Existing US home sales fall at record rate

Andre Damon
26 January 2010

Sales of existing US homes plunged in December, exposing the fragility of the housing recovery and its dependence on government stimulus.

Existing home sales fell 16.7 percent last month, according to a survey released Monday by the National Association of Realtors. The report showed that the annualized rate of existing home sales fell to 5.45 million, down from 6.54 million in November. Economists had expected the figure to fall by 11.6 percent.

The figures for December represent the sharpest one-month fall in existing home sales on records dating back to 1968, and threw the home resale rate back down to the level it reached in August. Existing home sales had risen consecutively for the previous three months, largely as a result of the expected expiration of the Obama administration's first-time home buyer tax credit.

The federal program, which offered new home buyers a credit of $8,000, was scheduled to expire at the end of November, but the Obama administration announced late last year that it would extend the credit to June 2010. The onrush of new home buyers seeking to take advantage of the program contributed to a 28 percent rise in existing home sales in November.

But as buyers retreated from their rush to buy up homes following the extension, the percentage of homes that were sold to first-time buyers dropped 8 percentage points in December.

The tax credit is not the only government action propping up home sales. Mortgage rates are at historically low levels amid an influx of cheap money by the federal government. Despite a slight up-tick in December, the 30-year mortgage rate remained below 5 percent.

Mortgage rates have been driven down even further by the Federal Reserve's policy of buying mortgage-backed securities with the money it has been printing. But this intervention is expected to end in March of this year, raising concerns that the housing market will deteriorate once government stimulus is withdrawn.

To the extent that there has been a recovery in the housing market, it has been fueled by an immense inflow of cheap credit and the government's housing stimulus program.

"By the middle of the year, however, the housing market will run into some more headwinds as the tax credit expires and mortgage rates probably rise," Abiel Reinhart, an economist at JPMorgan, told the *New York Times.*

Anna Piretti, an economist at BNP Paribas, told Reuters, "Today's numbers clearly indicate that the rebound in housing demand observed so far has been largely supported by government programs and therefore that the recovery is far from becoming self-sustaining."

"We're becoming increasingly concerned that the housing recovery will falter once it is removed," added Paul Dales of Capital Economics.

The recent data did show some positive developments. The monthly median sales price for houses rose for the first time in two years. Existing home sales grew between 2008 and 2009, the first yearly growth in four years.

But these developments were negated by news that 2009 saw a drop in the median home value by 12 percent from the previous year, the largest drop in recent records and perhaps the largest annual drop since the Great Depression.

The weakness in the housing market continued to drag down the construction sector and the broader economy. KB Home, a California homebuilder, announced that its revenues dropped by 27 percent in the fourth quarter.

Commentators pointed out that there is little reason to expect a stable betterment of the housing situation outside of a recovery in employment. “I don’t think there’s going to be a lot of buyers out there looking for a home outside of the tax-induced effects until they feel more comfortable with the labor market,” Adam York, an economist at Wells Fargo Securities, North Carolina, told Bloomberg.com.

But very few commentators expect any sort of a recovery in the near future. Economists forecast that unemployment will stay at 10 percent this year, the highest annual unemployment rate since the Great Depression.

These employment conditions are driving foreclosures to the highest levels in postwar history. A record number of homes will be repossessed this year, according to a forecast released earlier in the month by RealtyTrac, an online property tracker. The survey predicts 3 million foreclosures this year, up from 2.82 million in 2009, the previous record.