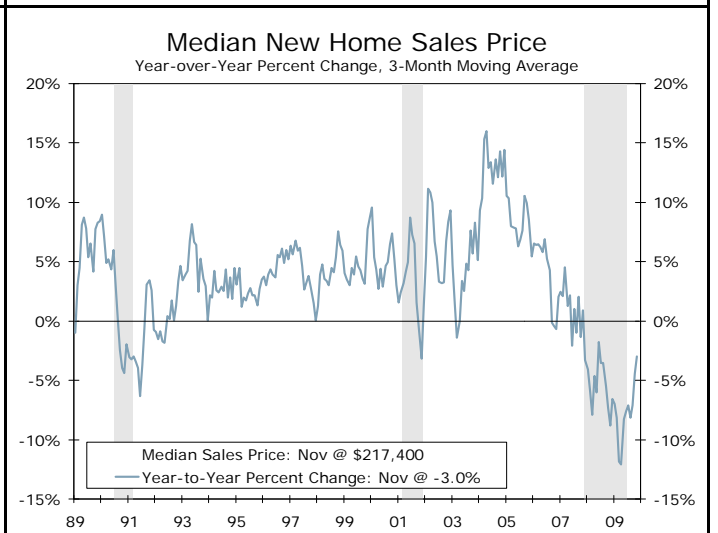
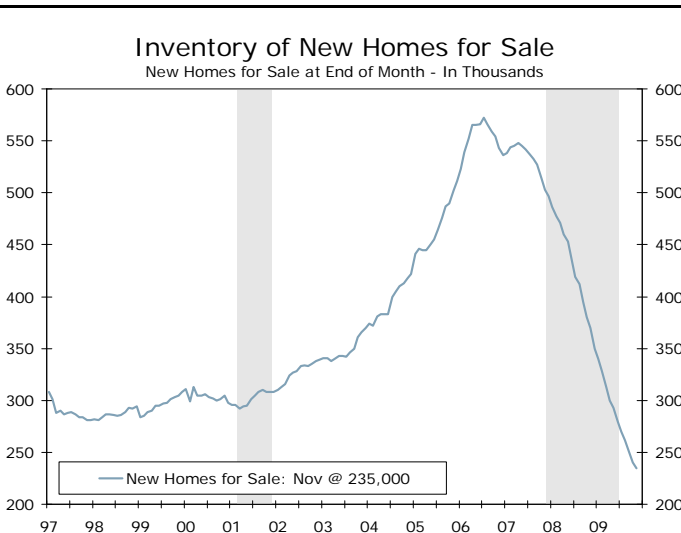
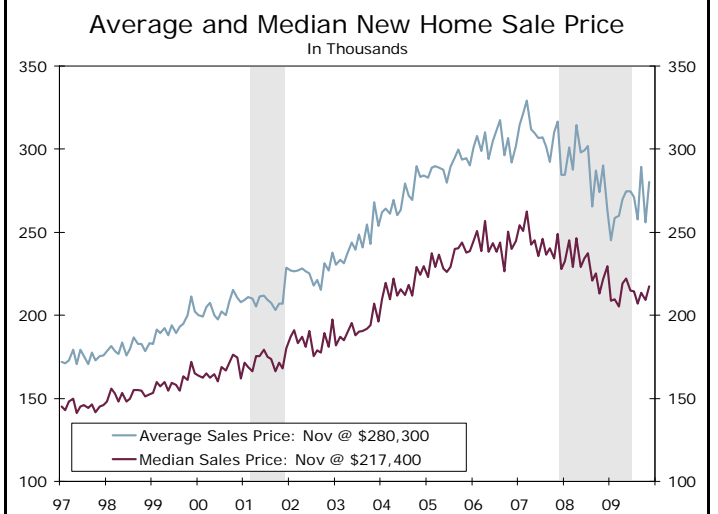
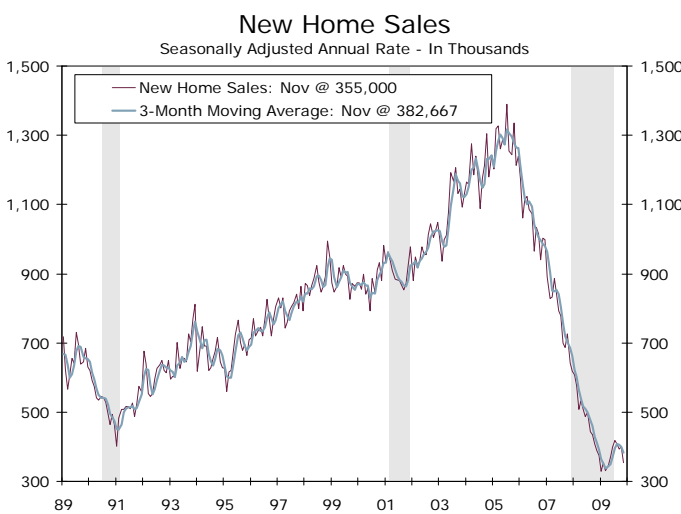
The sharp decline in new home sales in November likely reflects the initial expiration of the first-time homebuyer tax credit. Builders continued to reduce inventories, giving them less incentive to cut price.

Did the End of Tax Credit Distort Sales in November?

- New home sales fell to an annualized rate of only 355,000 in November from a downwardly revised selling pace of 400,000 the previous month. The outturn was much weaker than expected, but some of the decline may be explained by the initial expiration of the first-time homebuyer tax credit. Buyers needed to have closed by November 30, which is difficult to do in less than a month.

Inventories Continued to Shrink

- Congress has extended the tax credit for contracts signed by April 30, so sales should rebound in the months ahead. On another positive note, inventories of new homes for sale continued to decline, giving builders less incentive to cut prices.
- The median price of a new home rose 3.8 percent in November. Although prices are still down on a year-ago basis, the rate of decline has slowed significantly from early 2009.



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

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