

Sales of new homes post unexpected increase in May

WASHINGTON -- June 26, 2006 -- Sales of new U.S. homes rose in May, surprising economists who had been forecasting that housing would slow down because of rising mortgage rates.

The Commerce Department reported that sales of new single-family homes increased by 4.6 percent in May to a seasonally adjusted annual rate of 1.234 million units. The median price of homes sold did decline to \$235,300, a drop of 4.3 percent from the April sales price.

Analysts are still looking for sales of both new and existing homes to fall by around 10 percent this year as rising mortgage rates crimp demand. The lowest mortgage rates in four decades helped to propel sales to five straight annual records.

The 4.6 percent increase in sales pushed the sales rate to the highest level since last December and followed increases of 5.9 percent in April and 7.3 percent in March. The previous months' increases had been helped by unusually mild weather.

For May, sales were up in all parts of the country except the Northeast, which posed a 7.9 percent decline to an annual rate of 58,000 units.

Sales were up 6 percent in the South to an annual rate of 669,000. Sales rose by 5.3 percent in the West to an annual rate of 317,000 units and were up 2.7 percent in the Midwest to an annual rate of 190,000 units.

The increase in sales in May pushed the number of unsold new homes left on the market at the end of the month down slightly to 556,000 units, down slightly from the all-time high of 560,000 homes for sale at the end of May. It would take 5.5 months to exhaust the current inventory of homes at the May sales pace.

Economists believe that the huge backlog of unsold homes will put further downward pressure on prices in coming months.

Mortgage rates have been climbing steadily this year and rose last week to a nearly four-year high of 6.71 percent, according to a nationwide survey by Freddie Mac.

Many economists believe mortgage rates will continue to rise, approaching 7 percent by the end of the year.

However, they are not forecasting more than a moderate slowdown in housing as long interest rates do not rise much farther.

The Federal Reserve meets this week. It is widely expected that rates will be increased for a 17th consecutive time and analysts said there is a possibility that the Fed will boost rates for an 18th time at their August meeting.

Analysts said future Fed rate hikes will be determined by whether the economy slows as expected and inflation pressures moderate.



Copyright 2006 Associated Press, Martin Crutsinger (AP Economics Writer). All rights reserved. This material may not be published, broadcast, rewritten, or redistributed.