

Economics Group

Special Commentary

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Housing Data Wrap-Up: February 2012

How Much of the Seasonally Adjusted Recovery Is Real?

With much of the housing data reported for this past fall and winter coming in slightly better than expected, hopes have been raised that the long-awaited recovery in housing is finally underway. There is no doubt that conditions are improving; sales and new home construction have both increased modestly, and prices for non-distressed sales have stabilized in many markets. Credit conditions have also improved modestly, and progress has been made in clearing some of the excess inventory of homes owned by financial institutions or tied up in the foreclosure process. For all of the positive steps that have taken place, however, there are still plenty of challenges ahead. There are still millions of homes tied up in the foreclosure process, which has tended to fuel fears that an avalanche of new supply will come on the market. These fears are keeping appraisals unusually conservative and mortgage underwriting standards unusually tight, discouraging home buying and keeping many would-be sellers on the sidelines.

Sales and new home construction have both increased modestly and prices for non-distressed sales have stabilized in many markets.

While the recent improvement in home sales and new home construction is certainly welcomed, the extent of the improvement has likely been exaggerated by the recent unusually mild winter weather. November, December and January typically account for the smallest percentage of new home sales each year. If the weather is unseasonably mild, as this year has been, just a little more home buying than usual can translate into large seasonally adjusted increases. This appears to be what has happened over the past three months, with the seasonally adjusted data for new home sales up 3.2 percent since October, while the not seasonally adjusted data declined 0.1 percent. Normally, home sales would have declined much more than that on a not seasonally adjusted basis. The warmer- and drier-than-usual weather has also allowed more new home construction to take place, boosting starts and leading to more buyer traffic than what is typical during this time of year. The NAHB/Wells Fargo Housing Market Index has risen 12 points over the past four months, with the largest gains in the snow-starved West and in the unseasonably balmy Midwest.

Warmer- and drier-than-usual weather has also allowed more new home construction to take place.

Figure 1

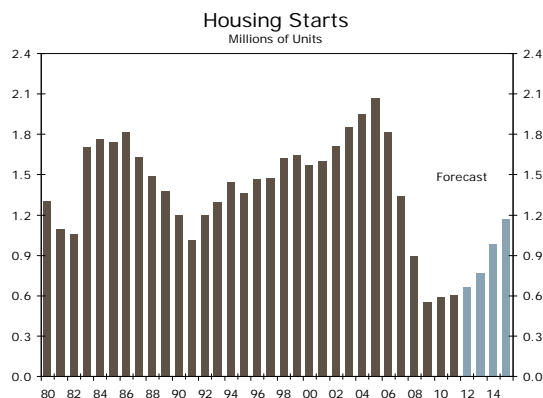
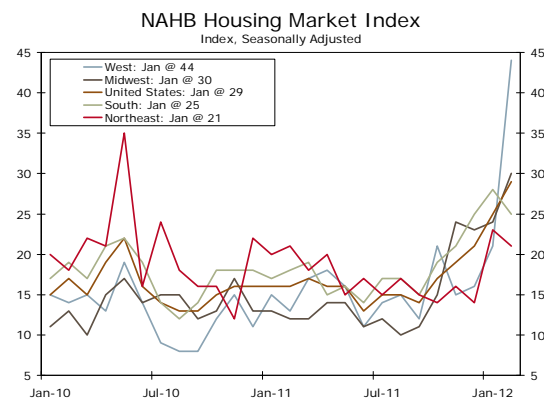


Figure 2



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

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Together we'll go far



Builders are clearly busier than they have been at any other time outside of the tax-credit fueled buying binge.

Even though the unseasonably mild weather has exaggerated the extent of the increase in housing activity, there has also been some real improvement. Builders are clearly busier than they have been at any other time outside of the tax-credit fueled buying binge immediately following the recession. The gains, however, are spotty. Most new home construction is confined to partially complete residential developments, where builders have been able to secure inexpensive lots and construct homes that can compete with nearby foreclosures. Builders have also had some success with infill locations and in the active adult sector.

The real test for the housing recovery will come this spring. Seasonal adjustment factors cancel out over the course of the year. Since home sales and new home construction did not fall off as much as it typically does this winter, there will not likely be as much of a pickup in activity this spring. This will show up as weaker-than-expected seasonally adjusted numbers.

Once you put aside the seasonal adjustment distortions, the housing recovery probably looks relatively tame. There are still a multitude of issues that need to be resolved before a sustained self-reinforcing recovery can unfold. One important first step is the recent settlement between the state attorneys general and five major mortgage services, which will likely lead to an increase in foreclosures and further depress home prices in the near term. While this sounds problematic, it is absolutely necessary and will not only allow the price discovery process to unfold, but will also help answer questions about just how much shadow inventory is currently hanging over the housing market, what types of houses are in that inventory and where and in what condition that inventory is. Only after these questions are answered can the unusually conservative appraisal and mortgage approval process begin to normalize.

Sales of large blocks of homes to investors will not eliminate shadow inventory.

The Treasury and Federal Reserve are also actively promoting the idea of selling large blocks of homes owned by Fannie Mae and Freddie Mac to investors that will convert them into rental properties and commit to keeping them as rentals for at least five years. There is also talk of encouraging large private lenders to do the same. Sales of large blocks of homes to investors will not eliminate shadow inventory. Most of these investors would likely plan to sell these homes in five years or so, thereby returning much of the supply to the single-family market. The block sales, however, would reduce some of the fears that an avalanche of distress sales will soon hit the market and will also provide market participants with more information about how many of these troubled properties exist and where they are, once again helping to normalize appraisals and mortgage approvals.

We have slightly increased our expectations for home sales and new home construction. Sales of new single-family homes are expected to rise 12 percent in 2012. Housing starts are expected to rise 9 percent this year, with single-family construction rising 8 percent and multifamily starts rising 12 percent. Overall, starts should rise an additional 16 percent in 2013. Even with these gains, however, homebuilding will remain only a shadow of what would typically be seen in an even a modest economic recovery. In addition to clearing up the mystery surrounding shadow inventory, another key issue that needs to be resolved is what will become of the GSEs and, more specifically, what will the federal government's role be in housing finance. Unfortunately, that question will not be answered until after this fall's presidential election.

Recent Housing Data

	Release	Consensus	Actual	Prior	Revised	Next Release
NAHB Sentiment Index	February	26	29	25	n/a	Mar-19
Housing Starts, Thousands of Units	January	675K	699K	657K	689K	Mar-20
Housing Permits	January	680K	676K	679K	671K	Mar-20
Existing Home Sales, Millions of Homes	January	4.66M	4.57M	4.61M	4.38M	Mar-21
Percent Change	January	1.1%	4.3%	5.0%	-0.5%	Mar-21
New Home Sales, Thousands of Units	January	315K	321K	307K	324K	Mar-23
Percent Change	January	2.6%	-0.9%	2.2%	1.9%	Mar-23
S&P Case/Shiller Composite-20	December	-3.65%	-3.99%	-3.67%	-3.85%	Mar-27

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

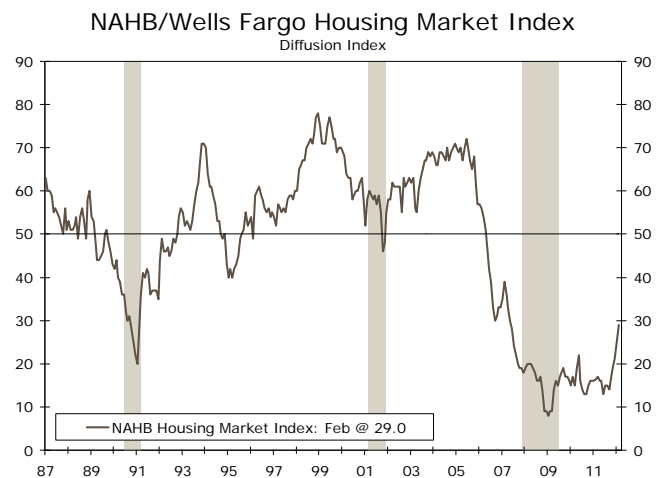
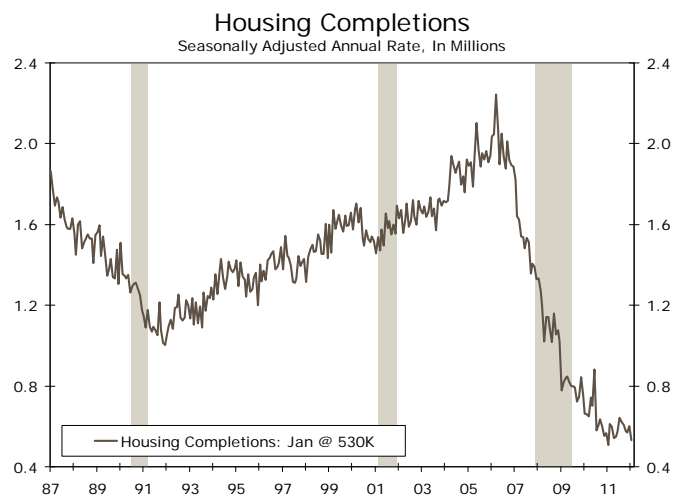
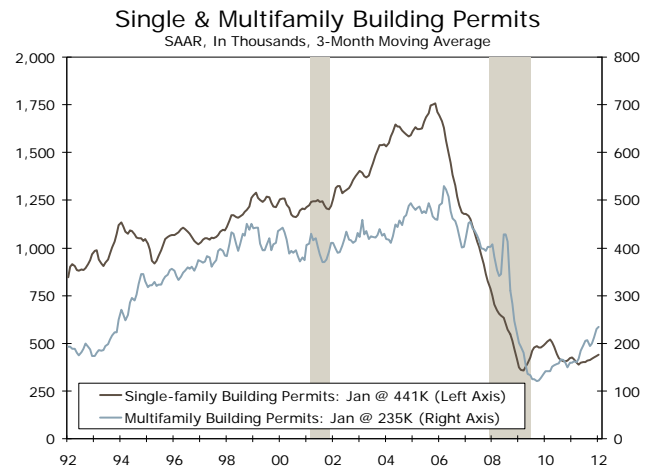
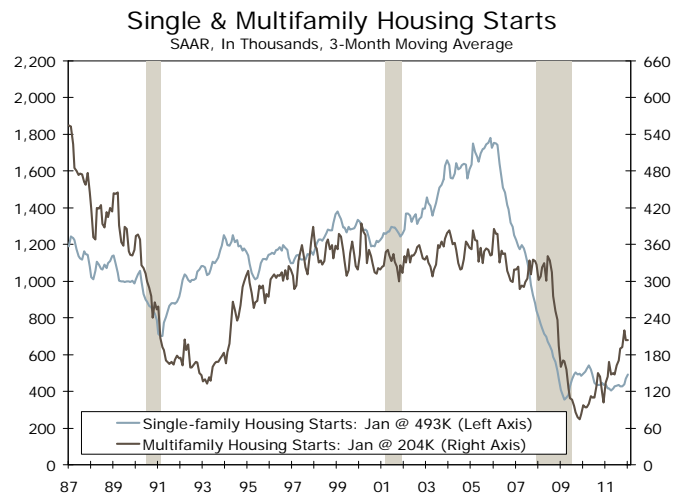
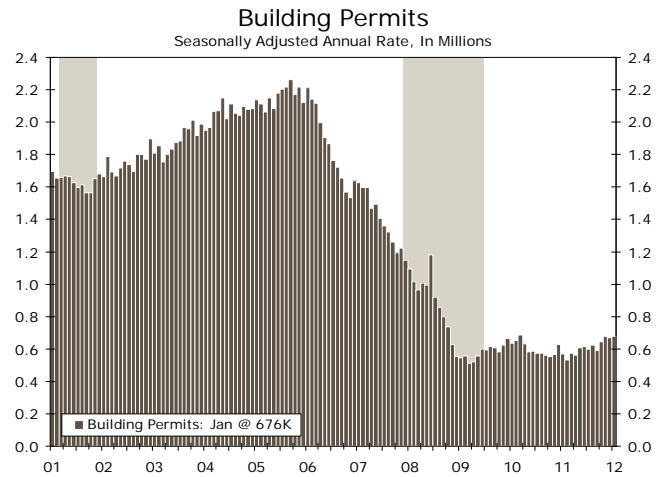
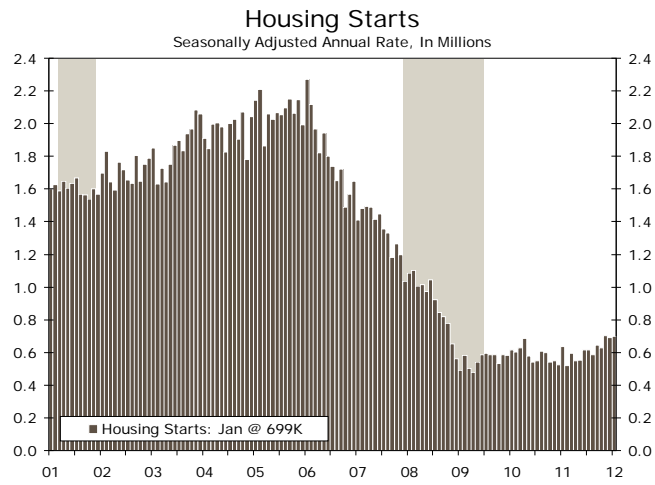
National Housing Outlook

	2008	2009	2010	2011	2012	2013
Real GDP, percent change	-0.4	-3.6	3.0	1.7	2.0	2.1
Nonfarm Employment, percent change	-0.6	-4.4	-0.7	1.2	1.4	1.2
Unemployment Rate	5.8	9.3	9.6	9.0	8.3	8.3
Home Construction						
Total Housing Starts, in thousands	905.5	553.9	586.9	609.2	665.0	770.0
Single-Family Starts, in thousands	622.0	445.0	471.1	430.9	465.0	530.0
Multi-Family Starts, in thousands	283.5	108.9	115.8	178.3	200.0	240.0
Home Sales						
New Home Sales, Single-Family, in thousands	485.0	374.0	323.0	304.0	340.0	400.0
Total Existing Home Sales, in thousands	4913.0	4340.0	4190.0	4260.0	4500.0	4650.0
Existing Single-Family Home Sales, in thousands	4350.0	3870.0	3708.0	3786.0	4000.0	4125.0
Existing Condominium & Townhouse Sales, in thousands	563.0	464.0	474.0	477.0	500.0	525.0
Home Prices						
Median New Home, \$ Thousands	232.1	216.7	221.8	225.8	218.0	220.0
Percent Change	-6.4	-6.6	2.4	1.8	-3.5	0.9
Median Existing Home, \$ Thousands	198.1	172.5	172.9	166.1	164.0	165.0
Percent Change	-9.5	-12.9	0.2	-3.9	-1.3	0.6
FHFA (OFHEO) Home Price Index (Purch Only), Pct Chg	-7.5	-5.3	-3.0	-4.3	-0.8	1.0
Case-Shiller C-10 Home Price Index, Percent Change	-16.7	-12.9	2.1	-3.4	-1.8	0.1
Interest Rates - Annual Averages						
Prime Rate	4.88	3.25	3.25	3.25	3.25	3.25
Ten-Year Treasury Note	3.66	3.26	3.22	2.78	2.08	2.30
Conventional 30-Year Fixed Rate, Commitment Rate	6.04	5.04	4.69	4.46	4.20	4.25
One-Year ARM, Effective Rate, Commitment Rate	5.18	4.71	3.78	3.00	3.10	3.20

Forecast as of: February 29, 2012

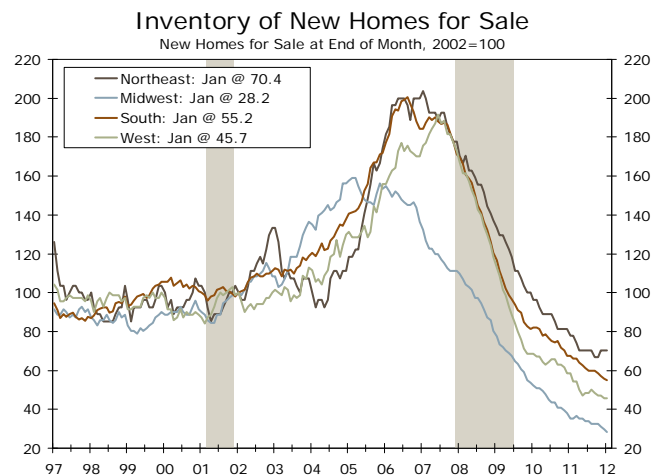
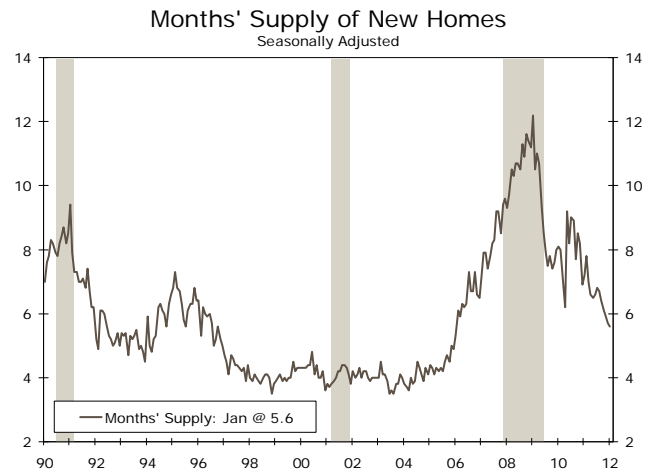
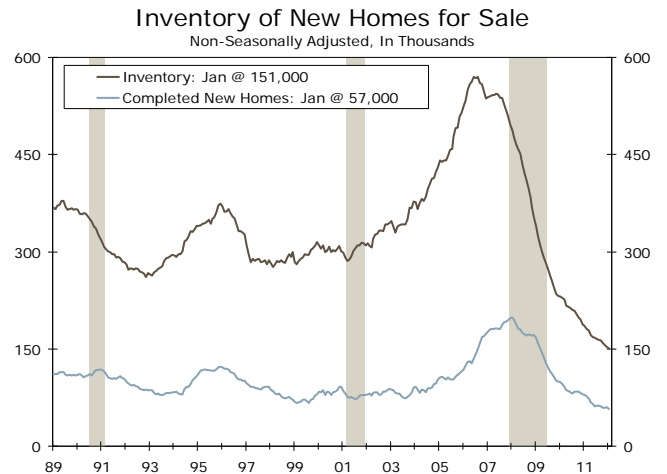
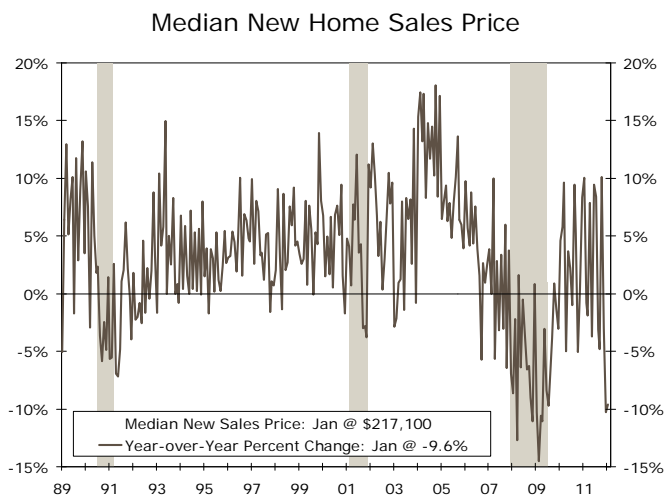
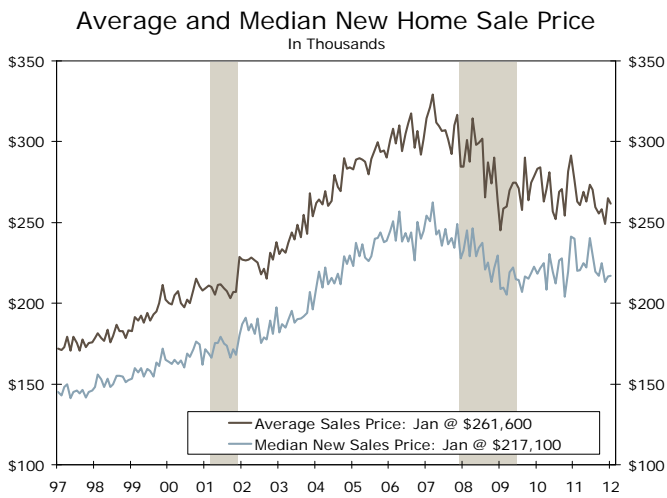
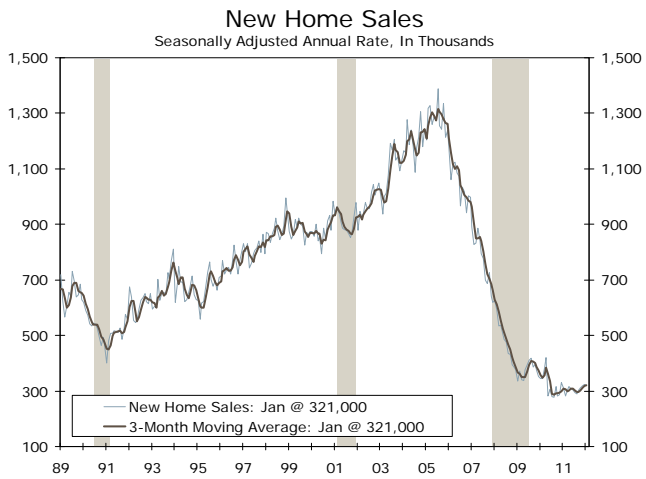
Source: Federal Reserve Board, FHFA, MBA, NAR, S&P, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

Housing Starts



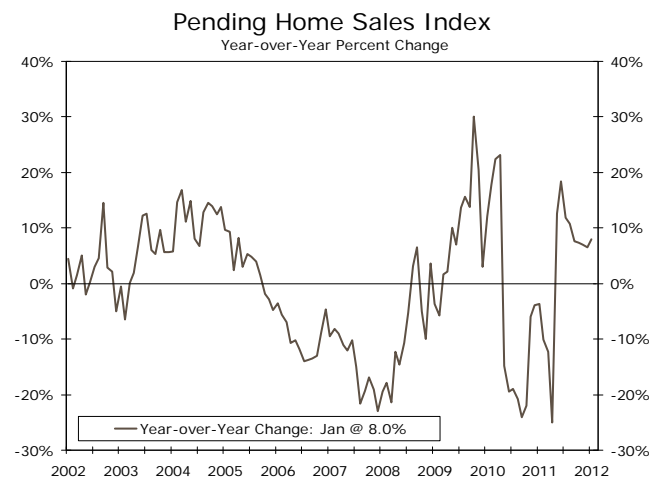
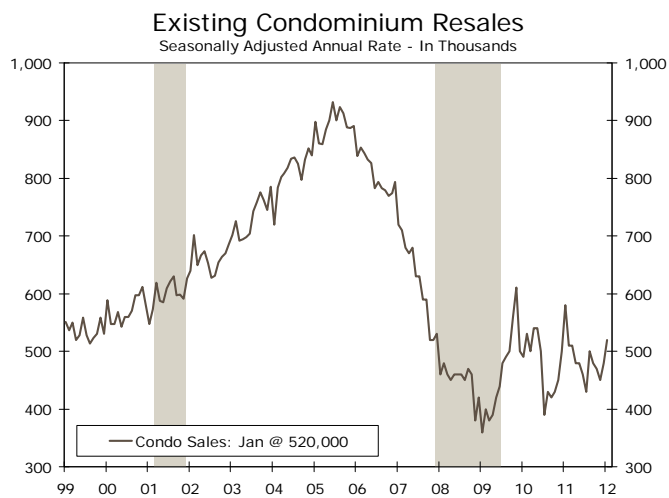
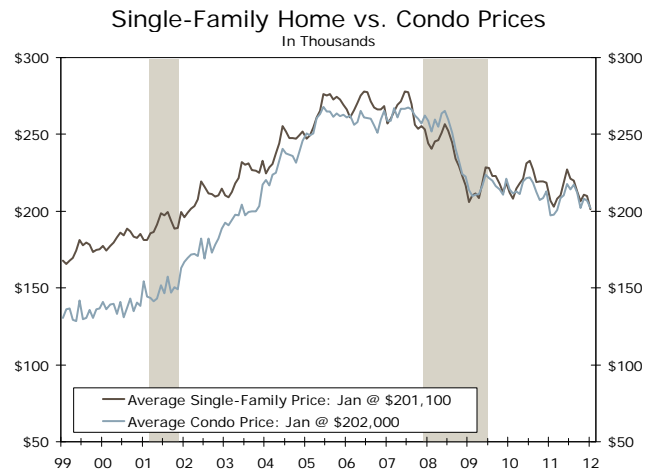
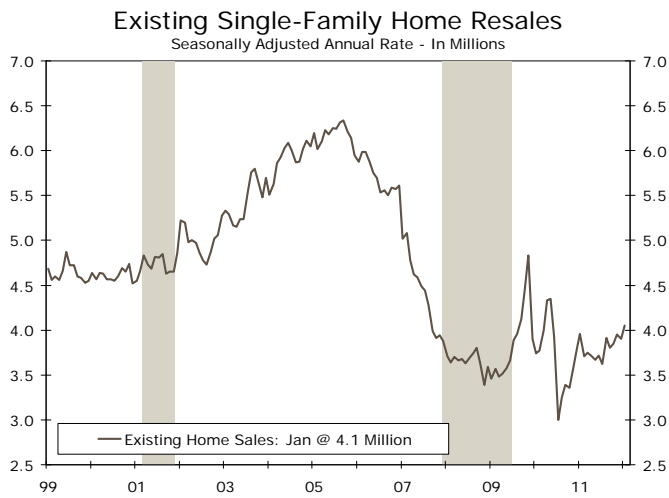
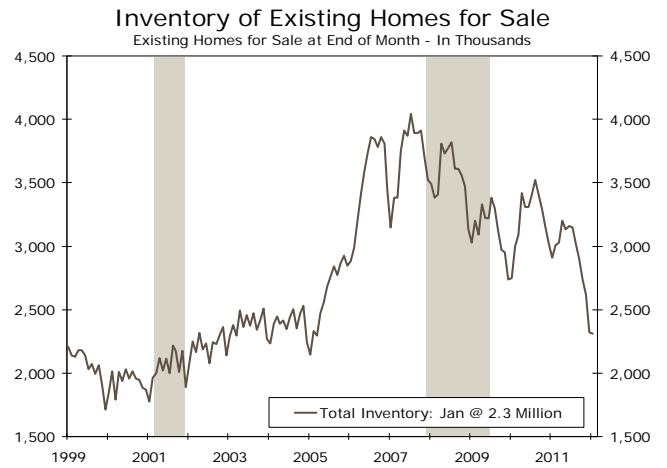
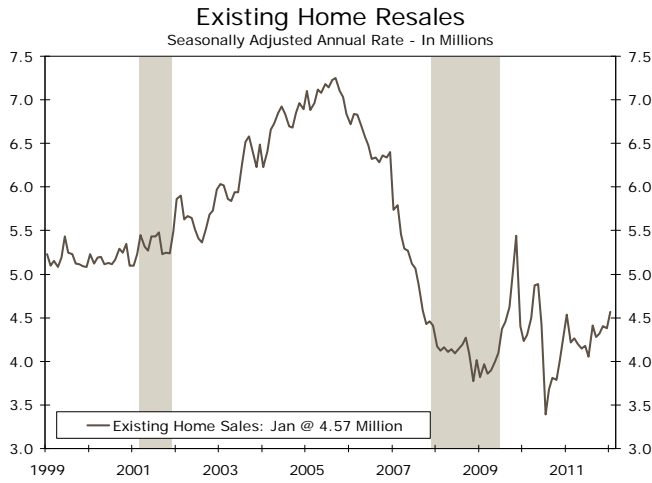
Source: NAHB, U.S. Department of Commerce and Wells Fargo Securities, LLC

New Home Sales



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

Existing Home Sales



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

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