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Poor May Existing Home Sales Reflect Soft Economy and Falling House Prices

Existing home sales fell again in May, a casualty of the soft economy and falling house prices. The National Association of Realtors (NAR) reported a 3.8% decline in existing home sales in May, down to a seasonally adjusted annual rate of 4.81 million units. This follows a drop of 0.8% in April.

Economic activity has been sluggish in recent months, with GDP growth slowing to 1.8% in the first quarter and a marked decline in the rate of new job creation during May. In addition, the stock market has been volatile and consumer confidence turned lower amid these concerns. Thus, it is no surprise that consumer spending, especially on major purchases such as housing, has also slowed. The recent declines in house prices, with the Case-Shiller house price index (HPI) down 4.2% (NSA) and the Federal Housing Finance Agency HPI 3.5% (NSA) lower in the first quarter of 2011, are also having an impact.

The decline in May existing home sales was predicted by the pending home sales index (PHSI), which slumped 11.3% in April. The PHSI typically leads existing home sales by one to two months—the former measuring signed contracts and the latter metric covering completed (closed) homes sales. The

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significantly larger decline in the PHSI indicates that existing home sales may have further to fall in June before any signs of improvement.

The weakness in May existing home sales was broadly based. Single-family home sales fell 3.2% to a seasonally adjusted annual rate of 4.24 million, while condominium and co-op sales were down 8.1% to 570,000. Across the regions, sales in the Midwest were down 6.4% to 1.02 million units; the South fell 5.1% to 1.85 million units and the Northeast slipping 2.5% to 770,000 units. Sales in the West remained unchanged at an annual pace of 1.17 million units

One positive sign from the NAR report, the parallel practitioner survey indicates that the share of distressed homes – sold at a discount – dropped to 31% in May, from 37% in April and 39% in March. Further declines will help to stabilize house prices and to restore confidence in the housing market. However, the practitioner survey also indicated that investors' share of total sales, which had been rising steadily and supporting home sales earlier in the year, dropped back in May to 19%, from 20% in April and 23% in January 2011. Increasing caution by investors is likely to have contributed, in part, to May's decline.

The NAR point to temporary factors holding back the market in May, noting "… spiking gasoline prices along with widespread severe weather hurt house shopping in April, leading to softer figures for actual closings in May …." However, with oil prices easing in May and June, the NAR suggest: "The pace of sales activity in the second half of the year is expected to be much stronger than the first half …." We at NAHB are less optimistic, as we anticipate existing home sales will lag broader economic growth. Indeed, economic activity is projected to remain sluggish during the second quarter before bouncing back at an appreciably stronger rate of growth in the third. However, we expect the level of existing home sales to remain relatively flat in the second and third quarters, before strengthening by the fourth quarter of 2011.

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