New home sales unexpectedly tumble

By Lisa Lambert, Oct 28

WASHINGTON (Reuters) – Sales of new U.S. homes unexpectedly tumbled in September, their first drop in six months, underscoring the hazards to an economic recovery that businesses appeared to be banking on.

New single-family home sales fell 3.6 percent to a 402,000 unit annual pace from a downwardly revised 417,000 units in August, the Commerce Department said on Wednesday. Analysts polled by Reuters had expected sales to rise to a 440,000 unit pace from Augusts' previously reported 429,000.

A separate report from the Mortgage Bankers Association on Wednesday showed demand for mortgages has fallen for the past three weeks as buyers move to the sidelines ahead of the November 30 expiration of a popular home-buyers' tax credit.

The housing data represented a road bump in a recovery that otherwise appears to be widening. Another report from the Commerce Department showed that new orders for long-lasting U.S. manufactured goods rose 1 percent in September as business stepped-up investment plans.

"One month is obviously not a trend and I think there is plenty of evidence that things are turning around. I still believe the economy has hit bottom and is on the way up, but it will be a long, slow process," said Mark Bonhard, an investment advisor at Dawson Wealth Management in Cleveland, Ohio.

U.S. stock indexes extended losses when the data was released, while U.S. Treasury prices added to gains and the U.S. dollar rose against the euro.

Despite the drop in sales, the number of new homes for sale at the end of the month shrank to its smallest in 27 years, leaving the supply of homes available at 7.5 months' worth.

The median sales price rose in September to $204,800 from $199,900, while the average sales price rose to $282,600 from $265,500.

The new home-buyer tax credit affected recent housing market trends, Cary Leahey, economist at Decision Economics in New York, said.

The $8,000 credit, which expires on November 30, helped lift the housing market from its deepest downturn since the Great Depression. U.S. lawmakers are considering extending it.

"There are some distortions because of the new home-buyer tax credit, but we can say housing sales have bottomed," Leahy said. "Some are afraid housing will fade in 2010. That will not happen unless the labor market fades or does not improve."

The Mortgage Bankers Association said its mortgage applications index fell 12.3 percent to 562.3 in the week ended October 23, with purchase applications the weakest since mid-May and refinancing requests at a two-month low.

Eligible borrowers who applied last week would unlikely be able to close their loan by the scheduled November 30 expiration of the tax credit, industry experts said.

DURABLES GOODS ORDERS UP

The increase in new orders for long-lasting U.S. manufactured goods met Wall Street expectations and was the second increase in the last three months, offering some hope that the economic recovery will continue.

However, compared with a year ago, orders were down 24.1 percent.

"In a recovering economy, you'll get three steps forward and then two steps back. That's what you're seeing here," said David Katz, chief investment officer at Matrix Asset Advisors in New York. "This data point is positive."

Durable goods orders are a leading indicator of manufacturing, which in turn provides a good measure of overall business health.

The report shows that durable goods orders are off their previous lows but have not reached a vigorous pace, said Michael Moran, chief economist at Daiwa Securities America in New York.

"There is still a good bit of uncertainty on the part of business executives about the economic outlook and as a result we are seeing cautious behavior," he said.

Shipments of durable goods rose 0.8 percent in September and have been up for three of the last four months, while inventories fell for the ninth month in a row, by 1 percent.

There are concerns that the continued paring of inventories will be a drag on economic growth. The Commerce Department will report third-quarter gross domestic product on Thursday, and analysts are expecting a 3.3 percent rise, based on rebounds in consumer spending and the housing market.

Courtesy of JB Goodwin