



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 383-5635
Anika R. Khan, Economist
anika.khan@wellsfargo.com • (704) 715-0575

New Home Sales Tumble In February

New home sales tumbled 16.9 percent in February to a series low 250,000-unit annual rate. Harsh winter weather and the onslaught of foreclosure sales likely cut into new home sales and also pulled prices lower.

February's Horrendous Drop Renews Talk of a Double Dip

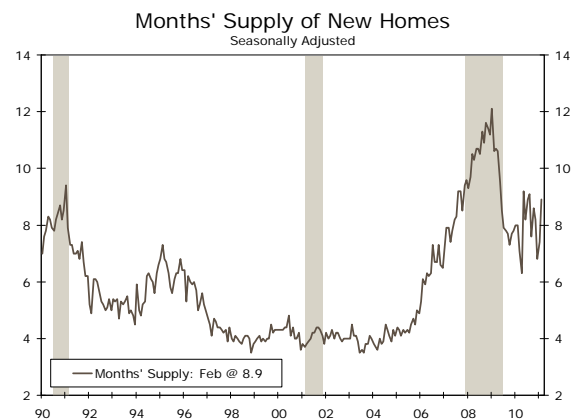
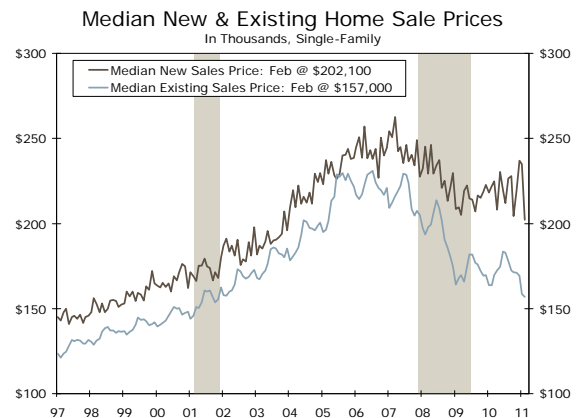
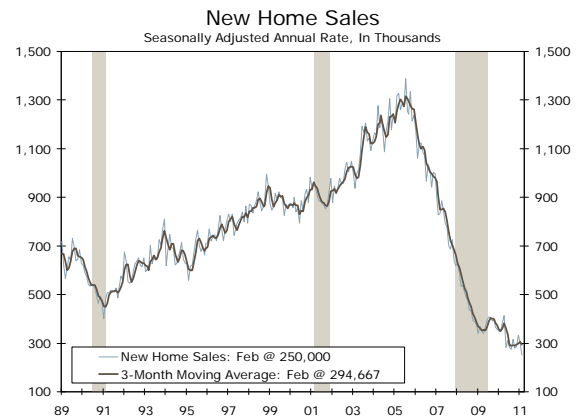
February's 16.9 percent plunge in new home sales to a series low 250,000-unit pace will likely rekindle talk of a double dip for housing, and in many ways the data appear to support such a claim. Our issue with this characterization of the housing market is that it oversimplifies what is going on. Sales and home prices had been the recipients of enormous stimulus efforts, including tax credits for first-time and trade-up homebuyers, massive purchases of mortgage-backed securities by the Federal Reserve and numerous foreclosure mitigation programs by the Treasury and other government agencies. In addition, the state attorneys general investigation into lender foreclosure practices slowed down foreclosure sales late last year. This led to a subsequent surge of foreclosure sales and, perhaps even more important, to the expectation of a surge in foreclosure sales in early-2011. Given all this, what is a homebuilder to do?

Apparently, at least for the month of February, very little. Of course the weather was also unusually harsh for the first half of the month, particularly in the Northeast and Midwest. The weather impact should not be minimized. Sales in the Northeast plunged 57.1 percent to just a 15,000-unit annual rate. Sales also plummeted 27.5 percent in the Midwest and were down 14.7 percent in the West. By contrast, sales were down a relatively modest 6.3 percent in the South. The sharper declines in other regions means the South's share of new homes rose to 59.2 percent in February, up from a more normal 52.5 percent in January. Since the South tends to have some of the lowest home prices in the nation, the median and average price of new home dropped in February, falling 13.9 percent and 7.3 percent, respectively.

Even with the huge drop in new home prices, there is a large gap between the median price of a new home and the median price of an existing home. Normally new homes command a premium of around 12 percent above existing home prices. Today the gap has swelled to 28.9 percent. The onslaught of foreclosure and short sales is undoubtedly a significant factor in pulling existing home prices lower. The existence of this unusually large price gap, along with rising materials prices, is making it difficult for builders to compete. Unfortunately, the price gap will likely remain in place until the huge amount of foreclosures is cleared.

Inventories Of New Homes Continue To Decline

February's plunge in new home sales lifted the months' supply of new home inventories to 8.9 months. The absolute number of new homes for sale continued to decrease, and hit a new cycle low of 183,000 homes. If sales were to return to their most recent three-month pace of 295,000 units, the months' supply figure would drop back down to around 7.6 months.



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
Tyler B. Kruse	Economic Analyst	(704) 715-1030	tyler.kruse@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com

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