

New home sales rise as builders slash price

Median price has a record drop

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WASHINGTON — The beleaguered housing industry is sending mixed signals, with sales of new homes surging in April by the biggest amount in 14 years while prices endured a record plunge.

Analysts said the price drop could provide evidence of builders' desperation. They are looking to reduce a glut of unsold homes in the face of the worst slump in sales in more than a decade.

The Commerce Department said Thursday that sales of new single-family homes jumped by 16.2 percent in April to a seasonally adjusted annual rate of 981,000 units.

That was the biggest one-month gain since a 16.4 percent surge in April 1993. Even with the increase, however, sales are 10.6 percent below the level of a year ago.

The median price — the midway point between the costliest and least costly — fell to \$229,100, a record 11.1 percent below March level and 10.9 percent below April 2006. It was the biggest year-over-year price decline since 1970.

Analysts said the drop in home prices probably reflected efforts by builders to cut prices more aggressively to sell homes.

They cautioned against reading too much into the 16.2 percent jump in sales, the first increase after three consecutive months of sales declines. Analysts noted that this series is subject to wide revisions and that much of the strength came from a big increase in the South, which they said could be partly weather-related.

David Seiders, chief economist for the National Association of Home Builders, said he was looking for sales of new homes to fall by 18 percent for the entire year, matching last year's decline.

Sales of new and existing homes set records for five consecutive years until 2006, when real estate suffered what many believe was a bursting of a speculative bubble.

The association's confidence survey for home builders returned in May to the low point for this downturn, set in September. Builders have grown more worried that tightened lending standards in the wake of rising defaults, especially for subprime mortgages, will further weaken demand in coming months.

Seiders said half of all builders report that they are cutting prices in addition to aggressively using incentives such as free decks and kitchen upgrades in an effort to move homes. The inventory of unsold new homes fell slightly to 532,000 in April. It would take six months to deplete this inventory at the April sales rate.

Seiders said the big drop in the median home price in April reflected not only significant price reductions by builders but also a shift by buyers to homes at the lower end of the price scale.

The slump in housing is the worst since the 1990-91 recession. Analyst said it probably would continue for several more months and that any rebound would be subdued, in part because mortgage rates have started to rise.

The mortgage company Freddie Mac reported Thursday that its weekly survey found that the nationwide average for 30-year mortgages jumped to 6.37 percent this week, the highest level in seven months. The jump came as financial markets grew less optimistic about the possibility of rate cuts by the Federal Reserve.

The housing weakness has weighed on the entire economy, helping to slow overall growth to an anemic 1.3 percent annual rate in the first three months of this year, the weakest pace in four years.

The strength in home sales last month was led by a 27.8 percent surge in the South, followed by gains of 8.5 percent in the West and 3.8 percent in the Northeast. Sales fell 4 percent in the Midwest.

In other economic news, the Commerce Department said orders to U.S. factories for big-ticket manufactured goods posted a moderate 0.6 percent increase in April. A continued rebound in business investment offset weakness in orders for commercial airplanes and autos.

Analysts believe U.S. factories, buffeted by the weakness in housing and slumping demand for autos, are starting to stage a moderate rebound. Capital goods spending excluding aircraft, considered a good proxy for business investment, rose by 1.2 percent last month, the second solid monthly gain.

Meanwhile, the Labor Department said that the number of newly laid-off workers filing applications for unemployment benefits rose to 311,000 last week, an increase of 15,000 after five consecutive weekly declines.

Courtesy of JB Goodwin