

ECONOMIC REPORT

Home sales crater on credit squeeze

Sales of single-family homes at 10-year low; inventories highest in 20 years

By *Rex Nutting*, MarketWatch

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WASHINGTON (MarketWatch) -- Sales of existing homes and condos fell 8% in September to the lowest level in at least eight years as inventories of single-family rose to a 20-year high, further evidence that the credit squeeze in mortgage markets is hurting home sales, the National Association of Realtors reported Wednesday.

Sales of existing homes and condos fell to a seasonally adjusted annual rate of 5.04 million, the lowest since 1999, when the real estate group began tracking combined single-family and condo sales. The 8% drop was the largest monthly percentage decline in that period.

Nationwide, sales of existing homes were down 19.1% in September compared with September 2006. Sales fell in all four regions.

The deepening subprime crisis is threatening a recession, said Peter Morici, a business professor at the University of Maryland. Lehman Bros. now expects the Federal Reserve to cut its overnight lending rate by a full percentage to 3.75% by the middle of 2008, including a rate cut next week.

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— *Ian Shepherdson*, High Frequency Economics.

"The housing crunch is accelerating; the Fed can't stand by and watch," wrote Ian Shepherdson, chief U.S. economist for High Frequency Economics.

Sales were much weaker than the 5.22 million pace expected by economists surveyed by MarketWatch. [See Economic Calendar.](#)

Stock markets were lower, partly in reaction to Merrill Lynch's decision to write off nearly \$8 billion in mortgage. Bond yields fell sharply. [See Market Snapshot.](#)

Sales in September "were artificially depressed" by credit problems, said Lawrence Yun, senior economist for the real estate trade group.

Inventories of unsold homes and condos rose to a 10.5-month supply, the largest in at least eight years.

For single-family homes alone, sales fell 8.6% in September to a seasonally adjusted annual rate of 4.38 million, the lowest sales pace since January 1998.

Inventories of unsold single-family homes represented a 10.2 month supply, the largest inventory in relation to sales in nearly 20 years.

"Inventory levels remain extremely high and will take several years to work through," said Adam York, an economist for Wachovia, in a note to clients.

The median sales price for homes and condos was \$211,700, down 4.2% in the past year. Median sales prices have fallen in 13 of the past 14 months.

The median sales price was hit by a decline in jumbo mortgage lending, which are needed for mortgages larger than \$417,000. Sales in California and Florida were particularly hard hit by the inability of borrowers to get loans, Yun said.

"The good news is that mortgage availability has markedly improved in recent weeks with interest rates on jumbo loans falling, and more people are applying for safer and conforming FHA mortgage products," Yun said.

The government will report on sales of new homes in September on Thursday. Economists expect a 4.7% decline to 758,000 annualized sales.

Sales of existing homes fell in all four regions in September, dropping 10% in the Northeast, 9.9% in the West, 7% in the Midwest and 6% in the South.

Condo sales fell 4.3% in September to a seasonally adjusted annual rate of 660,000. The median price of a condo rose 1.4% in the past year to \$221,700. ■

Rex Nutting is Washington bureau chief of MarketWatch.

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