

Home sales slide unexpectedly

Drop adds fuel to concerns about end of stimulus programs.

FROM WIRE REPORTS
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An unexpected drop in home sales and another slide in oil prices overshadowed positive news on U.S. unemployment, pushing Wall Street to a second consecutive day of losses Thursday.

Adding to the concerns surrounding the real estate industry, the Obama administration sent its clearest signal yet that it is prepared to extend its \$700 billion bailout for the banking industry in anticipation of failures precipitated by souring loans on commercial real estate.

Sales of previously owned homes fell 2.7 percent in August from a month earlier, the National Association of Realtors said, reversing steady monthly gains since April and a 7.2 percent rise in July. Most economists had been expecting a fifth straight increase.

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.

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 shortest such period since April 2007.

Analysts said Thursday's housing reports were a sign that the market might continue to be dependent upon government tax credits and purchases of housing debt by the Federal Reserve.

The Fed said Wednesday that it would slow its purchases of mortgage-backed securities to extend the program into early next year. A tax credit for first-time homebuyers is set to expire in November.

The Realtors group and National Association of Home Builders have lobbied to extend the credit on concern demand will wane after it lapses.

"We know what the data looked like with the economy on life support," said Stephen Wood, chief market strategist at Russell Investments. "What the market is beginning to price is what will the data look like when the Fed starts withdrawing that life support — and that is not nearly as clear."

Although the housing recession is easing amid foreclosure-driven price declines, tax credits to first-time buyers and near record-low borrowing costs, persistently high unemployment rates indicate that more consumers could lose their homes, swelling the glut of unsold properties.

On Thursday, however, the number of newly laid-off workers seeking unemployment benefits fell for the third straight week.

The U.S. Department of Labor said that initial claims for unemployment insurance dropped to a seasonally adjusted 530,000 from an upwardly revised 551,000 the previous week. Economists expected claims to rise by 5,000, according to a survey by Thomson Reuters.

Meanwhile, a stronger dollar pressed commodity prices lower. That hurt stocks of energy and materials companies.

Oil prices fell sharply a second straight day as growing supplies of crude, gasoline and heating oil underscored how badly the recession has cut into energy demand.

Oil prices have been pushed higher for months by the weak dollar and by strengthening equities markets.

The three major indexes — the Dow Jones industrial average, the S&P 500 and the Nasdaq composite index — all ended regular trading with losses of about 1 percent or less for a second straight day.

Homebuilders lost ground after the housing report, as did financial stocks.

A senior Treasury Department official hinted Thursday that the agency is leaning toward extending the bailout program for the financial industry, which it can do through October 2010 as long as it provides justification to Congress before the end of this year.

"We still have work to do," said Herbert Allison Jr., the former CEO of mortgage company Fannie Mae who was put in charge of the bailout fund in June.

The Troubled Asset Relief Program is credited in part with pulling back the financial sector from near collapse last year. But its infusions of money into huge banks, the giant insurer American International Group Inc. and the auto industry have been unpopular with the public and in Congress, where lawmakers are under pressure to save jobs and stop foreclosures.

According to the administration's latest report, the Treasury has obligated \$443.8 billion from the fund to specific institutions. Banks have paid back the Treasury \$70.3 billion of the assistance they received, and they have paid nearly \$9.4 billion in dividends and interest payments.

Additional material from The Associated Press and Bloomberg News.

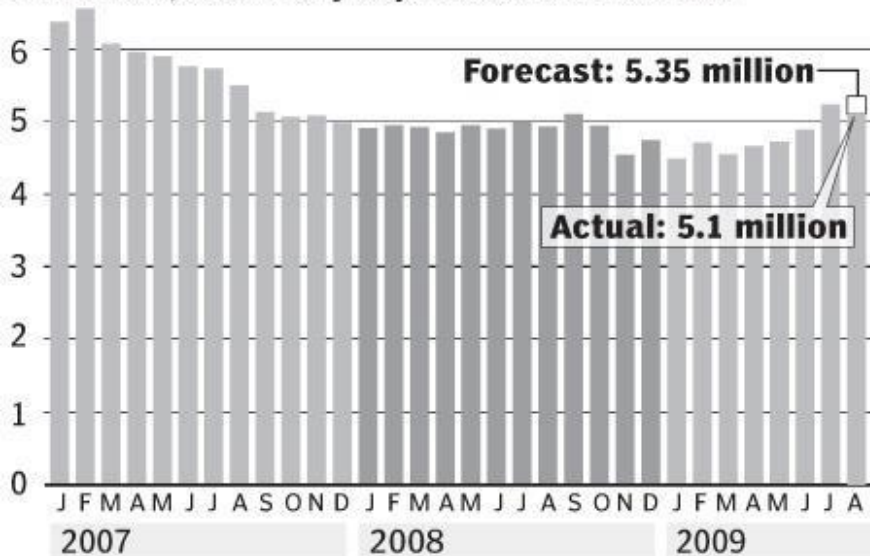
Courtesy of JB Goodwin

Surprise decline in U.S. home sales

Sales of previously owned homes in the U.S. unexpectedly fell in August, dropping 2.7 percent in the first decline since March.

Sales of U.S. previously owned homes, monthly

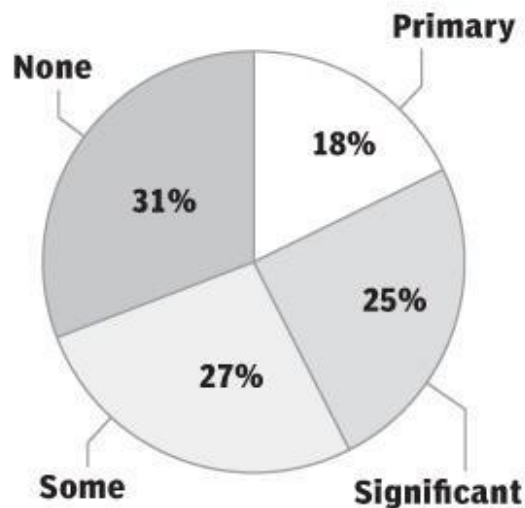
In millions, seasonally adjusted and annualized



Influence of potential tax credit extension

Answers to survey by real estate Web site Zillow.com asking:

If the federal government extended its tax credit of \$8,000 to first-time homebuyers to 2010, how much influence would this have on your decision to buy a home before the end of 2010?



Note: The Zillow.com survey was conducted by Harris Interactive from Aug. 28-Sept. 1, 2009, interviewing a nationwide sample of 2,175 U.S. adults 18 and older. There is no sampling error. The percentages do not add up to 100 because of rounding.

Sources: National Association of Realtors, Zillow.com