

Existing Home Sales Slip Further In October

Sales of existing homes fell 3.1 percent in October and sales in the prior month were revised slightly lower. Prices continued to tumble, with the median price of an existing home plunging a record 11.3 percent over the past year. The for-sale inventory dropped, but not as much as sales. As a result, the months supply rose to 10.2 months.

Continued Decline but no Sense of Collapse

Sales of existing homes declined 3.1 percent in October, with large drops in the Midwest and South accounting for much of the decline. The existing home sales data measure closings, which means purchase decisions were likely made one to two months earlier. That said, the financial crisis was in full swing in October and it is encouraging that tighter credit conditions did not lead to a sharper pullback in closings.

The slowing economy is clearly taking a toll, however. Sales in the Midwest fell 6.0 percent in October and sales in the South declined 3.2 percent. By contrast, sales fell just 1.6 percent in the West and dropped 1.2 percent in the Northeast. The Wells Fargo/NAHB Index of Buyer Traffic declined to an all-time low in November, which indicates that buyer traffic for new homes fell to an all-time low in November. We would have to believe that the appetite for existing homes has also diminished, and we expect sales to slow more significantly in coming months.

Inventories of existing homes continue to drop, with the number of listings falling 0.9 percent in October and 4.5 percent over the past year. The drop in inventories reflects some progress toward clearing out foreclosures in California and Florida. In addition, many potential sellers are likely taking their homes off the market, given the weakness in sales and drop in prices. The months' supply rose slightly in October, rising to 10.2 months, but remains well below its recent high of 11.2 months in April.

Foreclosure Sales are Boosting Activity, Particularly out West

The National Association of Realtors notes that the sales figures are bolstered by foreclosure sales, which they estimate account for 45 percent of October's total. *The bulk of foreclosures sales are apparently in the West, where sales are up 37.5 percent year-to-year and prices are down 27.0 percent over the past year.* By contrast, sales are down 10.2 percent year-to-year in the South, down 9.8 percent year-to-year in the Northeast, and off 9.1 percent year-to-year in the Midwest. Prices in the Midwest, Northeast and South are down 6.7 percent, 6.1 percent and 5.8 percent year-to-year, respectively.

The continued large proportion of sales accounted for by foreclosures means that housing has still not found a bottom. Demand for foreclosed properties could decline if credit becomes even harder to qualify for. Weaker economic conditions will also continue to hold back more traditional purchasers. The next few months will also have to deal with weather conditions, which often cause the seasonally adjusted figures to swing widely in the winter months. That said, we expect home sales to find a bottom late this winter or early this spring.

