



New-home sales plunge 33% with tax credits gone

WASHINGTON (AP) – June 23, 2010 – Sales of new U.S. homes collapsed in May, sinking 33 percent to the lowest level on record as potential buyers stopped shopping for homes once they could no longer receive government tax credits.

The bleak report from the U.S. Commerce Department is the first sign of how the end of federal tax credits could weigh on the nation's housing market.

The credits expired April 30. That's when a new-home buyer would have had to sign a contract to qualify.

"We fear that the appetite to buy a home has disappeared alongside the tax credit," Paul Dales, U.S. economist with Capital Economics, wrote in a note. "After all, unemployment remains high, job security is low and credit conditions are tight."

New-home sales in May fell from April to a seasonally adjusted annual sales pace of 300,000, the government said Wednesday. That was the slowest sales pace on records dating back to 1963. And it's the largest monthly drop on record. Sales have now sunk 78 percent from their peak in July 2005.

Analysts were startled by the depth of the sales drop.

"We all knew there would be a housing hangover from the expiration of the tax credit," wrote Mike Larson, real estate and interest rate analyst at Weiss Research. "But this decline takes your breath away."

Economists surveyed by Thomson Reuters had expected a May sales pace of 410,000. April's sales pace was revised downward to 446,000.

The government offered an \$8,000 credit for first-time buyers. Current homeowners who buy and move into another property could receive up to \$6,500.

New-home sales fell nationwide from April's levels. They dropped 53 percent from a month earlier in the West and 33 percent in the Northeast. Sales in the South dropped 25 percent. The Midwest posted a 24 percent decline.

Builders have sharply scaled back construction in the face of a severe housing market bust. The number of new homes up for sale in March fell 0.5 percent to 213,000, the lowest level in nearly 40 years. But due to the sluggish sales pace in May, it would still take 8.5 months to exhaust that supply, above a healthy level of about six months.

The median sales price in May was \$200,900. That was down 9.6 percent from a year earlier and down 1 percent from April.

New-homes sales made up about 7 percent of the housing market last year. That's down from about 15 percent before the bust.

The drop in new-home sales means fewer jobs in the construction industry, which normally powers economic recoveries but has remained lackluster this time.

Each new home built creates, on average, the equivalent of three jobs for a year and generates about \$90,000 in taxes paid to local and federal authorities, according to the National Association of Home Builders. The impact is felt across multiple industries, from makers of faucets and dishwashers to lumber yards.



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