U.S. Economy: Existing-Home Sales Unexpectedly Fall

Sept. 24 (Bloomberg) -- Sales of existing U.S. homes unexpectedly fell last month for the first time since March, signaling the housing recovery will be slow to gain speed.

Purchases dropped 2.7 percent in August to a 5.1 million annual rate, the second-highest level in the last 23 months, the National Association of Realtors said today in Washington. The median price dropped 12.5 percent from August 2008. A government report showed unemployment claims declined.

Stocks fell on concern the housing market remains dependent on government tax credits and purchases of housing debt by the Federal Reserve. The central bank yesterday said it would extend its program to buy $1.25 trillion in mortgage- backed securities, as well as $200 billion in agency debt, through March while noting that "housing-market activity has increased."

"The improvement in the housing market is not going to be a smooth rise, but a choppy, upward trend," said Zach Pandl, an economist at Nomura Securities International Inc. in New York, who projected sales would fall. "The real test will be if the market can weather the end of government stimulus."

The Standard & Poor's 500 Index fell 1 percent to close at 1,050.78. Treasury securities rose, sending the yield on the 10-year note down to 3.37 percent at 4:16 p.m. in New York from 3.42 percent late yesterday.

Unexpected Drop

Existing home sales were forecast to rise to a 5.35 million annual rate, according to the median forecast of 74 economists in a Bloomberg News survey.

Figures from the Labor Department today showed that the number of Americans seeking unemployment benefits unexpectedly dropped last week to the lowest level in two months, signaling the job market is healing. Claims fell to 530,000 from 551,000 the prior week.

The housing recession that crippled the economy is easing as foreclosure-driven price declines, tax credits to first-time buyers and near record-low borrowing costs have helped stabilize demand. Sales had reached a 4.49 million pace in January, their lowest level since comparable records began in 1999. Even so, unemployment at a 26-year high indicates more Americans may lose their homes, swelling the glut of unsold properties.

Purchases of existing homes were up 3.4 percent compared with a year earlier. The median price decreased to $177,700 from $203,200 a year ago.

Inventories Plunge

The number of unsold homes on the market dropped 11 percent to 3.6 million in August. At the current sales pace, it would take 8.5 months to sell those houses, the fewest since April 2007.

A seven months' supply is usually consistent with stabilization in prices, NAR chief economist Lawrence Yun has said in recent months.

The market is "close to a self-sustaining recovery" where home values stabilize or start increasing, Yun said in a press conference. The drop in sales runs counter to figures on pending purchases and signals that low appraisals and slow underwriting remain obstacles to sustained gains, Yun said.

The NAR's pending sales data are considered a leading indicator because they are tabulated when a contract is signed. Figures on purchases of existing homes represent closings, which may take place a month or two later.

Single-Family Houses

Today's report showed sales of existing single-family homes fell 2.8 percent to an annual rate of 4.48 million. Sales of condominiums and co-operatives decreased 1.6 percent to a 620,000 rate.

The Commerce Department may report tomorrow that purchases of new houses rose in August to the highest level in 12 months, according to a Bloomberg survey.

Fed policy makers yesterday repeated they will keep the benchmark lending rate near zero “for an extended period,” while noting that the economy had strengthened. They also said they will slow central bank purchases of mortgage-backed securities and agency debt as they extend the program by three months.

The Obama administration’s $8,000 tax credit for first- time buyers, which is due to expire at the end of November, combined with the plunge in prices as foreclosures climbed, have helped lift sales this year. The Realtors’ group and National Association of Home Builders have lobbied to extend the credit on concern demand will wane after it lapses.

Government Credit

Treasury Secretary Timothy Geithner told reporters on Sept. 17 that the administration would take a “careful look” at extending the credit and called signs of stabilization in the U.S. housing market “very encouraging.”

Growing demand has prompted builders such as KB Home to get back to work. Housing starts rose to a nine-month high in August, the Commerce Department reported last week, indicating residential construction may soon add to growth after subtracting from gross domestic product since 2006.

Prices, which most economists forecast would be the last component of the market to turn, have begun to improve. The Federal Housing Finance Agency’s home-price index for purchases was up 1.1 percent in the three months through July, the best performance since early 2006.

“We’re seeing a firming of prices in a number of markets, not all,” Eli Broad, founder of Los Angeles-based homebuilder KB Home, said yesterday in an interview with Bloomberg Television. “I think we have bottomed out in many markets.”

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Last Updated: September 24, 2009 16:20 EDT