



U.S. housing weaker than expected

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WASHINGTON — U.S. house hunters shied away from buying in July, driving down sales of previously owned homes to a 2 1/2-year low. The inventory of unsold homes climbed to a new record high.

The new figures, released Wednesday, provided fresh evidence of how much the once-sizzling housing market has cooled in the United States.

Prospective home buyers have turned cautious about making such a big-ticket purchase as mortgage rates have gone up and uncertainty has risen over whether the economy and job creation will keep slowing, analysts said.

Existing-home sales dropped 4.1 per cent in July from the previous month to a seasonally adjusted annual rate of 6.33 million units, the National Association of Realtors reported. That was the lowest level since January 2004.

The latest snapshot of housing activity was weaker than analysts anticipated. Economists were forecasting the pace of sales to fall to 6.55 million.

Although sales prices for homes are no longer bounding ahead, some prospective buyers are still waiting for better deals — another factor in the weak showing, economists said.

“Many potential home buyers have been on the sidelines, some kicking the tires but mostly waiting for sellers to compromise on prices and terms,” said David Lereah, the association’s chief economist.

The median U.S.-wide price of a home sold last month was \$230,000, up just 0.9 per cent from the same month last year. The median price is the middle point, where half sell for more and half sell for less.

Meanwhile, the inventory of unsold homes in July rose to a record high of 3.86 million. At the current sales pace, it would take 7.3 months to exhaust that overhang. That is the longest period to exhaust the supply of homes since the spring of 1993.

By region, sales tumbled 6.4 per cent in the West in July from the previous month. Sales fell 5.9 per cent in the Midwest and 5.4 per cent in the Northeast. In the South, sales dipped 1.2 per cent.

Wednesday’s report shows that the bloom is off the rose.

For five years running, home sales had hit record highs as low mortgage rates lured buyers. But the housing sector has lost steam this year as mortgage rates have gone up and would-be buyers have grown cautious amid high energy prices and a slowing economy.

Against that backdrop, the Federal Reserve earlier this month decided to halt a rate-raising campaign that had pushed interest rates steadily higher over the last two-plus years to fend off inflation.

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The Fed's goal is to raise rates sufficiently to thwart inflation but not enough to hurt the economy.

One of the things that Federal Reserve Board chairman Ben Bernanke and his colleagues are watching closely is the housing slowdown. If home prices and sales were to crash, that could spell big trouble for the overall economy. Thus far, Bernanke has said the market's slowdown has been fairly orderly and smooth.

Wednesday's figures made some economists worry about the potential for a sharper slowdown in housing.

However, Lereah said he still expects a "soft landing" for the housing sector. But he urged the Fed to leave interest rates alone and refrain from bumping them up again — as some analysts have said is a possibility.

The housing sector's transition from a red-hot market to a cool one has important implications for the overall economy.

Consumers who watched their homes rise rapidly in value over the last several years felt wealthy and more inclined to spend. They also borrowed against their homes — treating them like ATMs — to support their spending ways.

But with home values U.S.-wide not going up as much now as the double-digit gains seen in the past several years, consumers have tightened their belts. That has contributed to a slowing in overall economic activity.

Recent reports underscore the housing slowdown's impact.

Luxury home builder Toll Brothers Inc. on Tuesday reported a sharp drop in third-quarter profits.

Last week the National Association of Home Builders reported that confidence among builders sank to a 15-year low.

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