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# MarketWatch

## ECONOMIC REPORT

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### Existing-home sales plunge 27.2% Inventory of unsold homes jumps to 11-year high

By [Jeffrey Bartash](#), MarketWatch

**WASHINGTON (MarketWatch) -- The sale of existing U.S. homes sank 27.2% in July -- the biggest drop ever -- largely because of the phase-out of a federal tax credit, according to an industry trade**

The National Association of Realtors said existing-home sales fell to a seasonally adjusted annual rate of 4.7 million in July from 5.26 million the month before. Sales of single-family homes fell to the lowest rate in 15 years.

A year earlier, existing home sales totaled 5.14 million in July.

Inventories of unsold homes rose 2.5% to 3.98 million, representing a 12.5-month supply, the highest level since at least 1999, the trade group said. And the supply of unsold single-family homes reached its highest rate since 1999. [Read the full report on the NAR website.](#)



Economists surveyed by MarketWatch forecast the pace of sales to fall to 4.70 million. [See our complete economic outlook consensus forecast.](#)

The sharp decline sent investors scurrying. The Dow Jones Average fell almost 100 points to go below 10,000 for the first time since early July. The price of Treasuries, which tend to increase in response to perceptions of economic weakness, rose. [See Market Snapshot](#)

#### Lure of tax credit

Many buyers took advantage of a temporary tax credit earlier in the year to save up to \$8,000, but they had to sign contracts before the end of April to qualify. As a result, sales that have taken place later in 2010 were squeezed into the first few months of the year.

Home purchases were expected to decline after the expiration of the tax credit and that is exactly what's happened. After rising 7.6% in April, existing-home sales fell 2.2% in May and 7.1% in June.

"The July plunge in resales is absolutely the hangover effect from the expiration of the tax credit," economist Stanley of Pierpont Securities wrote in an email.

Yet Stanley and other analysts also noted the weak economy contributed to the slump in home sales. As a third of the decline could be attributed to a slow U.S. growth, suggested Ellen Beeson Zentner, senior U.S. economist at Bank of Tokyo-Mitsubishi.

Home sales are likely to remain sluggish over the next few months despite the lowest 30-year fixed-mortgage rates in the modern era. Rates slipped to a record-low 4.56% in July from 4.74% in June, according to Freddie Mac.

Recent economic data suggests the U.S. might be slowing again and the unemployment rate is stuck at a 27-year high. Until the economy shows big improvement and hiring begins to pick up, the housing market is weak, economists say.

"People just don't know what their future incomes are going to look like," Zentner said.

### Other details

The median sales price edged up 0.7% in the past year to \$182,600 in July, the NAR said.

As demand slackens, however, prices could start to edge lower, economists said. [Listen to interview w/ Baker.](#)

That could help drum up future sales, although homes are already more affordable than ever.

Sales of single-family homes, meanwhile, fell 27.1% in July, while sales of condos dropped 28.1%.

Sales in all four regions declined: Existing-home purchases tumbled 35.0% in the Midwest, 29.5% in the Northeast, 25.0% in the West and 22.6% in the South. Yet home prices actually rose in the Northeast and West.

Distressed sales were little changed, accounting for 32% of sales.

First-time buyers bought 38% of the homes in July, the lowest level in 12 months.

All-cash buyers accounted for 30% of sales, compared with 24% in June.

Investors bought 19% of homes, up from 13% the month before.

The NAR data on existing-home sales are based on closings, which usually occur a month or two after the contract is signed.

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