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Economics Group

Special Commentary

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Housing Data Wrap-Up: October 2014

The Housing Recovery Remains in Slow Motion

Home sales improved modestly during the latter part of the summer and have gone into the fall with solid momentum. After jumping 15.3 percent in August, new home sales inched up an additional 0.2 percent in September. New home sales in September are up 22.6 percent from where they were one year ago. As with many of the housing numbers of late, conditions could have been better. Sales were revised lower in June, July and August by a total of 71,000 units. The strong year-over-year comparisons mostly reflect exceptionally weak sales during this time last year. Conditions improved a bit more in the resale market, however. Sales of existing homes rose 2.4 percent in September and are now running at their highest pace in 11 months. On a year-over-year basis, sales of existing homes are running 1.9 percent ahead of their year-ago level.

The strong year-over-year comparisons mostly reflect exceptionally weak sales during this time last year.

Pending home sales also inched higher in September, rising 0.3 percent to 105. Pending sales have now remained above the key 100 point threshold for the past five months, signaling fairly strong sales during the fall months. The fall and winter months are a seasonally slow period for housing activity, however, so the seasonally adjusted data may give an impression of more activity than is actually taking place.

Home prices continued to moderate. The median price of new homes tumbled 9.7 percent in September, falling 4.0 percent below its year-ago level. The sharp drop likely reflects the increased use of discounts by builders to move inventory. The inventory of unsold new homes remains low in an absolute sense but is close to its historical norm relative to sales. Prices of existing homes also rose more modestly in September. The National Association of Realtors also reported declines in the median and average sales price in September. Once again, sellers may have discounted homes somewhat now that investor purchasers are pulling back from the market. Other measures of home prices were somewhat mixed in September but generally continue to show a slowdown. The S&P/Case-Shiller 20-City Composite Home Price Index fell 0.15 percent in August, following a 0.5 percent drop the prior month and is now up 5.6 percent from a year ago.

Figure 1

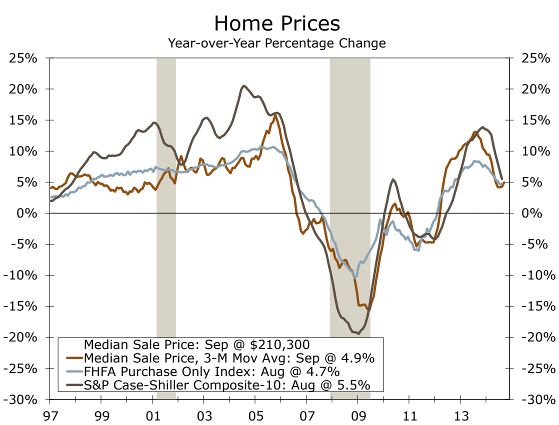
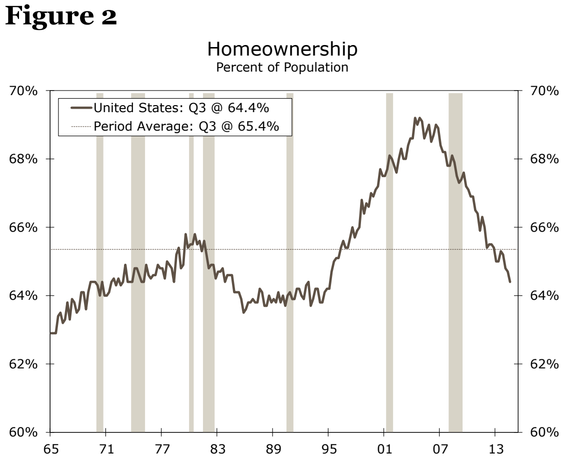


Figure 2



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

This report is available on wellsfargo.com/economics and on Bloomberg WFRE.

Much More Than Millennials Behind the Slow Motion Recovery

The homeownership rate chart now nearly perfectly identifies the bubble in homeownership that began to build during the late 1990s.

Homeownership rates continued to slide in Q3, falling to 64.4 percent, which is the lowest reading since 1995. The homeownership rate chart (Figure 2 on previous page) now nearly perfectly identifies the bubble in homeownership that began to build during the late 1990s, when credit terms were eased up aggressively in an effort to promote homeownership. In hindsight, those efforts took away much of the market discipline that had long been a hallmark of the U.S. housing market. First-time homebuyers tended to save for a down payment, forgoing current consumption, and giving them a greater stake in the home buying process. When the market shifted toward financial products that required little or no down payment, home buyers were less inclined to do their due diligence on builders, neighborhoods, school districts, etc., which historically have been key characteristics to consider when buying a home. That breakdown in discipline contributed to the poor outcomes many buyers experienced, and many now remain chagrined to the point that they are unlikely to buy a home anytime soon.

Much of the discussion about declining homeownership rates continues to revolve around the lack of home buying by younger generations. Homeownership rates for individuals under 35 has clearly tanked, tumbling 7.6 points since peaking in June 2004 to just 36 percent in Q3. The drop in homeownership among younger households is not surprising. These generations came of age in the midst of the financial crisis into an incredibly weak job market. Of those that found a job, many carried large student loan debts and were in no position to buy a home. Even those better off have shown less interest in buying a home. The Millennials place a high value on mobility, particularly since so many have found themselves working in jobs they did not like and in cities they did not necessarily want to live in. The key to reversing this trend is a stronger job market.

We believe the missing link in the housing recovery is the lack of strong job growth.

We believe the missing link in the housing recovery is the lack of strong job growth. While overall employment has surpassed its pre-recession level, much of the rebound in employment has been in part-time jobs. Our bottom left-hand chart shows a comparison of employment growth by employment status. On an overall basis, there are 1.1 million more people working today than prior to the recession. The gain has come entirely in part-time employment, which has added 3.7 million workers. There are still 2.6 million fewer people working full-time today then there were prior to the recession. Obviously, full-time workers are more likely to buy a house than part-time workers and the 2.6 million worker gap from pre-recession employment levels likely explains a great deal of the slow motion recovery in the housing market. Homeownership rates have fallen in every age cohort except those households headed by persons aged 65 and over. Fortunately, we see the employment market improving during the coming years, with slightly less overall job growth but a better mix of full-time versus part-time jobs. However, even with stronger job growth, we believe that the greater preference for apartment living still has legs to it and have slightly raised our forecast for multi-family starts over the forecast period.

Figure 3

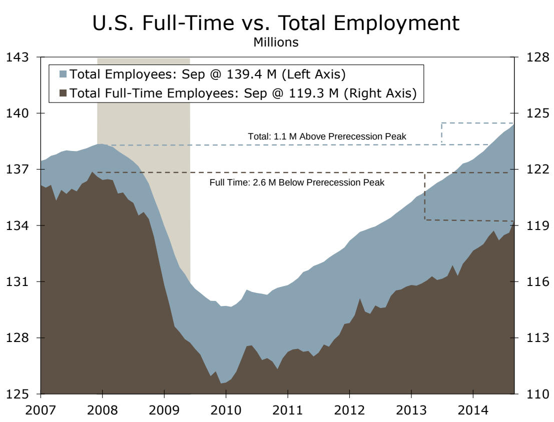
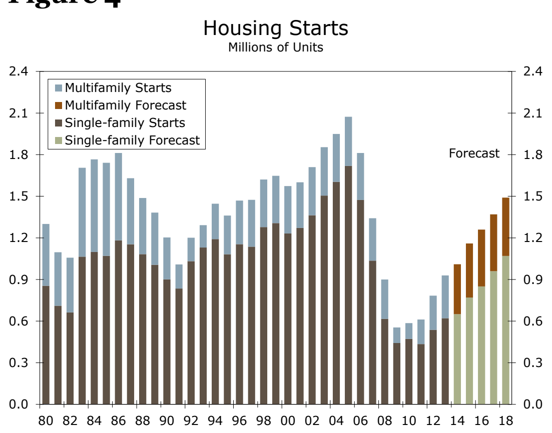


Figure 4



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

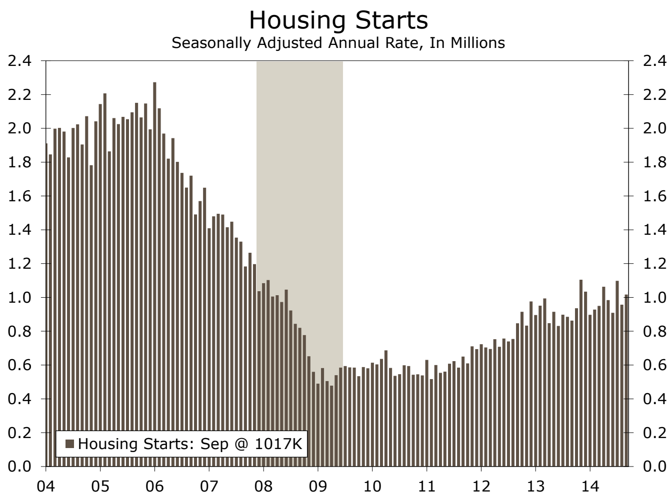
National Housing Outlook

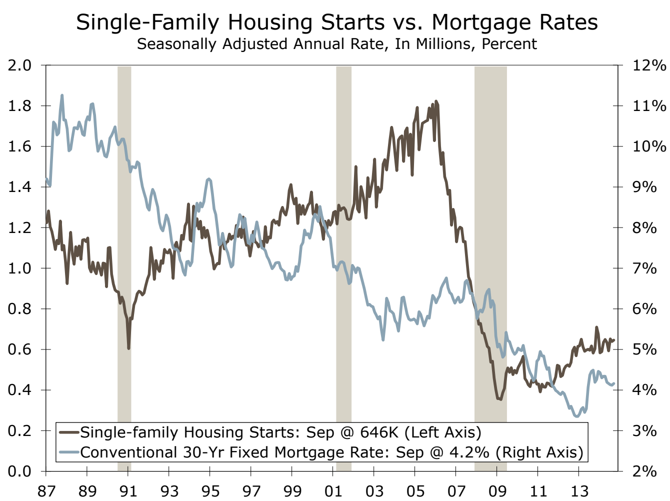
							Forecast		
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP, percent change	-0.3	-2.8	2.5	1.6	2.3	2.2	2.2	2.8	3.0
Nonfarm Employment, percent change	-0.6	-4.3	-0.7	1.2	1.7	1.7	1.8	1.9	1.7
Unemployment Rate	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.7	5.4
Home Construction									
Total Housing Starts, in thousands	905.5	553.9	586.9	608.8	780.6	931.1	1,010.0	1,160.0	1,260.0
Single-Family Starts, in thousands	622.0	445.0	471.1	430.5	535.3	617.7	650.0	770.0	850.0
Multifamily Starts, in thousands	283.5	108.9	115.8	178.3	245.3	307.2	360.0	390.0	410.0
Home Sales									
New Home Sales, Single-Family, in thousands	485.0	374.0	321.0	305.0	369.0	429.0	450.0	530.0	590.0
Total Existing Home Sales, in thousands	4,110.0	4,340.0	4,190.0	4,260.0	4,660.0	5,090.0	4,960.0	5,180.0	5,430.0
Existing Single-Family Home Sales, in thousands	3,660.0	3,870.0	3,708.0	3,787.0	4,128.0	4,484.0	4,380.0	4,540.0	4,770.0
Existing Condominium & Townhouse Sales, in thousands	450.0	464.0	474.0	477.0	528.0	603.0	580.0	640.0	660.0
Home Prices									
Median New Home, $ Thousands	232.1	216.7	221.8	227.2	245.2	268.9	275.7	283.2	291.2
Percent Change	-6.4	-6.6	2.4	2.4	7.9	9.7	2.5	2.7	2.8
Median Existing Home, $ Thousands	198.1	172.5	172.9	166.1	176.8	197.1	207.0	212.0	216.0
Percent Change	-9.5	-12.9	0.2	-3.9	6.4	11.5	5.0	2.4	1.9
FHFA (OFHEO) Home Price Index (Purch Only), Pct Chg	-7.9	-5.7	-3.0	-4.1	3.4	7.6	5.4	3.3	3.0
Case-Shiller C-10 Home Price Index, Percent Change	-16.7	-12.9	2.1	-3.5	0.3	11.7	8.4	3.8	3.3
Interest Rates - Annual Averages									
Prime Rate	4.88	3.25	3.25	3.25	3.25	3.25	3.25	3.63	5.00
Ten-Year Treasury Note	3.66	3.26	4.25	2.91	1.80	2.35	2.61	2.86	3.60
Conventional 30-Year Fixed Rate, Commitment Rate	6.04	5.04	4.69	4.46	3.66	3.98	4.22	4.46	5.20
One-Year ARM, Effective Rate, Commitment Rate	5.18	4.71	3.79	3.03	2.69	2.61	2.43	2.70	3.00

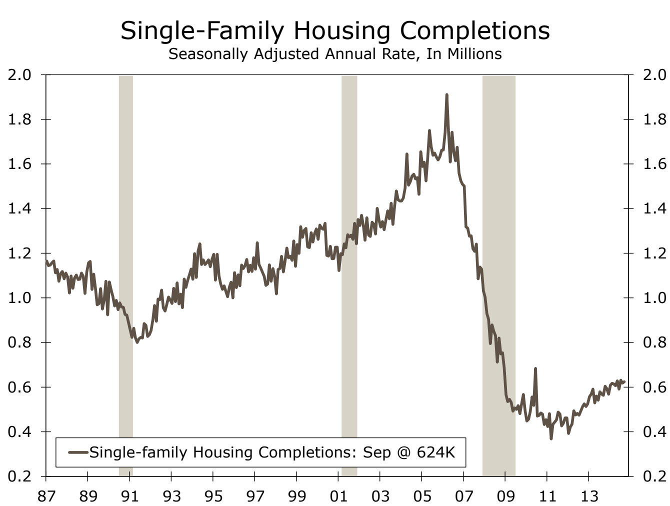
Forecast as of: November 5, 2014

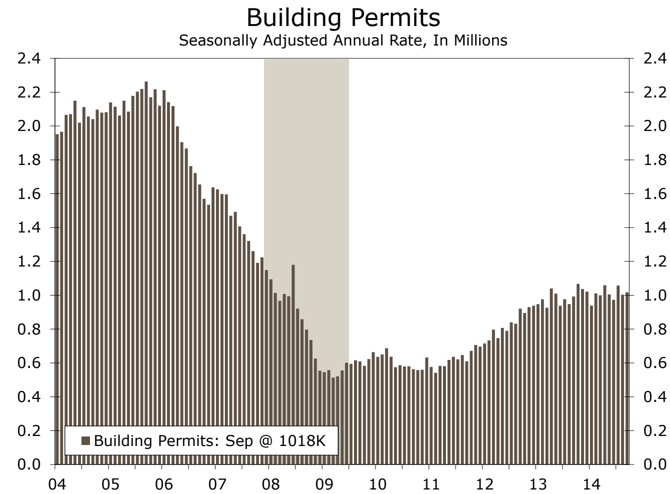
Source: Federal Reserve Board, FHFA, MBA, NAR, S&P, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

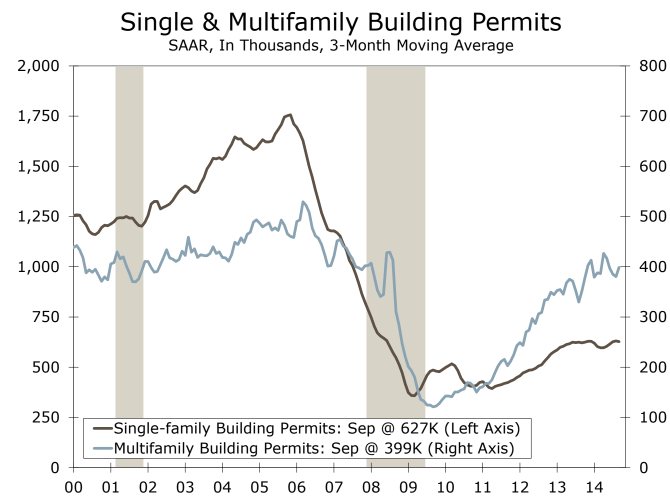
Housing Starts

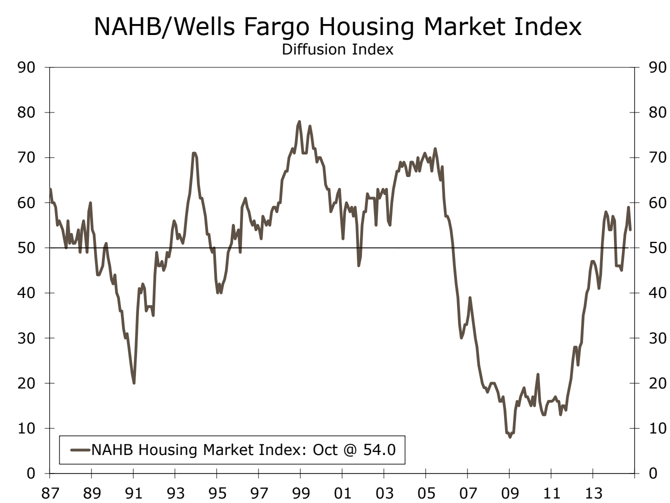








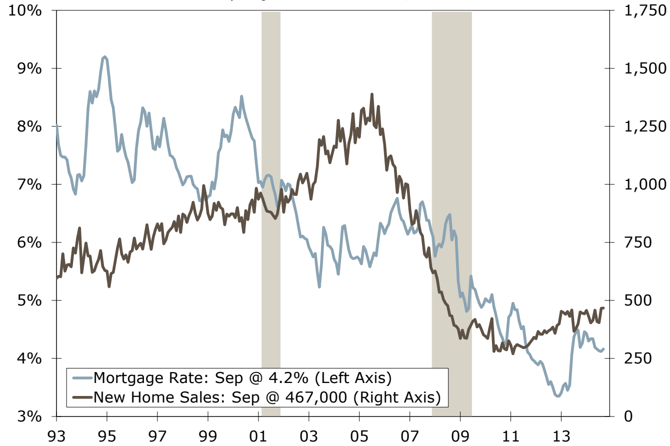




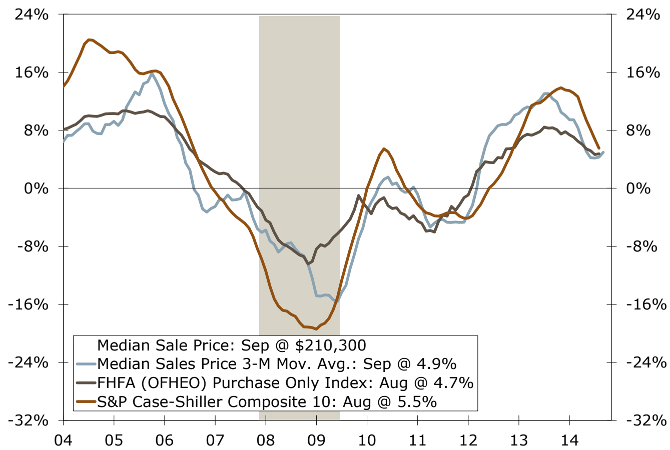
Source: NAHB, U.S. Department of Commerce and Wells Fargo Securities, LLC

New Home Sales

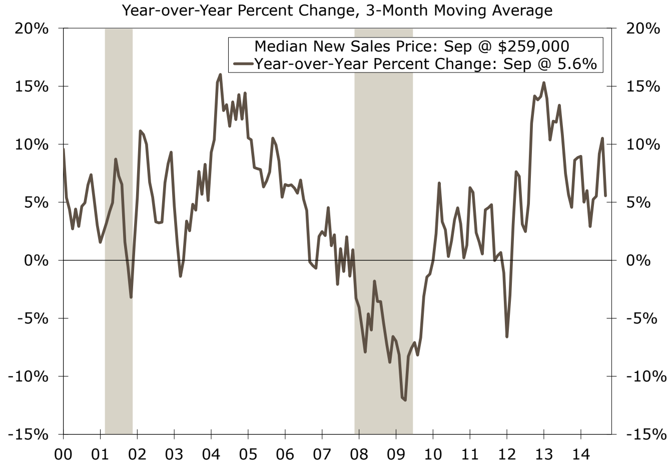
New Home Sales vs. Mortgage Rates
Seasonally Adjusted Annual Rate, In Thousands



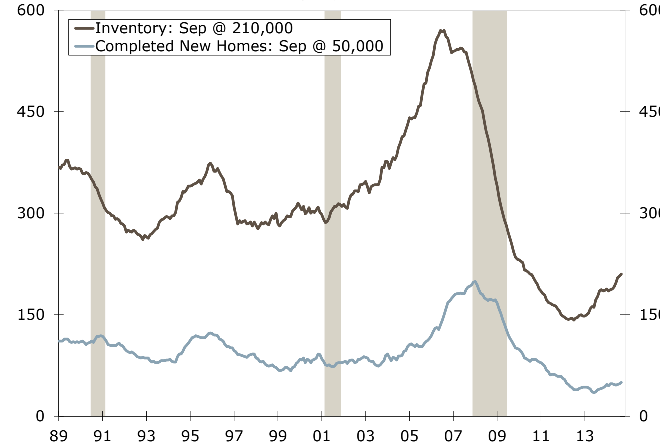
Home Prices
Year-over-Year Percentage Change



Median New Home Sales Price
Year-over-Year Percent Change, 3-Month Moving Average

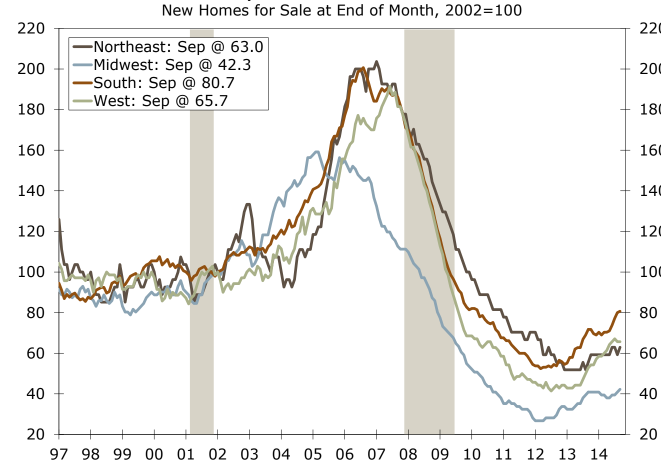


Inventory of New Homes for Sale
Non-Seasonally Adjusted, In Thousands



Months' Supply of New Homes
Seasonally Adjusted

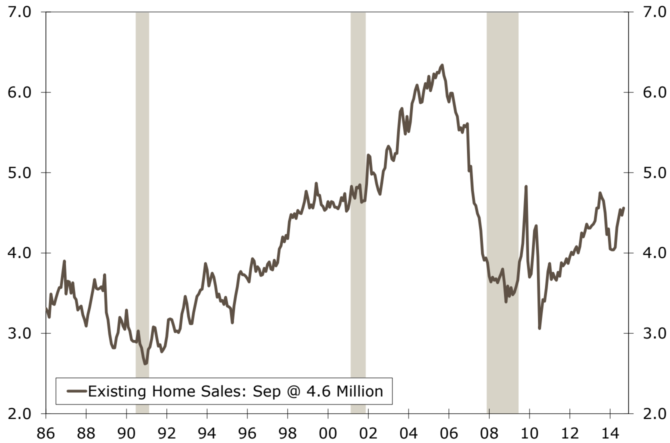
Inventory of New Homes for Sale
New Homes for Sale at End of Month, 2002=100



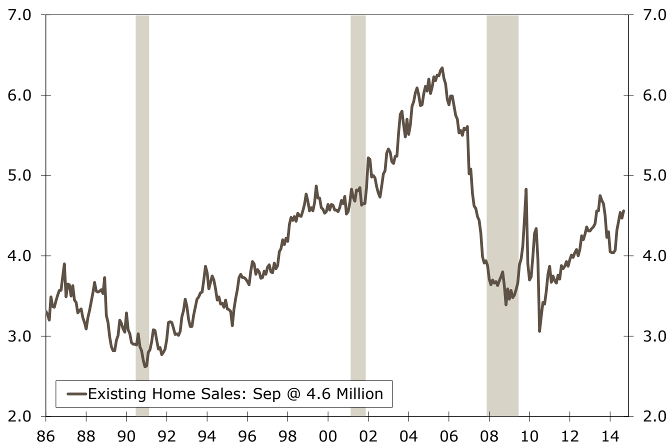
Source: U.S. Department of Commerce, MBA, S&P, FHFA, FHLMC and Wells Fargo Securities, LLC

Existing Home Sales

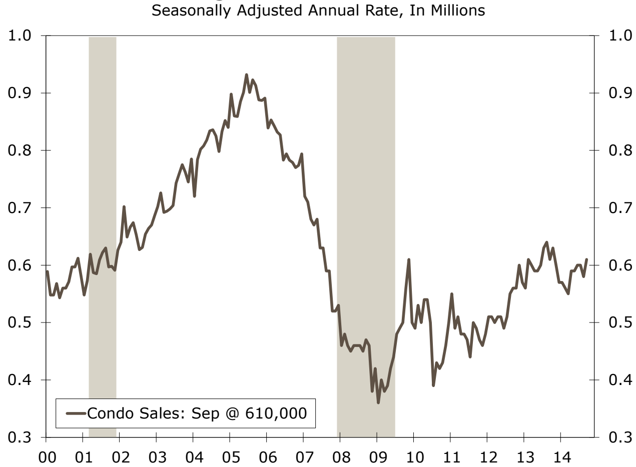
Existing Single-Family Home Resales
Seasonally Adjusted Annual Rate, In Millions



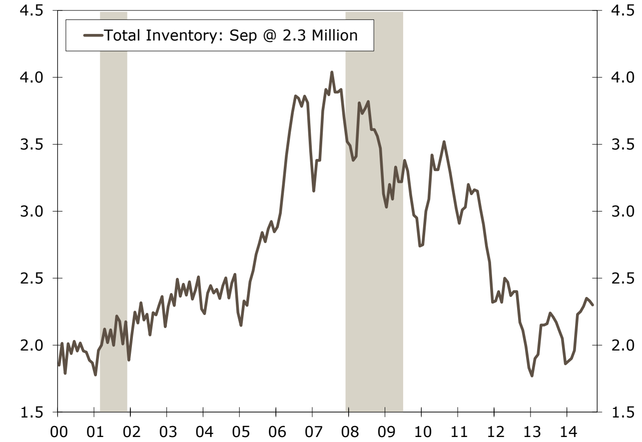
Existing Single-Family Home Resales
Seasonally Adjusted Annual Rate, In Millions



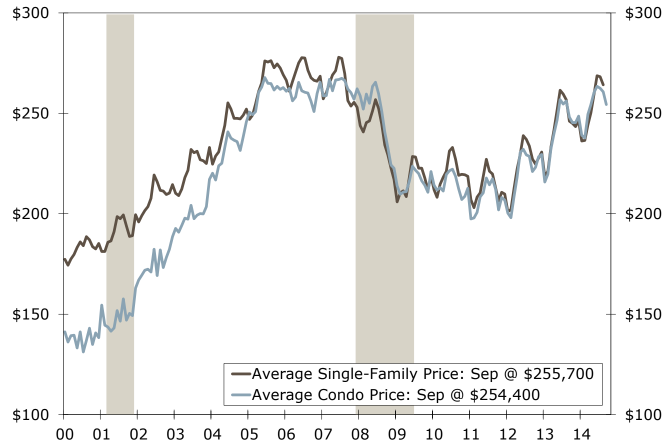
Existing Condominium Resales
Seasonally Adjusted Annual Rate, In Millions



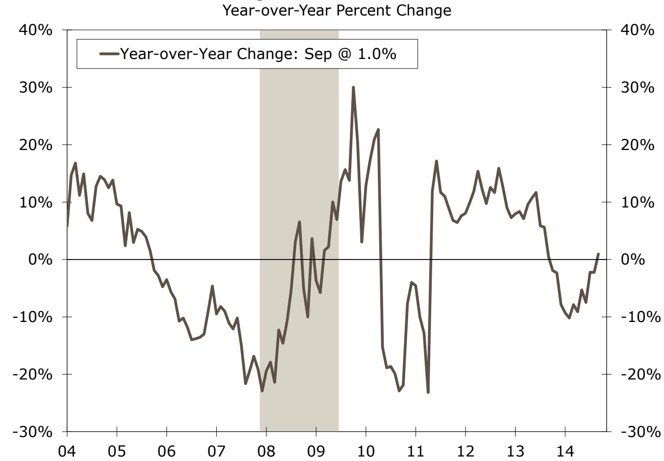
Inventory of Existing Homes for Sale
Existing Homes for Sale at End of Month, In Millions



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

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