

## New Home Sales

### Sales of new homes jump unexpectedly

WASHINGTON -- May 24, 2006 -- Sales of new homes rose unexpectedly in April to the fastest pace this year as the housing sector showed resilience in the face of rising mortgage rates. But the price of homes sold last month fell and the level of unsold homes rose to a record high.

The Commerce Department reported that sales of new single-family homes increased by 4.9 percent last month to a seasonally adjusted annual rate of 1.198 million units, the highest rate since last December.

The pace of activity caught economists by surprise. They had been expecting a decline in sales, reflecting the fact that mortgage rates have been climbing in recent weeks and now stand at the highest level in nearly four years.

In other economic news, orders to U.S. factories for big-ticket manufactured goods fell in April by the largest amount in three months as aircraft orders plunged and demand for computers and other electronic products dropped by the largest amount in nearly six years.

The Commerce Department reported that demand for airplanes, appliances and other durable goods decreased by 4.8 percent last month, much larger than Wall Street had been expecting. Orders had posted strong gains of 6.6 percent in March and 3.6 percent in February.

The unexpected jump in April home sales was not likely to change the overall view that the booming housing industry is beginning to cool off after setting sales records for five straight years.

Even with the increase in the April sales pace, the median price of a new home sold in April dropped by 7.3 percent from the March level to \$238,500. That represented a 0.9 percent increase over the \$236,300 median sales price in April 2005, far below the double-digit price gains sellers had been enjoying during the recent sales boom.

The backlog of unsold homes rose by 2.4 percent to a new record of 565,000 homes on the market at the end of April. At the April sales pace, it would take 5.8 months to deplete that backlog.

Economists believe the slowdown in housing will be gradual as long as inflation pressures remain moderate enough to allow the Federal Reserve to soon take a pause in its two-year campaign to push interest rates higher.

A nationwide survey by mortgage giant Freddie Mac showed that rates on 30-year mortgages climbed to 6.60 percent last week, the highest level since late June 2002.

For April, home sales were strong in all parts of the country except the Midwest, where sales fell by 1.1 percent, the second straight monthly declines. Sales were up

8.2 percent in the Northeast, reflecting a rebound after a drop of 7.6 percent in March. Sales were up 7.8 percent in the South and 2 percent in the West.

The April setback in durable goods orders was the largest since a 7.6 percent drop in January. It reflected a 32.2 percent falloff in demand for commercial aircraft after big gains in previous months and a 10.4 percent decrease in orders for computers and other electronic products. It was the biggest decline in this category since July 2000.

While the overall economy is expected to slow in the current quarter, the size of the drop in durable goods orders caught analysts by surprise. They had been expecting a smaller -- 0.5 percent -- pullback following strong gains in previous months.

"Large declines in communications, aerospace and defense equipment industries account for the poor showing in April, but a correction is understandable because these same three industries posted exceptionally strong growth in February and March," said Daniel J. Meckstroth, chief economist for the Manufacturers Alliance/MAPI.

U.S. manufacturing companies, the hardest hit sector in the 2001 recession, are expected to continue posting sizable gains this year, driven by efforts to rebuild lean inventories and continued strong business investment.

Demand in the transportation sector fell by 12.7 percent last month, reflecting a 1.6 percent drop in orders for motor vehicles and parts and a 32.2 percent fall in demand for commercial aircraft, a category that had posted gains of 67.7 percent in March and 72 percent in February.

Demand for military aircraft fell by 24.4 percent in April following a small 0.7 percent increase in March.

Excluding the often-volatile transportation category, new orders dropped by 1.1 percent following a 3.5 percent increase in March and a 1.2 percent fall in February.



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