

Economics Group

Special Commentary

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Housing Data Wrap-Up: April 2013

Conflicting Signals on Prices and Homeownership

While the housing recovery has been far from bountiful, it has been one of the few areas of the economy to see substantial gains over the past year. Housing starts were an upside surprise in March, rising to a 1.04 million-unit annualized pace, the fastest pace since June 2008. While rising above the million-unit pace marks a significant milestone, it would have been even sweeter if all of the gain had not been concentrated in multifamily units, which jumped 31.1 percent. By contrast, starts of new single-family homes fell 4.8 percent in March. Even with that slip, the recovery in single-family construction appears to be well underway, with demand gradually improving and supplies remaining exceptionally tight.

The new home market continues to take its cue from the existing market, where supplies of distressed properties are declining. Investor and cash purchases account for a large proportion of sales, especially in the less expensive major bust markets, like Atlanta and Miami. Investor purchases have also pushed prices substantially higher. The latest S&P Case-Shiller 20-City Home Price Index shows prices rising 9.3 percent over the past year, and the National Association of Realtors's measure of median home prices has jumped 10.3 percent. The sharp run-up in home prices has dramatically reduced the proportion of homeowners with negative equity but has also created a new set of issues for traditional homebuyers. Prices have outpaced appraisals in many markets, making it tougher for traditional buyers to compete with investors or cash purchases.

While most of the housing-related headline numbers continue to improve, the underlying details give us some pause. One disconcerting signal comes from the growing divergence between the homeownership rate and the recent spike in prices. Another concern is the recent slide in the Wells Fargo/NAHB Home Builders Index, which has slipped 5 points over the past three months. In addition, mortgage applications for the purchase of a home remain stuck in slow gear.

The recovery in single-family construction appears to be well underway.

Figure 1

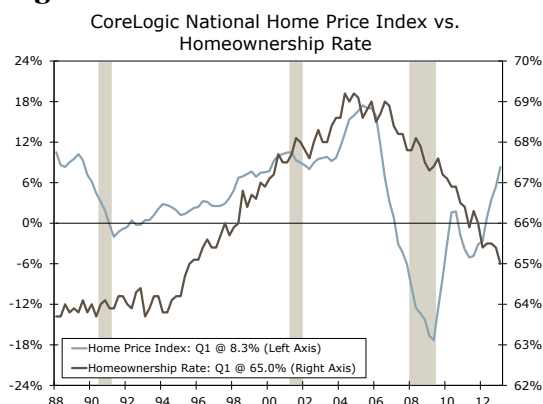
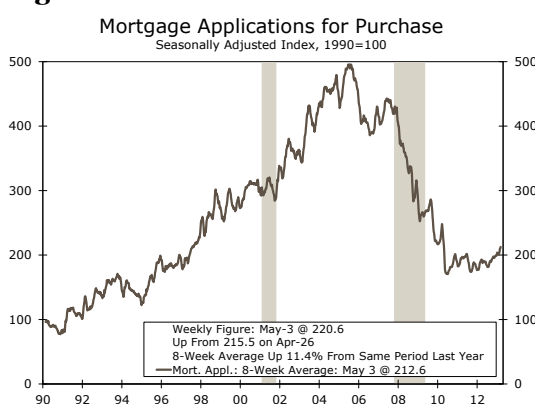


Figure 2



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



The underlying fundamentals still point to a very gradual recovery.

It is hard to imagine a sustainable housing recovery taking place with fewer homeowners.

The Underlying Fundamentals Still Point to an Exceptionally Gradual Recovery

While the recent spike in home prices is making good headlines, the underlying fundamentals still point to a very gradual recovery. This is one of the reasons we chose to highlight the growing split between the homeownership rate and home prices on page one. Rising home prices usually coincide with rising demand, which typically stems from either increased household formations or an increase in preferences toward homeownership. Neither trend appears to be present today. Household formations rose 980,000 in 2012, which is still below the annual average of 1.28 million between 1965 and 2001. Moreover, the overwhelming majority of new households are choosing to rent rather than own their home. The homeownership rate fell 0.4 percentage points during the first quarter to 65.0 percent and is now at levels last seen in the mid-1990s.

It is hard to imagine a sustainable housing recovery taking place with fewer homeowners. This point appears lost in all of the celebration over soaring home prices and bidding wars for the scarce inventory of homes currently available for sale. Our intention is not simply to pour cold water on the notion that the housing market is recovering but rather to balance the enthusiasm over soaring prices with the realization that much of the housing market is still healing. The sharp bounce back in home prices appears to be driven by investor purchases, both individuals and institutions. By contrast, new and existing home sales are following a much more modest trajectory, which more closely resembles the trend in mortgage purchase applications.

This last point seems to be overlooked in much of the recent analysis of the housing market. A full-fledged housing recovery will require a normally functioning mortgage market, which we are still nowhere close to. The Federal Reserve is buying \$40 billion in mortgage-backed securities every month, and progress at reaching an ultimate resolution over what to do with Fannie Mae and Freddie Mac still remains elusive. We also have some concerns about the composition of the recent pick up in nonfarm employment. A large proportion of the jobs being created appear to be in relatively low paying industries that typically employ large numbers of part-time workers, which is not likely to be the source of a resurgence in homeownership.

Many of the trends we have cited above are precisely the points that apartment developers and investor purchasers of single-family homes cite as justification for ramping up construction and purchases of rental properties. In the near term, there appears to be merit in this argument. The number of renters has increased 610,000 over the past year and rental vacancy rates decreased 0.2 percentage points to 8.6 percent, continuing a four-year slide. Construction of new apartments has also increased dramatically, however, with permits through the first three months of this year running 52.7 percent ahead of the same period last year. Deliveries of apartment will more than triple by year-end, which should begin to reverse the recent slide in apartment vacancy rates. Even with an increase in deliveries, however, we expect multifamily construction to account for a larger proportion of future starts, reflecting more infill development in major areas near where the bulk of jobs are being created.

Figure 3

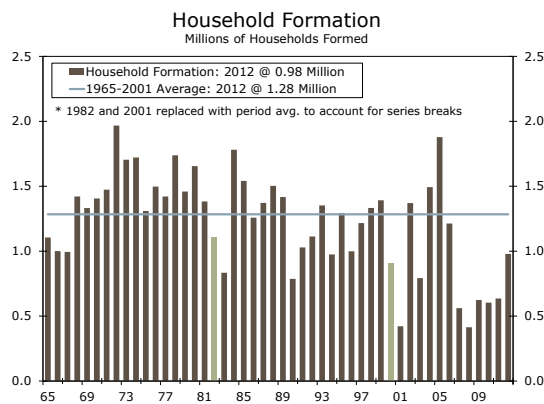
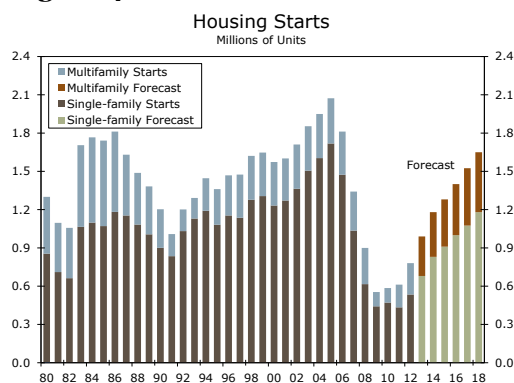


Figure 4



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

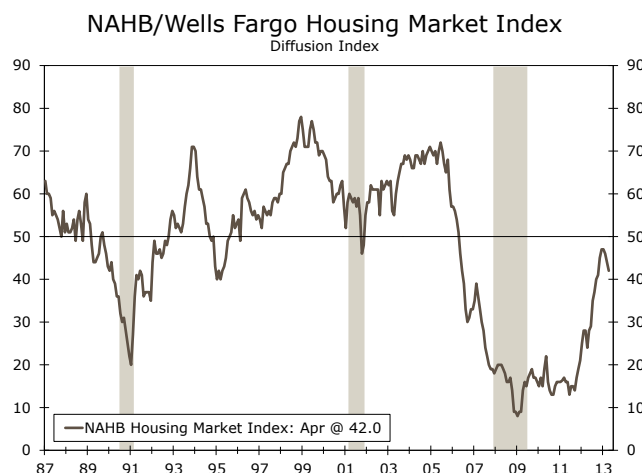
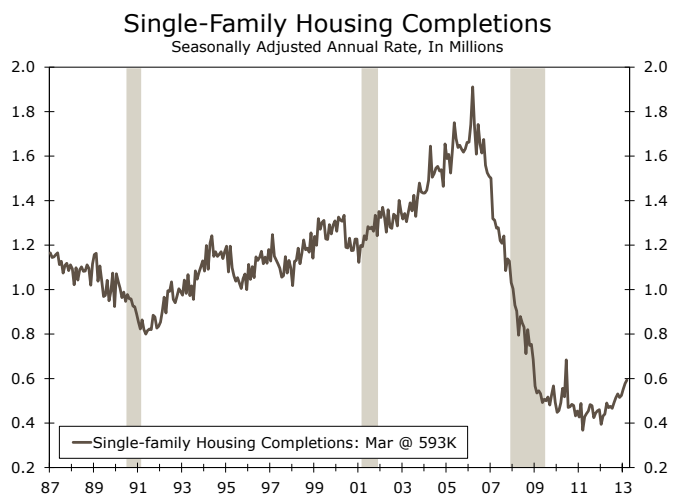
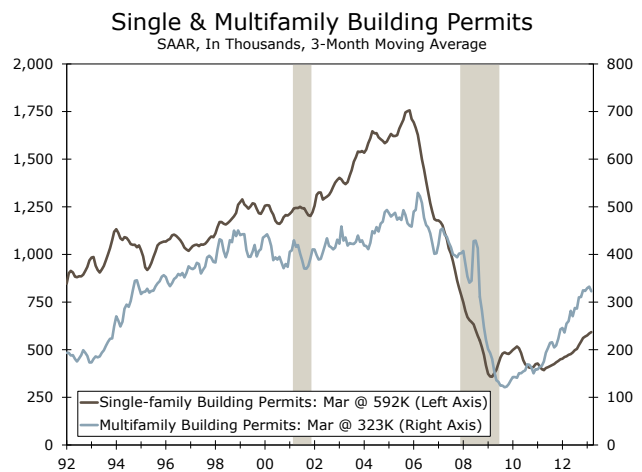
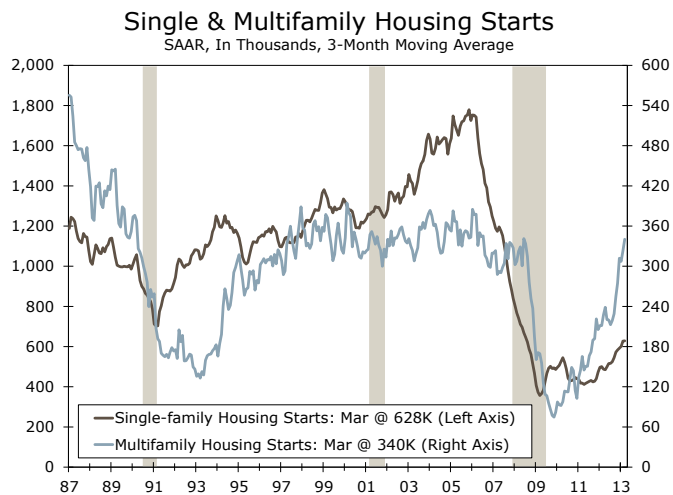
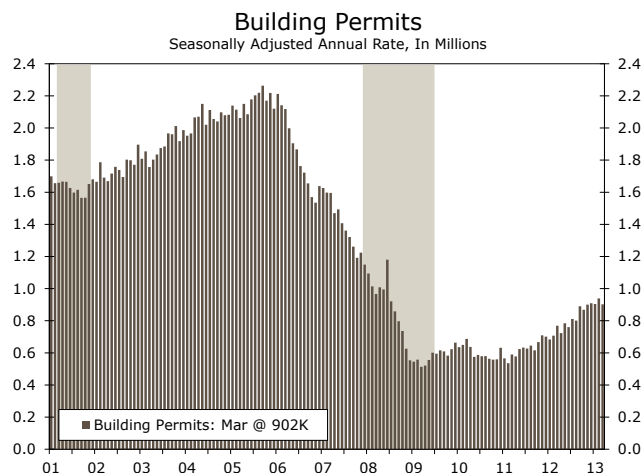
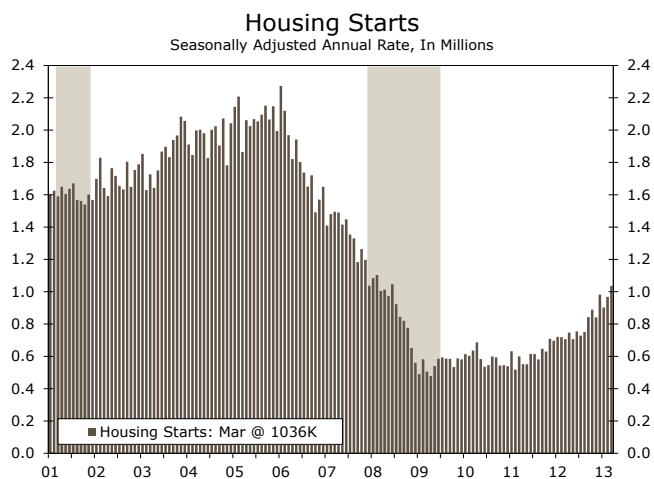
National Housing Outlook

	2008	2009	2010	2011	2012	Forecast	
						2013	2014
Real GDP, percent change	-0.3	-3.1	2.4	1.8	2.2	1.8	2.1
Nonfarm Employment, percent change	-0.6	-4.4	-0.7	1.2	1.7	1.7	1.8
Unemployment Rate	5.8	9.3	9.6	8.9	8.1	7.6	7.3
Home Construction							
Total Housing Starts, in thousands	905.5	553.9	586.9	608.8	780.6	990.0	1,180.0
Single-Family Starts, in thousands	622.0	445.0	471.1	430.5	535.3	670.0	830.0
Multifamily Starts, in thousands	283.5	108.9	115.8	178.3	245.3	320.0	350.0
Home Sales							
New Home Sales, Single-Family, in thousands	485.0	374.0	323.0	306.0	367.0	440.0	540.0
Total Existing Home Sales, in thousands	4,110.0	4,340.0	4,190.0	4,260.0	4,650.0	4,990.0	5,200.0
Existing Single-Family Home Sales, in thousands	3,660.0	3,870.0	3,708.0	3,787.0	4,127.0	4,440.0	4,640.0
Existing Condominium & Townhouse Sales, in thousands	450.0	464.0	474.0	477.0	528.0	550.0	560.0
Home Prices							
Median New Home, \$ Thousands	232.1	216.7	221.8	227.2	243.6	253.0	260.5
Percent Change	-6.4	-6.6	2.4	2.4	7.2	3.9	3.0
Median Existing Home, \$ Thousands	198.1	172.5	172.9	166.1	176.6	184.3	190.2
Percent Change	-9.5	-12.9	0.2	-3.9	6.3	4.4	3.2
FHFA (OFHEO) Home Price Index (Purch Only), Pct Chg	-7.7	-5.5	-3.0	-4.2	3.5	6.4	2.8
Case-Shiller C-10 Home Price Index, Percent Change	-16.7	-12.9	2.1	-3.5	0.3	5.1	2.9
Interest Rates - Annual Averages							
Prime Rate	4.88	3.25	3.25	3.25	3.25	3.25	3.25
Ten-Year Treasury Note	3.66	3.26	3.22	2.78	1.80	1.93	2.25
Conventional 30-Year Fixed Rate, Commitment Rate	6.04	5.04	4.69	4.46	3.66	3.56	3.85
One-Year ARM, Effective Rate, Commitment Rate	5.18	4.71	3.78	3.00	2.70	2.80	3.10

Forecast as of: May 13, 2013

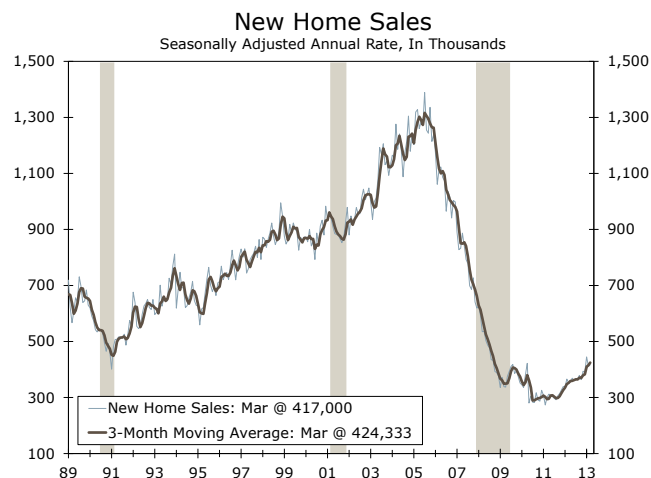
Source: Federal Reserve Board, FHFA, MBA, NAR, S&P, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

Housing Starts

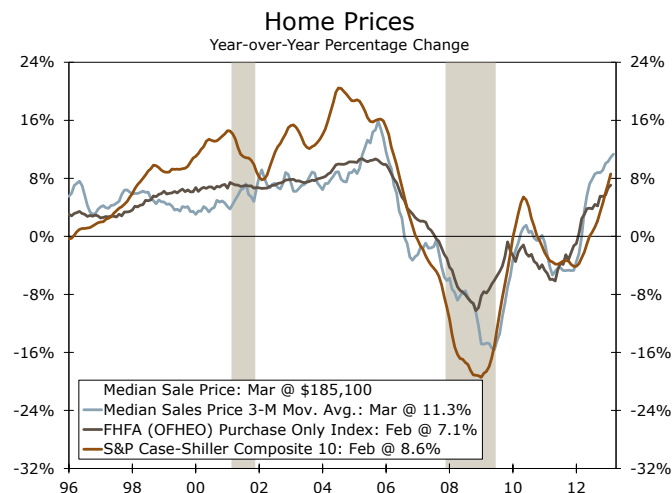
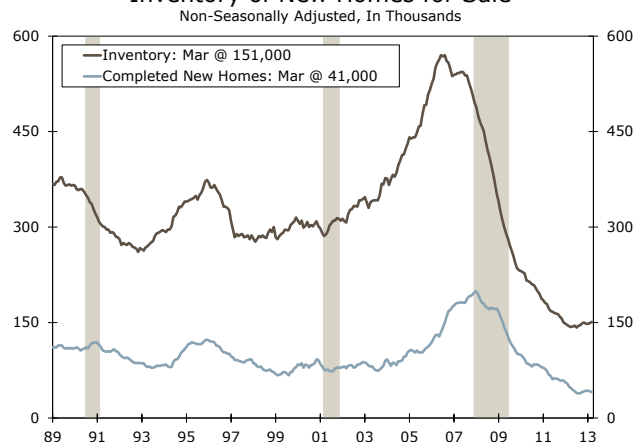


Source: NAHB, U.S. Department of Commerce
and Wells Fargo Securities, LLC

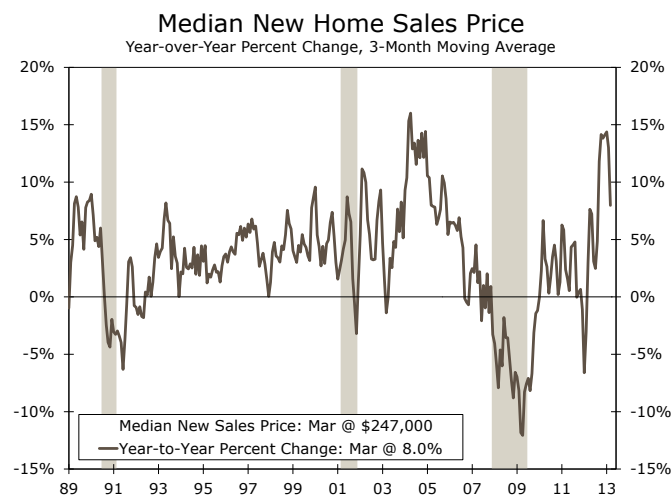
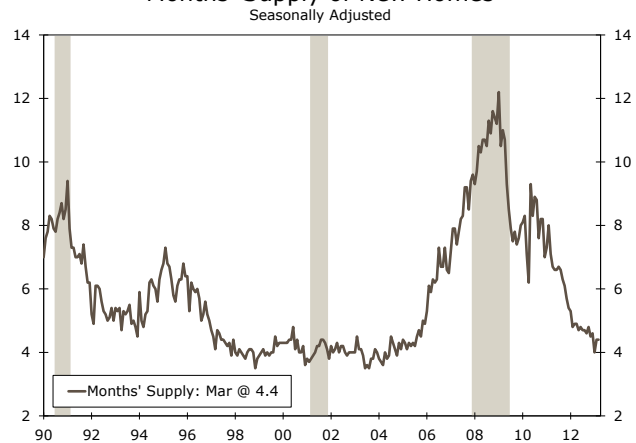
New Home Sales



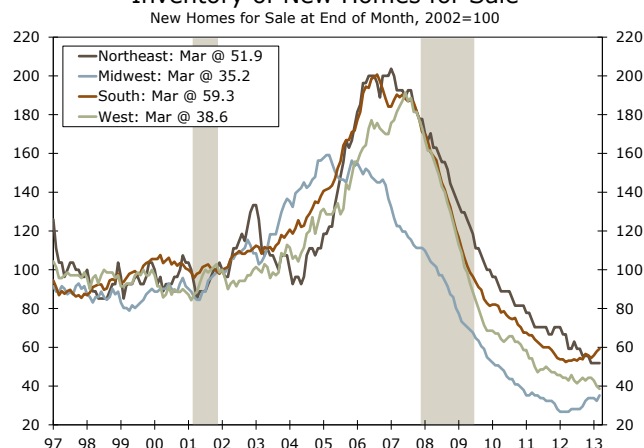
Inventory of New Homes for Sale



Months' Supply of New Homes



Inventory of New Homes for Sale

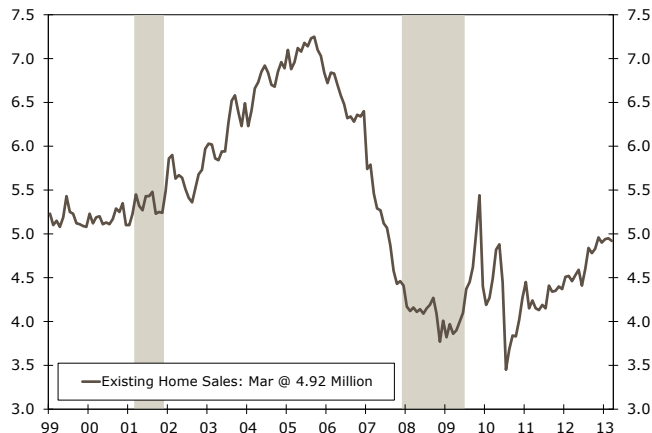


Source: U.S. Department of Commerce, S&P, FHFA
and Wells Fargo Securities, LLC

Existing Home Sales

Existing Home Resales

Seasonally Adjusted Annual Rate - In Millions



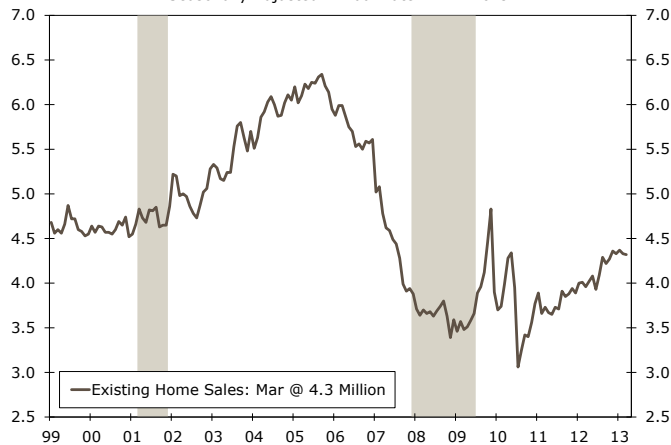
Inventory of Existing Homes for Sale

Existing Homes for Sale at End of Month - In Thousands



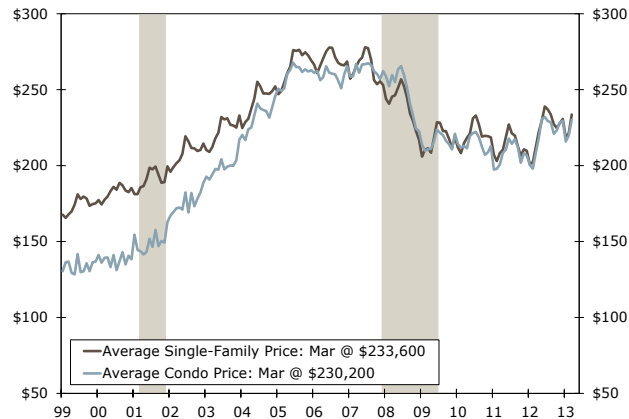
Existing Single-Family Home Resales

Seasonally Adjusted Annual Rate - In Millions



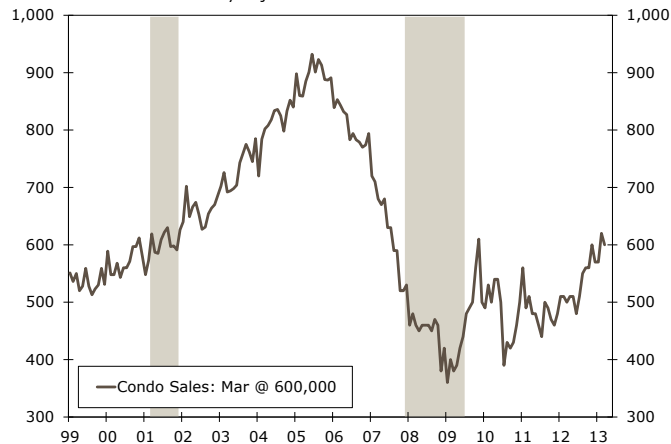
Single-Family Home vs. Condo Prices

In Thousands



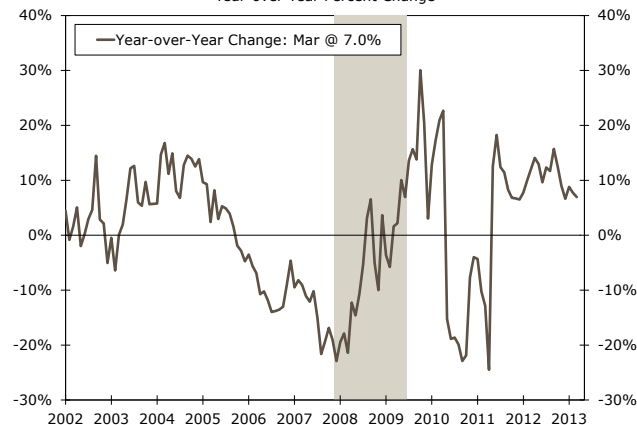
Existing Condominium Resales

Seasonally Adjusted Annual Rate - In Thousands



Pending Home Sales Index

Year-over-Year Percent Change



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

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