

## Plenty of 'For Sale' signs but actual sales lagging

By MARTIN CRUTSINGER  
AP Economics Writer

WASHINGTON — Like spring flowers, the "For Sale" signs are sprouting in front yards all over the country. But anxious sellers are facing the most brutal environment in decades, with a slumping economy, falling home prices and rising mortgage foreclosures.

And even the faint promise of better days ahead might not come true, given all the headwinds the housing industry is facing at the moment.

**"This is going to be another difficult spring," said Mark Zandi, chief economist at Moody's Economy.com. "I think we are at the beginning of the end of the housing downturn, but it is going to be a long and painful end."**

The devastation is certainly a far cry from the boom years from 2001 to 2005 when sales of new and existing homes were setting records for five straight years. During that time, home prices were soaring, luring thousands of investors into the market, hoping to buy homes and flip them for quick profit.

But since 2006, the country has been mired in a housing bust which, in many ways, is the worst since World War II.

Construction is expected to drop to the slowest pace since the 1940s and prices are expected to decline by the largest amount since the Great Depression.

**Hardest hit are the states where sales boomed the most: California, Florida, Nevada, Arizona and parts of the Northeast. In the Midwest, the problem is shrinking jobs in the auto industry, making homes hard to sell. But virtually all of the country has felt the aftershocks of the housing slump, either through weaker home sales or the massive drag housing has imposed on the overall economy.**

Housing has shaved more than a full percentage point off economic growth, trimming the gross domestic product for the past two quarters to a barely discernible 0.6 percent rate and raising the threat that the country could topple into a full-blown recession.

The National Association of Realtors reported that 46 states saw sales decline in the first three months of this year compared with the same period in 2007. Two-thirds of 149 metropolitan areas saw prices decline during the same period, the largest percentage of cities reporting price drops in the history of the NAR survey, which goes back to 1979.

**The state with the biggest sales decline was Maryland, with sales down 38.6 percent in the first three months of this year compared with the same period in 2007. The drop nationwide was 22.2 percent.**

**The price decline nationally was 7.7 percent in the first quarter, with the biggest plunge a 29.2 percent decline in the Sacramento, Calif., area.**

As the spring sales season got under way, the slump was continuing. The Realtors reported Friday that existing home sales fell 1 percent in April, the eighth drop in the past nine months, with the median home price falling 8 percent compared with a year ago, the second-biggest drop on record.

So just how much worse will things get?

Lawrence Yun, chief economist for the Realtors, sees some hopeful signs. Some parts of the country that have been hammered with sharp declines in sales and prices, such as San Diego, Calif., and Fort Myers, Fla., are now reporting sales increases, as buyers are being lured back into the market, looking for bargains.

"Lower prices and low interest rates are starting to generate results," Yun said, noting that 30-year fixed-rate mortgages averaged 5.92 percent in April, down from 6.18 percent in April 2007. That reflected an aggressive rate-cutting effort by the Federal Reserve to try to keep the country out of a recession.

Sales should also be helped in coming months, Yun predicted, by the reappearance of more mortgage products as lenders reopen the tap for certain loans. That supply had been closed following the credit crisis that hit last August, triggered by rising defaults in subprime mortgages.

Other economists are not so optimistic, noting that the Realtors' latest report showed the number of unsold single-family homes jumping to a 23-year high, reflecting, in part, a rising tide of mortgage foreclosures, which are dumping more homes on an already glutted market.

Adding to the foreclosure problem is the weak economy, which has resulted in four straight months of job layoffs, an indication to some analysts that the country has already fallen into a recession.

Rising job layoffs and higher gasoline and food prices have sent consumer confidence plunging — not a great environment to mount a rebound in housing.

And then there is the problem of the huge overhang of unsold homes generating further declines in prices, which seem to be keeping more prospective buyers on the fence.

"Right now a lot of people are staying away because they don't want to buy an asset that might lose value right away," said Patrick Newport, an economist at Global Insight.

Newport predicted that prices, which by some measures have fallen by about 15 percent nationwide from their peak two years ago, will decline another 10 percent before bottoming out in the spring of 2009. A 25 percent fall in prices would be the biggest since home prices plunged by about one-third during the Great Depression of the 1930s.

David Seiders, chief economist for the National Association of Home Builders, said he believed sales will bottom out by the middle of this year and then start to move higher by the end of this year.

He said builders, trying to control inventories, will continue slashing production, with housing starts expected to drop by 39 percent this year following a 30 percent decline in 2007. That will push activity to the slowest annual pace since the end of World War II. Seiders predicted a gradual rebound in construction starting next year.

"This is stacking up as the most dramatic housing contraction in the post-World War II period," he said.

And while sales, construction and prices should all start to recover by next year, the rebound is not expected to be a rapid one. Some analysts are forecasting it will take a couple of years for housing to regain its footing.

"It is going to take some time first to restore confidence that housing is a reasonably OK investment, then to work off this inventory and then for the financial system to revive," Zandi predicted.

**Courtesy of JB Goodwin**