September 30, 2015

Economics Group

Special Commentary

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Anika R. Khan, Senior Economist
anika.khan@wellsfargo.com • (704) 410-3271
Misa Batcheller, Economic Analyst
misa.n.batcheller@wellsfargo.com • (704) 410-3060

Housing Chartbook: September 2015

Housing Continues to Show Improvement

Continued turmoil in the global financial markets and slower growth overseas continues to fuel doubts about the U.S. economic outlook. Overall growth has held up relatively well, however, with real GDP expanding at an upwardly revised 3.9 percent annual rate during the second quarter and nonfarm employment continuing to post solid gains. Conditions have improved so much that several Federal Reserve Bank presidents and Federal Reserve Board governors have pointedly noted that they feel the Federal Reserve should boost short-term interest rates before the end of this year. Such a move would hardly come as a surprise, as most forecasts, including ours, have incorporated at least one quarter-point increase in the federal funds rate for 2015. That said, a rate hike is still far from a sure thing and will depend upon economic conditions leading up to the next two Federal Open Market Committee (FOMC) meetings.

Continued turmoil in the global financial markets and slower growth overseas continues to fuel doubts about the U.S. economic outlook.

Assessing the strength of the U.S. economy is not an easy task. GDP growth has been unusually volatile in recent years, with weakness during the early and latter parts of the year and robust gains during the spring and summer. The pattern has defied the statistical agencies best efforts to correct for ordinary seasonal variations. Swings in economic growth have been amplified by unusually harsh winter weather, port disruptions, government shutdowns and possibly some echo from the Great Recession, which has led to more pronounced seasonal swings in measured economic activity. As we sift through the data, one trend seems abundantly clear–the further you get away from the global economic slowdown the better the economy seems to be.

The four areas most directly affected by the global economic slowdown–energy, mining, agriculture and manufacturing–collectively account for 16 percent of real GDP and accounted for 20 percent of real GDP growth during the first five years of the recovery. These four sectors are exceptionally capital-intensive, however, and account for a smaller share of employment.

Figure 1

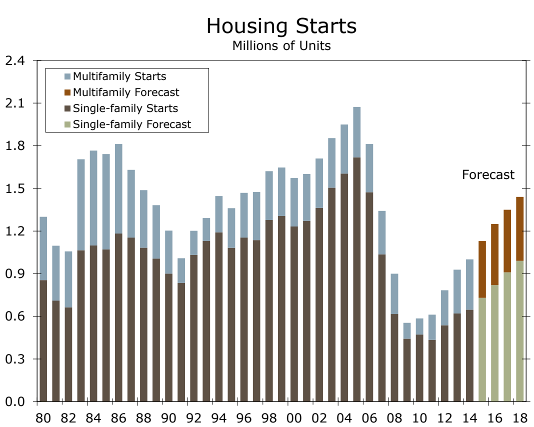
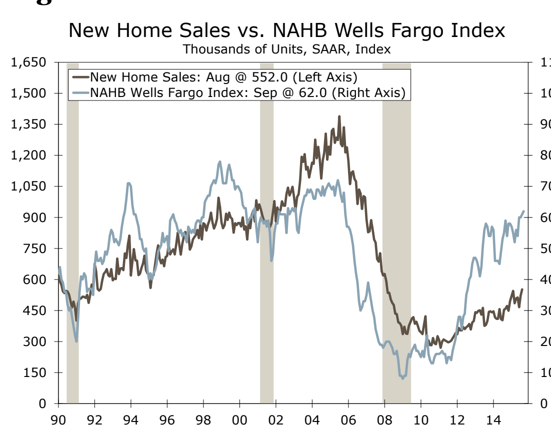


Figure 2



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

Together we'll go far

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

Domestic Economic Conditions Are More Important for Housing Demand

The further you get away from global economic conditions the better the economy looks and it is hard to find an industry that is more insulated from the ups and downs of the global economy than housing. The demand for housing is largely derived from the underlying growth in local economies around the country. The past couple of years have shown steady improvement throughout most of the country, with unemployment rates falling in 365 of the nation's 387 metropolitan areas over the year. Of the 51 metropolitan areas with a 2010 Census population of 1 million or more, Austin-Round Rock, TX and Minneapolis-St. Paul-Bloomington, MN-WI had the lowest jobless rates in August, at 3.2 percent and 3.3 percent, respectively. San Jose, CA, Charlotte, NC and Portland, OR posted the largest year-over-year job growth, with employment rising 5.5 percent, 4.0 percent and 4.0 percent, respectively. The largest year-to-year job gains were in New York City, Dallas and Los Angeles, which posted gains of 127,000 jobs, 84,900 jobs and 76,300 jobs, respectively.

The demand for housing is largely derived from the underlying growth in local economies around the country.

The increased strength and improving breadth of job growth has led to a fairly dramatic increase in household formations across the country. So far, nearly all of the growth in households has shown up in the rental market but that appears to be changing. Homebuilders continue to report strengthening demand, particularly from first-time home buyers and retirees. Demand for apartments remains exceptionally strong, however, particularly in markets that have experienced strong job growth in recent years. The improvement in employment conditions has led to an increase in state-to-state migration. Many new arrivals tend to rent for some period of time before buying, adding further fuel to the apartment boom. The overall apartment vacancy rate was just 4.2 percent during the second quarter of 2015, roughly unchanged from a year earlier.

We continue to closely monitor housing markets in Texas and the rest of the energy patch as well as other major metropolitan areas with outsized exposure to the slowing global economy. Some areas have already felt a significant effect on employment, but most are fairly small metropolitan areas. The largest year-over-year job losses have been in Moline-Davenport-Rock Island, IA-IL, Lafayette, LA and Peoria, IL. All of have been adversely affected by weakening commodity prices and the related impact on manufacturers located in their area. The slowdown here, however, has little impact on housing, as these regions have seen little population growth in recent years.

While uncertainty about the global economy and interest rates has increased, we remain optimistic about housing.

While uncertainty about the global economy and interest rates has increased, we remain optimistic about housing. The fundamentals continue to improve and interest rates remain near historic lows. Tight supplies present somewhat of a hurdle, however, and have allowed prices to rebound much faster than incomes have risen. However, higher prices have also made suburban residential development more attractive. We expect homebuilding to strengthen next year, even if the global economic slowdown winds up taking an even larger bite out of U.S. growth in 2016.

Figure 3

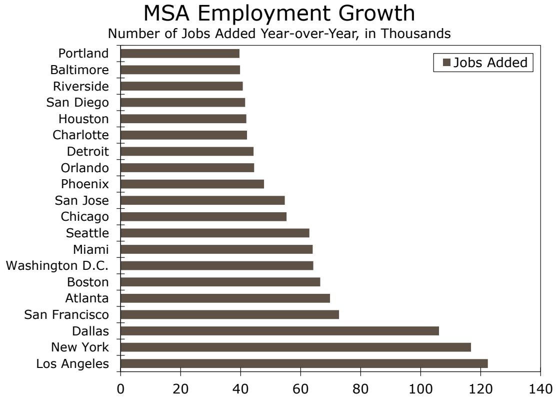
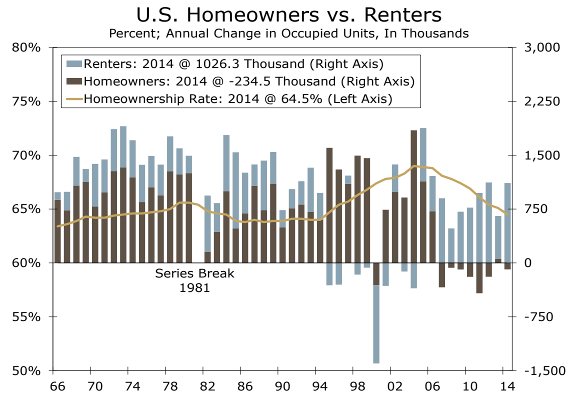


Figure 4



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

National Housing Outlook

								Forecast		
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Real GDP, percent change	-0.3	-2.8	2.5	1.6	2.3	2.2	2.4	2.4	2.6	2.4
Nonfarm Employment, percent change	-0.6	-4.3	-0.7	1.2	1.7	1.7	1.9	1.8	1.7	1.5
Unemployment Rate	5.8	9.3	9.6	8.9	8.1	7.4	6.2	5.3	4.8	4.5
Home Construction										
Total Housing Starts, in thousands	905.5	553.9	586.9	608.8	780.6	924.9	1003.3	1,120.0	1,250.0	1,350.0
Single-Family Starts, in thousands	622.0	445.0	471.1	430.5	535.3	617.7	647.8	720.0	820.0	910.0
Multifamily Starts, in thousands	283.5	108.9	115.8	178.3	245.3	307.2	355.5	400.0	430.0	440.0
Home Sales										
New Home Sales, Single-Family, in thousands	485.0	374.0	321.0	305.0	369.0	429.0	437.0	540.0	630.0	700.0
Total Existing Home Sales, in thousands	4,110.0	4,340.0	4,190.0	4,260.0	4,660.0	5,090.0	4,940.0	5,370.0	5,500.0	5,500.0
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	4,344.0	4,750.0	4,850.0	4,850.0
Existing Condominium & Townhouse Sales, in thousands	450.0	464.0	474.0	477.0	528.0	603.0	591.0	620.0	650.0	650.0
Home Prices										
Median New Home, $ Thousands	232.1	216.7	221.8	227.2	245.2	268.9	282.8	296.0	308.0	318.0
Percent Change	-6.4	-6.6	2.4	2.4	7.9	9.7	5.2	4.7	4.1	3.3
Median Existing Home, $ Thousands	198.1	172.5	172.9	166.1	176.8	197.1	208.3	218.6	227.7	236.8
Percent Change	-9.5	-12.9	0.2	-3.9	6.4	11.5	5.7	4.9	4.2	4.0
FHFA (OFHEO) Home Price Index (Purch Only), Pct Chg	-7.9	-5.7	-3.0	-4.1	3.2	7.5	5.5	4.8	4.2	3.9
Case-Shiller C-10 Home Price Index, Percent Change	-16.7	-12.9	2.1	-3.5	0.3	11.7	7.9	4.5	3.9	3.7
Interest Rates - Annual Averages										
Prime Rate	4.88	3.25	3.25	3.25	3.25	3.25	3.25	3.31	4.13	5.13
Ten-Year Treasury Note	3.66	3.26	3.22	2.78	1.80	2.35	2.54	2.22	2.61	2.92
Conventional 30-Year Fixed Rate, Commitment Rate	6.04	5.04	4.69	4.46	3.66	3.98	4.17	3.98	4.38	4.82
One-Year ARM, Effective Rate, Commitment Rate	5.18	4.71	3.79	3.03	2.69	2.61	2.44	2.50	3.00	3.65

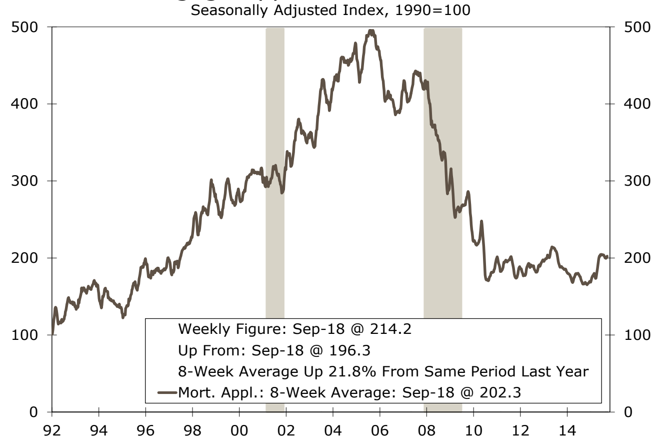
Forecast as of: September 30, 2015

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

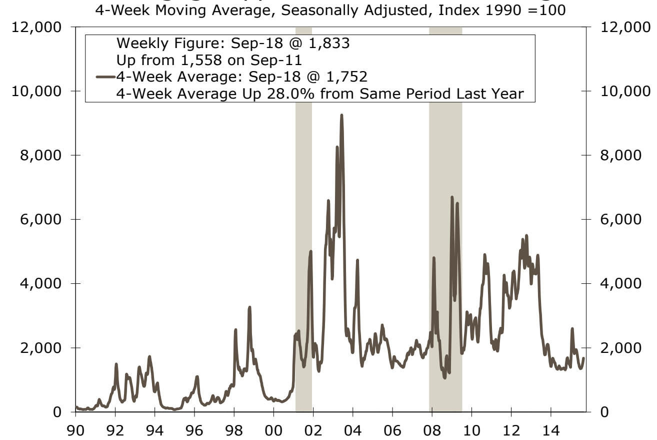
Mortgages

- Mortgage applications trended lower in August, but picked back up in September. Purchase applications are up more than 25 percent from a year ago and refinancing activity grew 18 percent in the week ending Sept. 18.
- The recent volatility in mortgage applications was largely due to the uncertainty that surrounded the September FOMC meeting (Sept. 16-17). There appears to have been a rush to lock in mortgage rates ahead of the FOMC meeting and, after soaring in the week prior to the meeting, applications fell the following week. Mortgage rates are essentially the same as they were prior to the meeting.

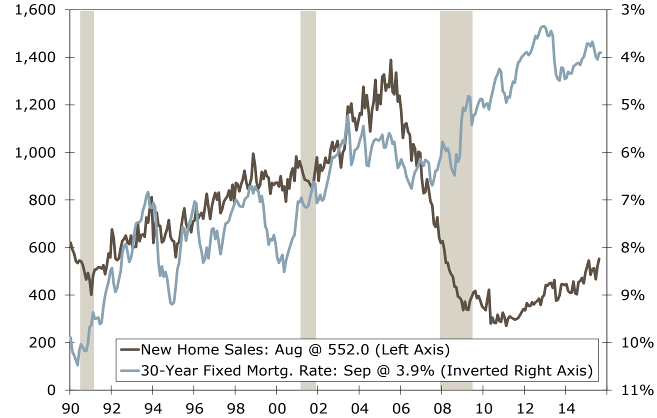
Mortgage Applications for Purchase
Seasonally Adjusted Index, 1990=100



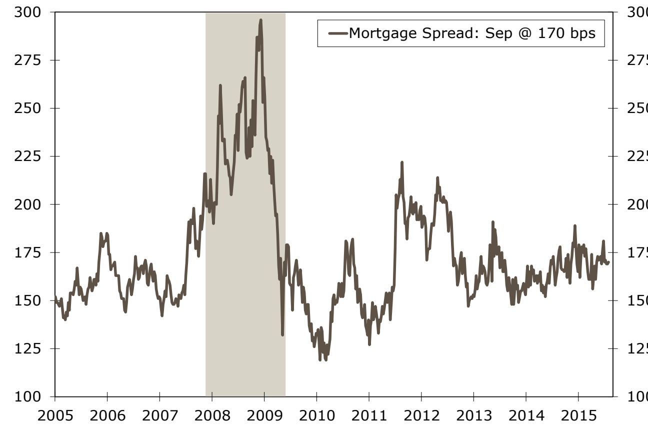
Mortgage Applications for Refinancing
4-Week Moving Average, Seasonally Adjusted, Index 1990 =100



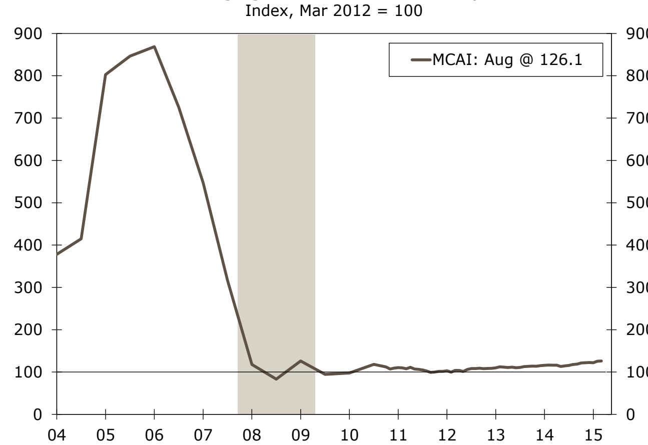
New Home Sales vs. 30-Year Mortgage Rate
Thousands, SAAR, FHLMC Conventional Fixed Rate Mortgage



Conventional Mortgage to 10-Year Treasury Spread
Basis Points



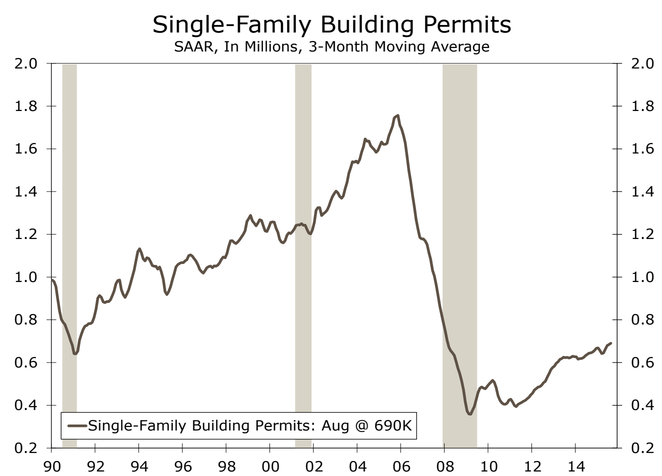
MBA Mortgage Credit Availability Index
Index, Mar 2012 = 100

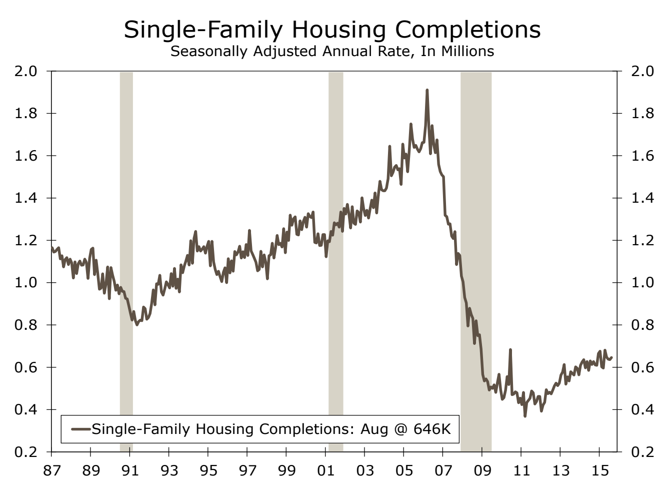


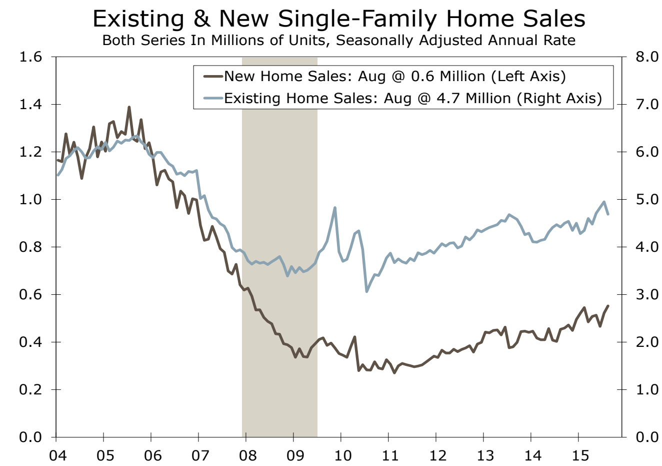
Source: Mortgage Bankers Association, FHLMC, U.S. Department of Commerce and Wells Fargo Securities, LLC

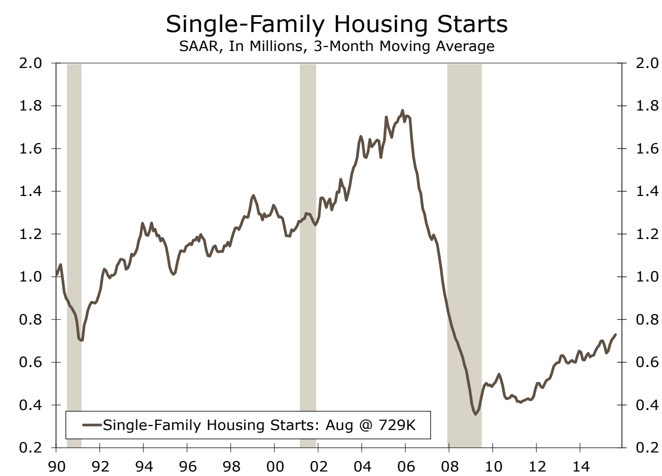
Single-Family Construction

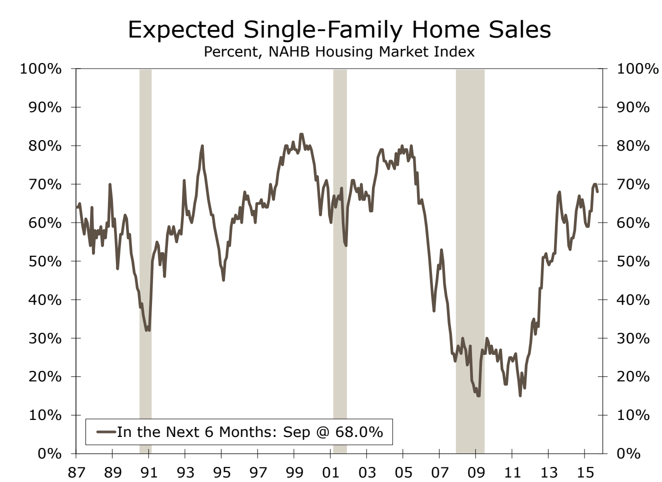
- Single-family housing starts slipped for the second straight month in August, declining to a 739,000-unit annual rate. Despite the dip, single-family starts remain 14.9 percent above their year ago level.
- There have also been encouraging signs for the outlook of residential construction. Permits for single-family homes rose to a 699,000-unit annual rate in August and are up 8.7 percent over the year. Inventories of completed new homes also remain near historic lows, at just 48,000 homes nationwide in August. The low level of completed new home inventory means that just about any incremental boost to sales will provide a lift to starts.







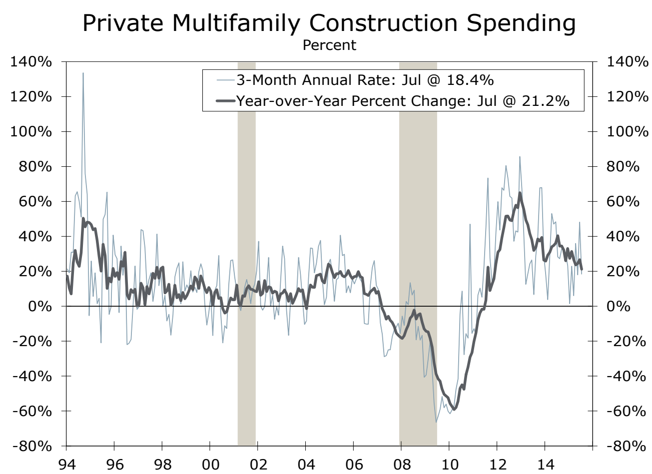


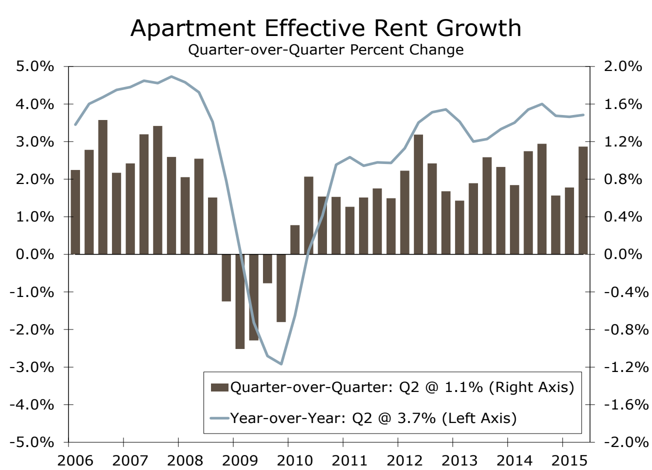


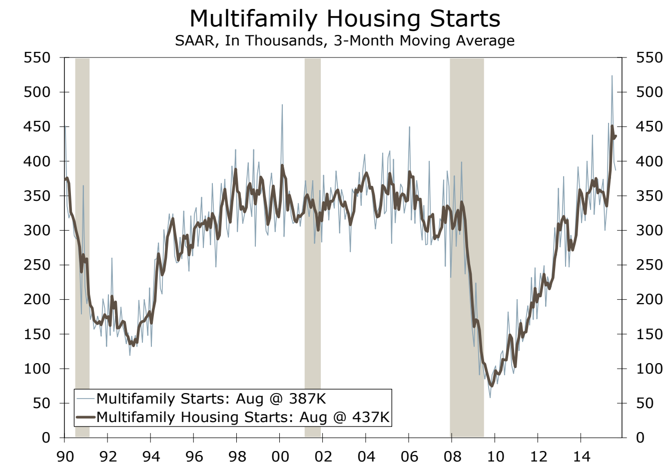
Source: U.S. Dept. of Commerce, National Association of Realtors, NAHB and Wells Fargo Securities, LLC

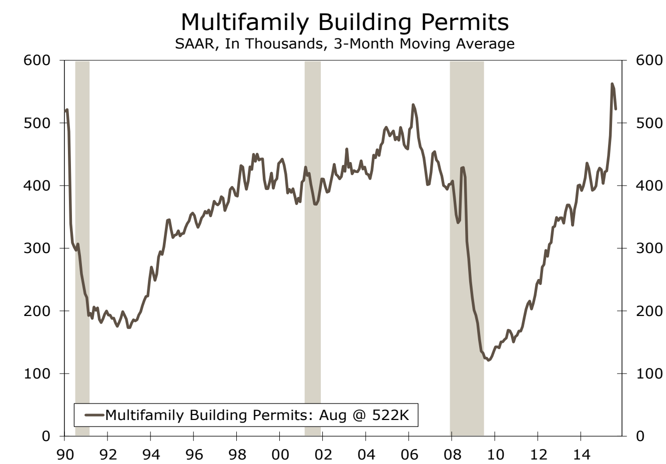
Multifamily Construction

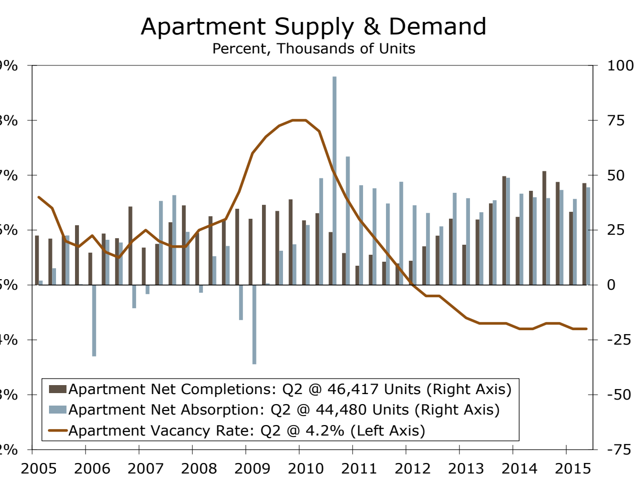
- Multifamily starts fell 3.0 percent in August following a 23.9 percent plunge the prior month. We suspect that some of this weakness could be payback for the almost 40 percent surge in June, fueled by the impending expiration of a tax break for new apartment construction in New York City. We had noted then that we would likely see a payback in coming months.
- The fundamentals for the apartment market and multifamily construction in general remain positive. Stronger job growth has helped drive household formation higher and has also encouraged more state-to-state migration, which is fueling demand for apartments. Millennials are also reaching a time in their life where owning a home becomes more likely, which is creating demand for townhomes.







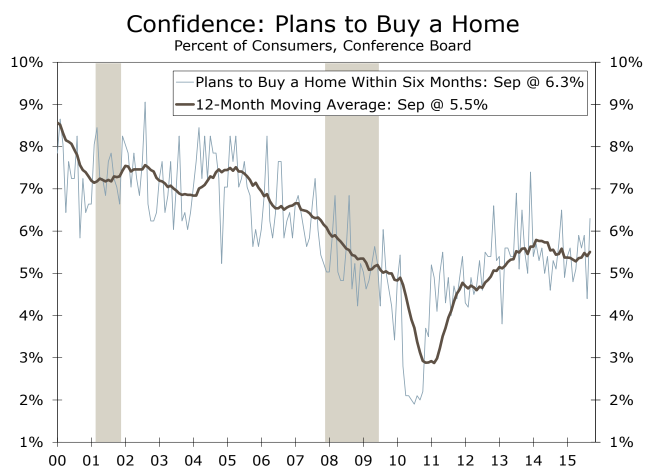


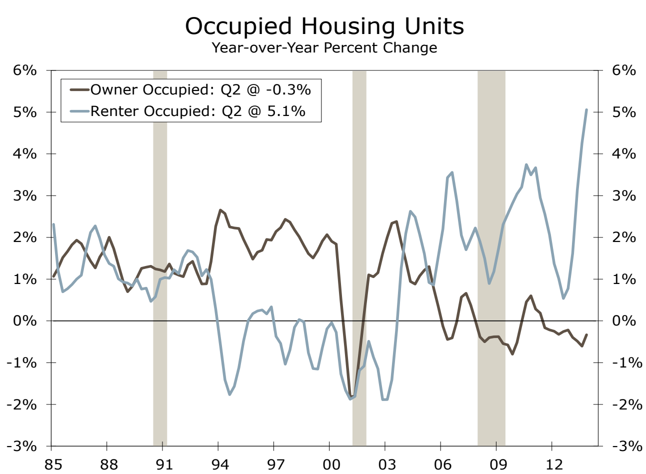


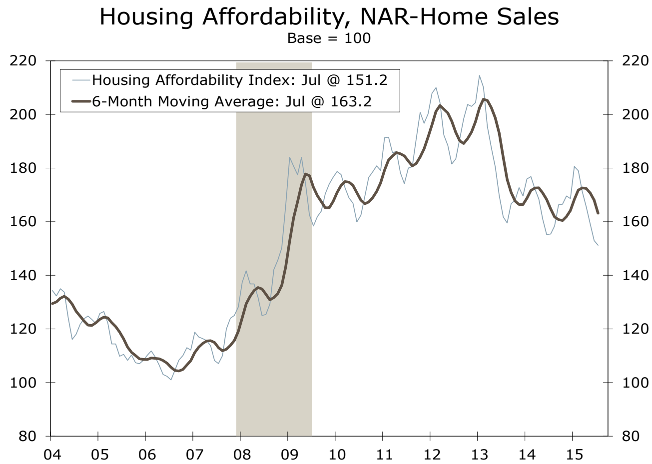
Source: U.S. Dept. of Commerce, REIS Inc. and Wells Fargo Securities, LLC

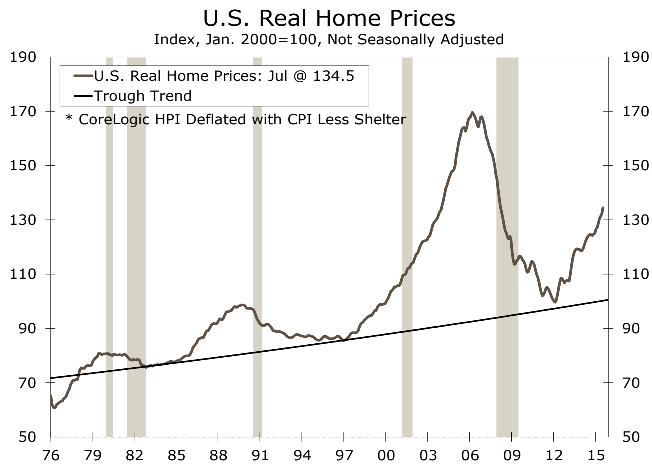
Buying Conditions

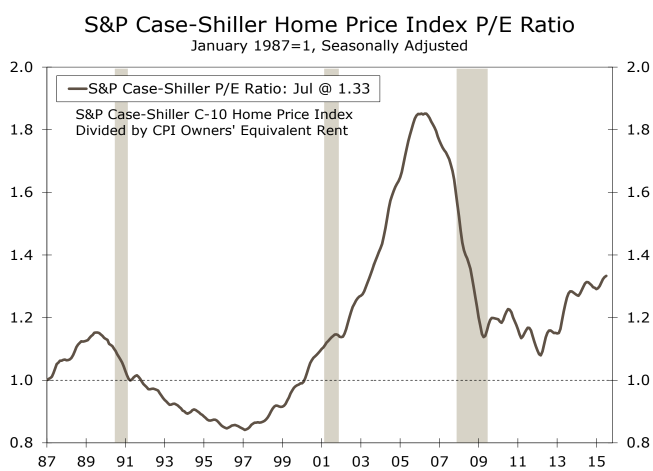
- While buying conditions remain relatively favorable, they have fallen back from the highs reached in 2013. Tight inventories and the entrance of institutional investor buyers have allowed home prices to rise faster than incomes, which has reduced affordability.
- With the Fed looking to begin normalizing its short-term target rate this year, we expect mortgage rates to gradually rise over the next few years, which will likely reduce affordability even further.
- Despite a further decline in overall housing affordability, mortgage rates should remain low relative to their historical norms. Demographics should also turn more favorable, with more Millennials forming families and buying homes.









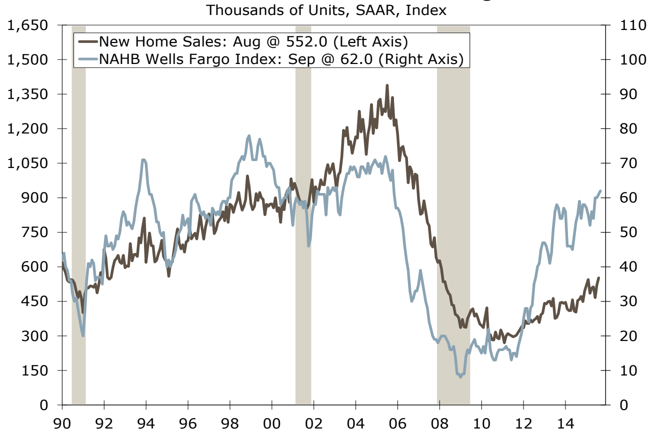


Source: CoreLogic, S&P, Federal Reserve, Conference Board, NAR, U.S. Dept. of Commerce and Wells Fargo Securities, LLC

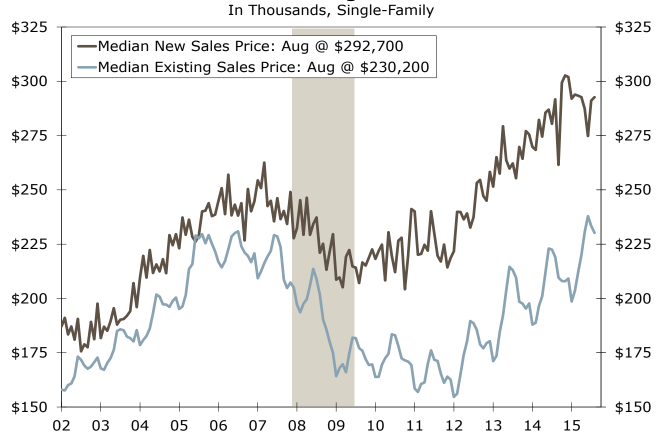
New Home Sales

- New home sales rose 5.7 percent in August to a 552,000-unit annual pace. Sales have risen in four of the past five months and are up more than 5 percent this year. The rise in sales is consistent with the NAHB/Wells Fargo Housing Market Index, which hit a new cycle high in September.
- Although inventory levels have risen moderately over the past few months, the level of completed homes inventory remains exceptionally tight. Completed inventories fell in August and remain near an all-time low at 48,000 units.
- With overall sales still historically low, builders have been focusing on higher-priced, higher-margin homes. The median sales price rose 0.3 percent over the year to $294,700 in August.

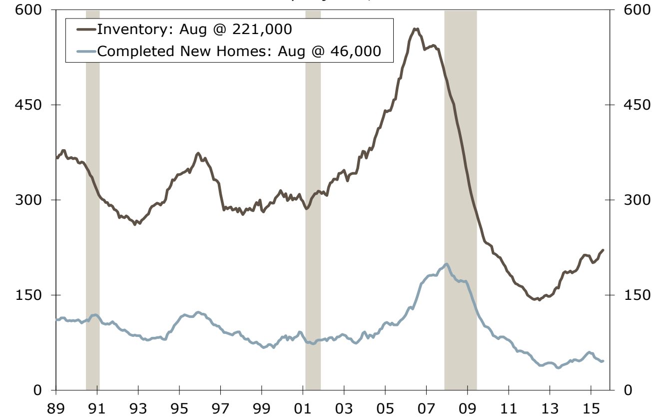
New Home Sales vs. NAHB Wells Fargo Index
Thousands of Units, SAAR, Index



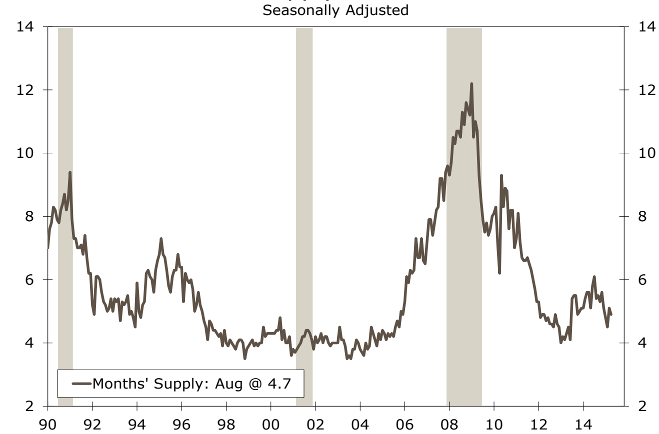
Median New & Existing Home Sale Prices
In Thousands, Single-Family



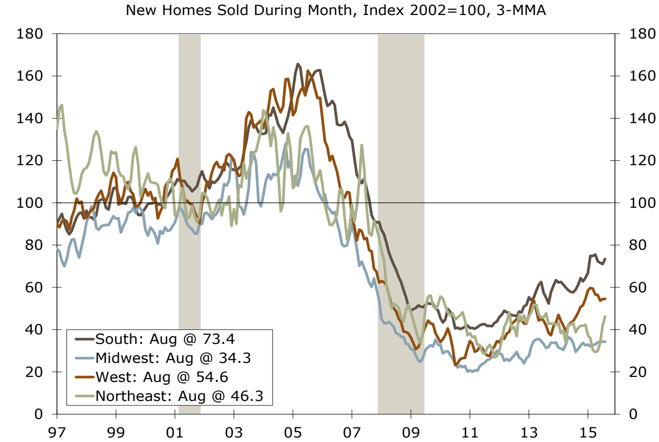
Inventory of New Homes for Sale
Non-Seasonally Adjusted, In Thousands



Months' Supply of New Homes
Seasonally Adjusted



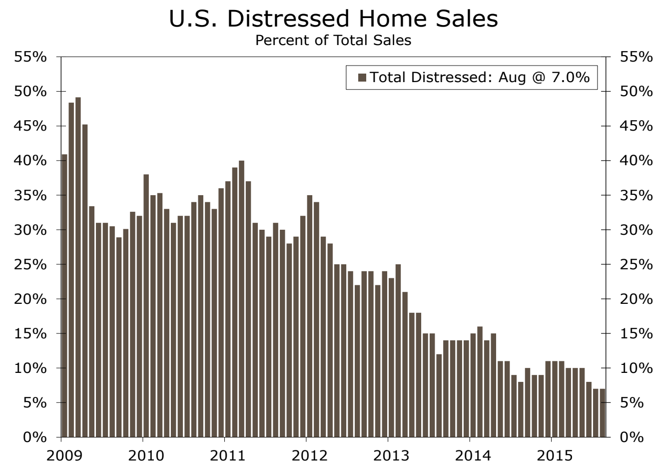
New Home Sales
New Homes Sold During Month, Index 2002=100, 3-MMA

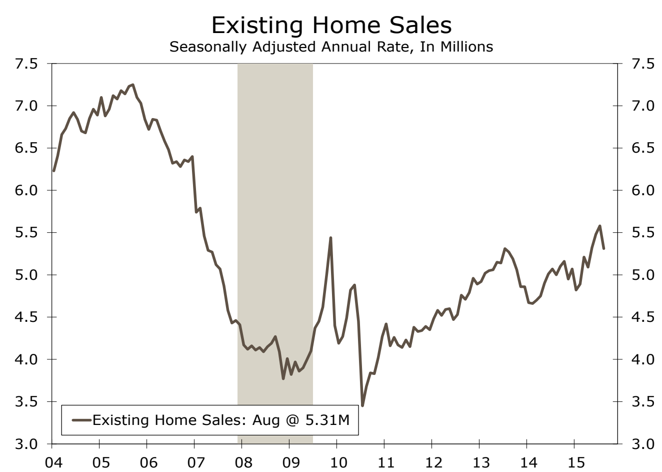


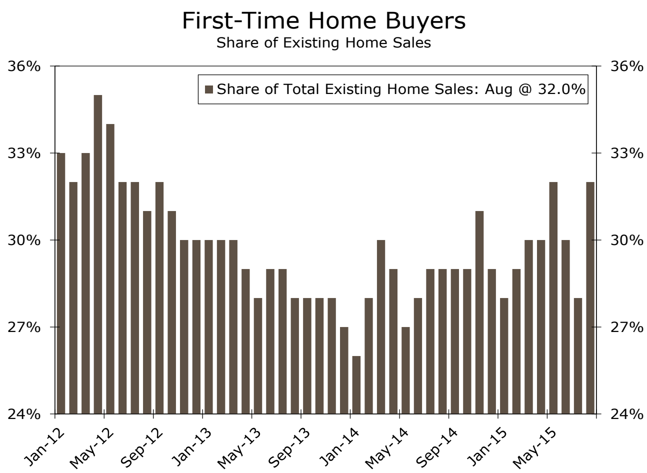
Source: U.S. Department of Commerce, National Association of Realtors and Wells Fargo Securities, LLC

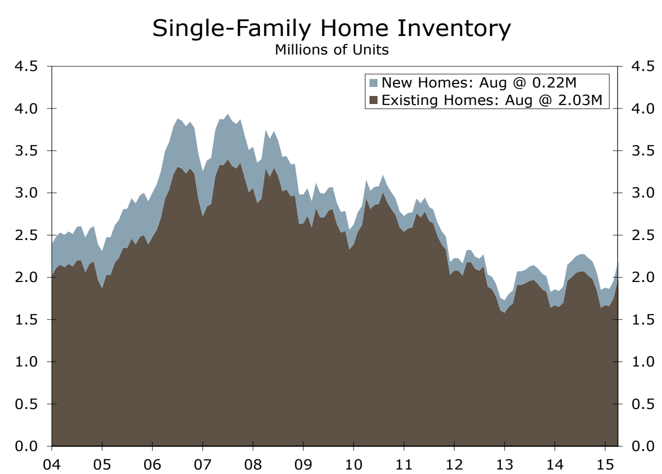
Existing Home Sales

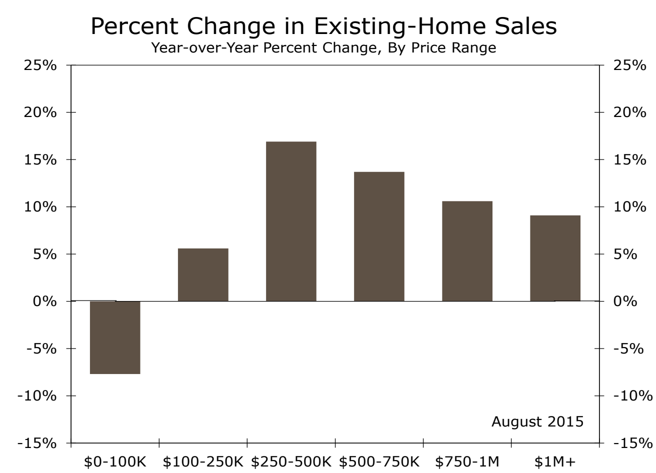
- Existing home sales slipped slightly in August, and fell to a 5.31 million-unit pace. Although sales slowed moderately, they remain up 6.2 percent over the past year.
- Inventory levels remain low relative to historical norms and declined 1.7 percent year-over-year in August. Tight supplies and rising home prices are likely keeping some potential buyers on the sideline, and restraining overall sales.
- The proportion of first-time home buyers rose to 32 percent and is back at its cycle high. The increase in first-time buyers is an encouraging sign and may indicate that the long slide in the homeownership rate is finally reaching a bottom.







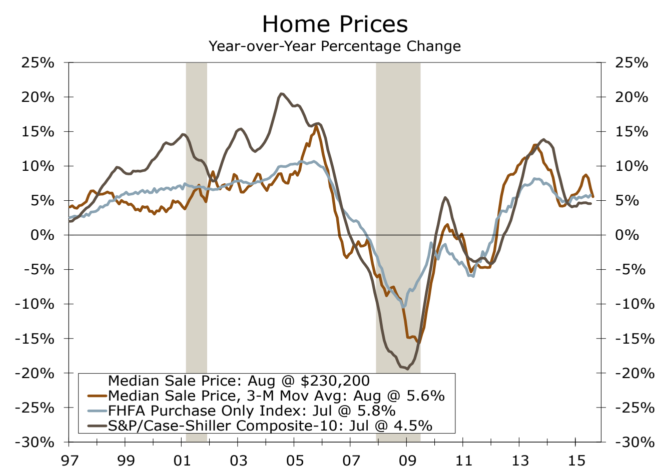


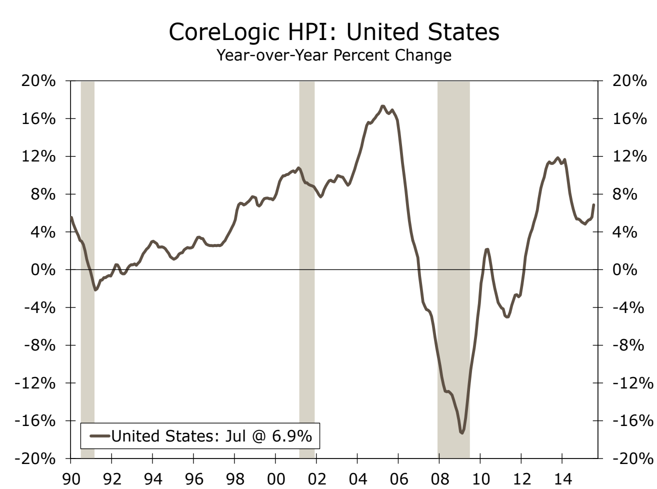


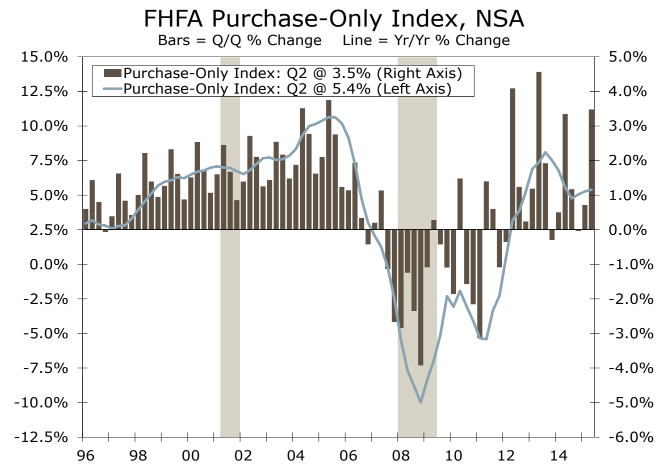
Source: NAR, U.S. Department of Commerce and Wells Fargo Securities, LLC

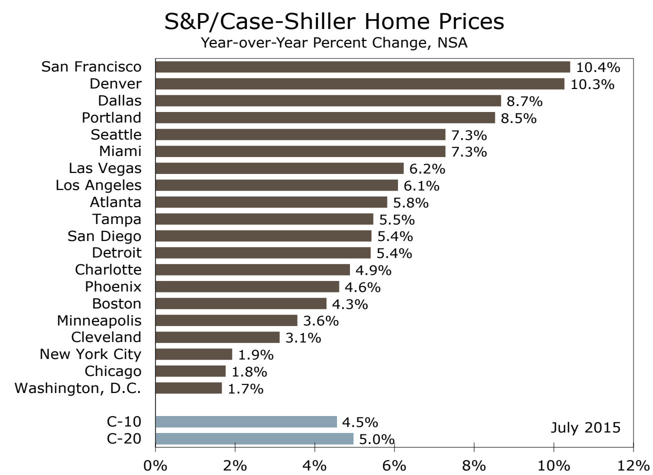
Home Prices

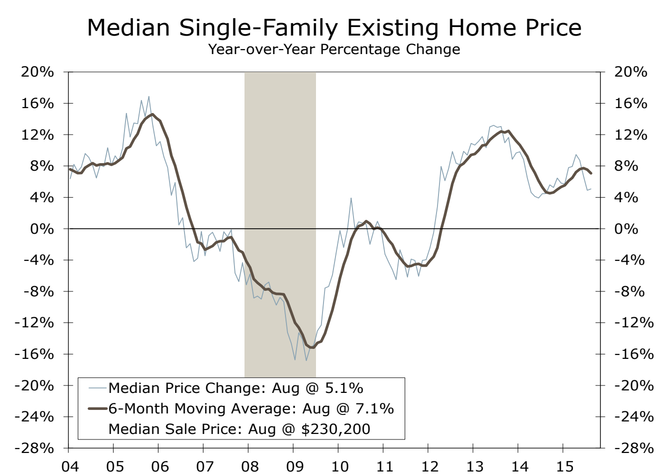
- Most measures of home price appreciation have stabilized around 5 percent year-over-year growth. According to the S&P Case Shiller 20-City Index, prices grew 5.0 percent year-over-year in July with San Francisco, Denver, Dallas and Portland reporting the largest price gains from a year earlier. On the other hand, housing markets in New York City, Chicago and Washington, D.C., saw the pace of price appreciation slow modestly.
- Some of the largest gains in home prices have been in large gateway markets, such as San Francisco, Los Angeles Seattle, Miami, New York City and Chicago. Foreign purchases have cooled a bit more recently, however, and may be contributing to the recent moderation in price appreciation.







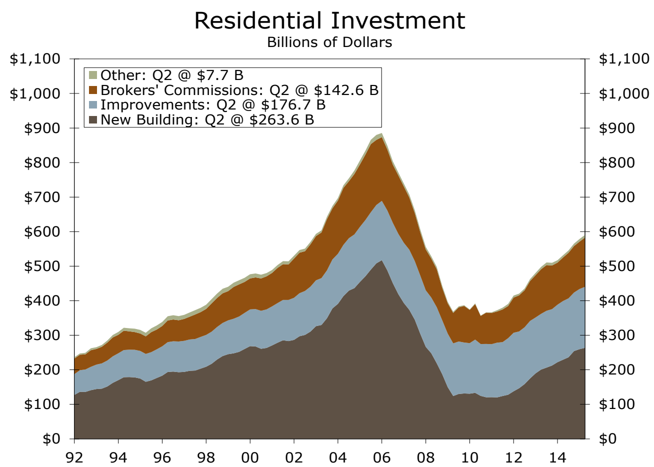


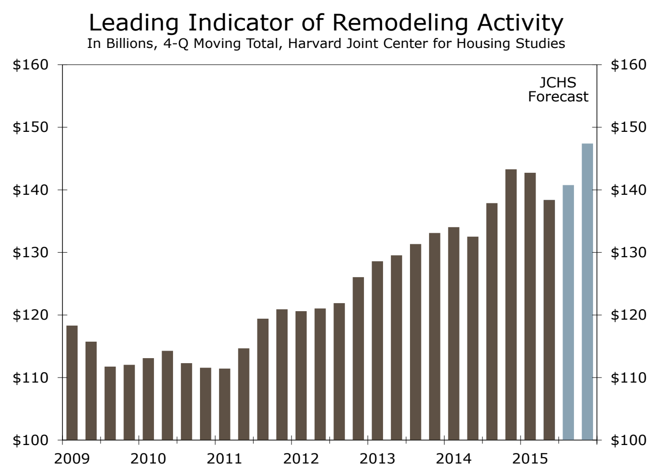


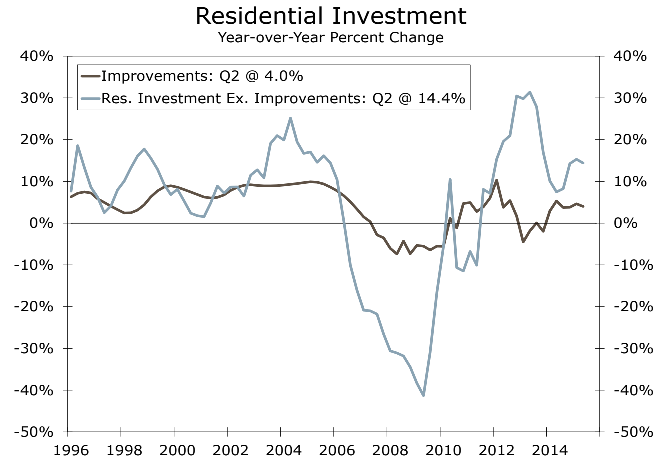
Source: CoreLogic, NAR, S&P, FHFA, U.S. Department of Commerce and Wells Fargo Securities, LLC

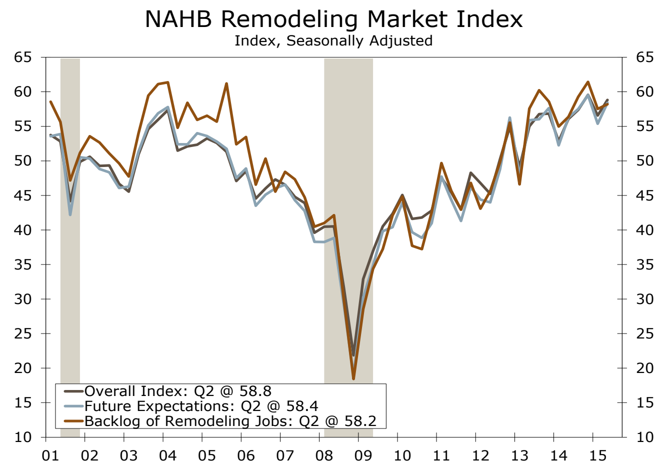
Renovation and Remodeling

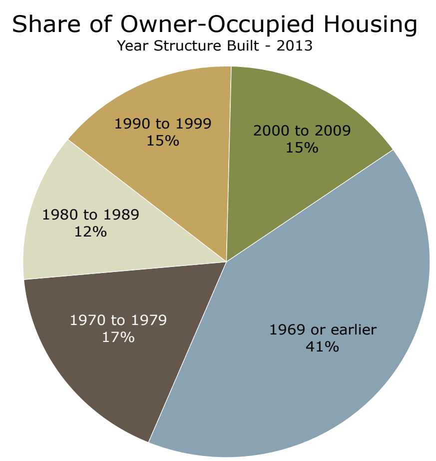
- Spending for renovations and remodeling continues to trend higher. Spending was driven primarily by investor purchasers earlier in the recovery who converted single-family homes and condominiums into rental units. More recently, remodeling outlays have been driven by rising home values and improving consumer confidence.
- In recent years, many homeowners refinanced their homes and are now more apt to remain in place, given that they are building equity in an appreciating asset, something that is hard to find right now. Moreover, the increased appeal of urban living continues to support renovations to the existing stock of homes located close to key major cities and key employment centers.











Source: Joint Center for Housing Studies, U.S. Department of Commerce, NAHB and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. ("WFS") is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. ("WFBNA") is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. WFS and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2015 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS FARGO SECURITIES