



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277

New Home Sales Rebound Solidly in May

New home sales rose 2.9 percent in May and sales for the previous three months were revised higher by a cumulative 34,000 homes. Sales rose solidly in the South and West but fell in the Midwest and Northeast.

A Fairly Strong and Fairly Clean New Home Sales Report

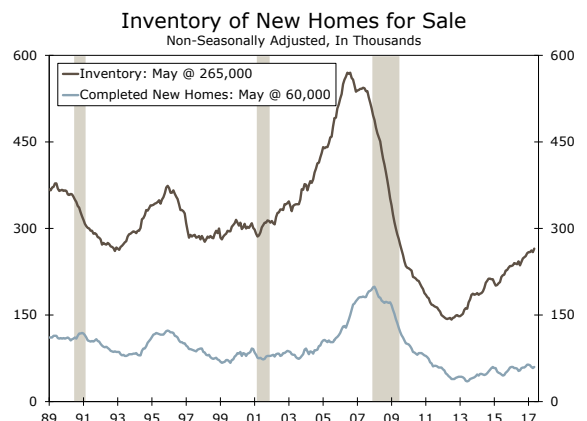
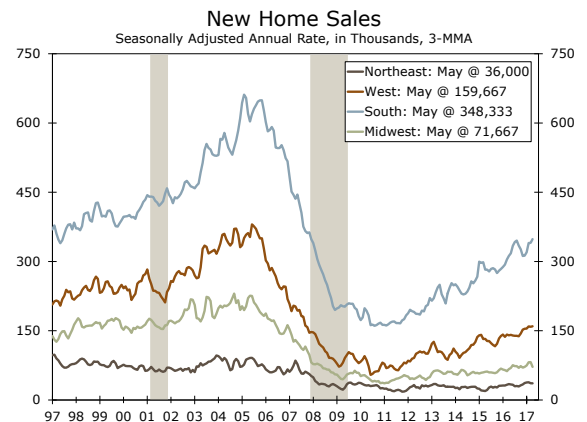
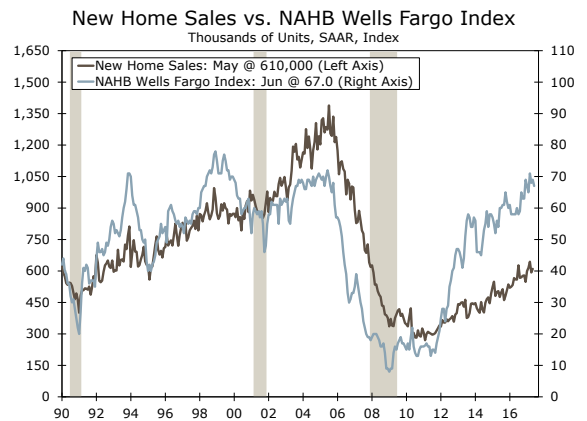
New home sales rose a solid 2.9 percent in May, reversing part of the prior month's 7.9 percent drop. Revisions to the three previous months' data were also encouraging. Sales were revised up by a total of 34,000 homes and April's initially reported 11.4 percent drop was revised to a 7.9 percent drop. As we noted last month, new home sales are stronger than the data indicate. Sales in March were revised higher by 2,000 units to 644,000 homes, marking the strongest month since October 2007.

While the revision data bring new home sales more in sync with homebuilder confidence, the absolute level of new home sales still pales in comparison to its historic norms. The Wells Fargo/NAHB Homebuilders Index (HBI) fell 2 points to 67 in June and has averaged 67.8 over the past six months. The last time the HBI was this high for six months was back in 2005 and new home sales were more than twice as strong as they are today.

We do not expect new home sales to revisit the highs hit during the housing boom anytime soon. Today's housing market remains a shadow of its former self and builders and developers have shrunk their businesses to meet this new marketplace. Today's housing market appears to have a fairly low ceiling given constraints on lot development, the supply of construction workers and credit constraints facing many first-time buyers. The net result has been a very gradual recovery that has so far been more focused on the high end of the market, where builders tend to enjoy wider profit margins.

The slow motion recovery in new home sales has made the sector more susceptible to quirks in the seasonal adjustment process, which has been particularly apparent in recent months. New home sales have been knocked around quite a bit this year by unseasonably mild winter weather, which boosted sales earlier this year. In addition, this year's late Easter pulled sales forward into March and then weakened them in April. Most of the seasonal distortions are behind us and we now have a much clearer picture of the underlying trend in new home sales. Sales are clearly trending higher, particularly in the South, which accounts for roughly 60 percent of the nation's home sales each year. Sales in the South are being driven higher by resurgent economic growth in Texas and continued strong gains in Florida, Georgia, the Carolinas and the eastern half of Tennessee.

While the overall inventory of new homes available for sale rose to a 5.3-month supply in May, new home sales continue to be held back by a lack of inventory. Most of May's rise in new home sales was for homes where construction has not yet started, which rose by 30,000 units. By contrast, sales of completed homes rose by just 4,000 units. Inventories of completed homes rose slightly in May but remain near their all-time lows at just 62,000 homes, suggesting that new home construction will continue to strengthen during the second half of the year.



Wells Fargo Securities 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
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, 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
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@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, 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. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. 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 © 2017 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