

New home sales hit record low in January

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WASHINGTON -- Sales of new homes plunged to a record low in January, underscoring the formidable challenges facing the housing industry as it tries to recover from the worst slump in decades.

The Commerce Department reported Wednesday that new home sales dropped 11.2 percent last month to a seasonally adjusted annual sales pace of 309,000 units, the lowest level on records going back nearly a half century. The big drop was a surprise to economists who had expected sales would rise about 5 percent over December's pace.

While winter storms were partly to blame, home sales have fallen for three straight months despite sweeping government support. Economists were already worried that an improvement in sales in the second half of last year could falter as various government support programs are withdrawn.

"There is no doubt that January and February are going to be messy months for housing, given the severe weather conditions, but that doesn't take away from the fact that the housing sector has taken another big step back, even with the government aid," Jennifer Lee, a senior economist at BMO Capital Markets, said in a research note.

January's weakness was evident in all regions except the Midwest, where sales posted a 2.1 percent increase. Sales were down 35 percent in the Northeast, 12 percent in the West and almost 10 percent in the South.

The drop in sales pushed the median sales price down to \$203,500. That was down 5.6 percent from December's median sales price of \$215,600, and off 2.4 percent from year-ago prices.

New home sales for all of 2009 had fallen by almost 23 percent to 374,000, the worst year on record. The National Association of Home Builders is forecasting that sales will rise to more than 500,000 sales this year, an improvement from 2009 but still far below the boom years of 2003 through 2006 when builders clocked more than 1 million new home sales per year.

January's data will increase concerns that the housing rebound could falter in coming months as the government withdraws the support it has used to try to bolster the housing market, which stood at the epicenter of the country's overall recession, the worst downturn since the 1930s.

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A \$1.25 trillion program from the Federal Reserve which has held down mortgage rates is set to end March 31 and tax credits to bolster home buying are scheduled to expire at the end of April.

First-time home buyers could qualify for a credit of up to \$8,000 while homeowners who have lived in their current properties for at least five years could claim a tax credit of up to \$6,500 if they decided to move into another home.

Though the overall economy started growing again this past summer, economists are worried because unemployment remains high. This weakness is causing consumers to shy away from spending, especially on big-ticket items such as homes.

The Conference Board reported Tuesday that its Consumer Confidence Index fell almost 11 points to 46 in February, pushing the index down to its lowest reading since last April. At 46, the index is a long way from the 90 reading that economists generally view as depicting healthy consumer attitudes.

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