

DAILY GLOBAL  
COMMENTARY

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## Existing Home Sales Maintain Downward Trend

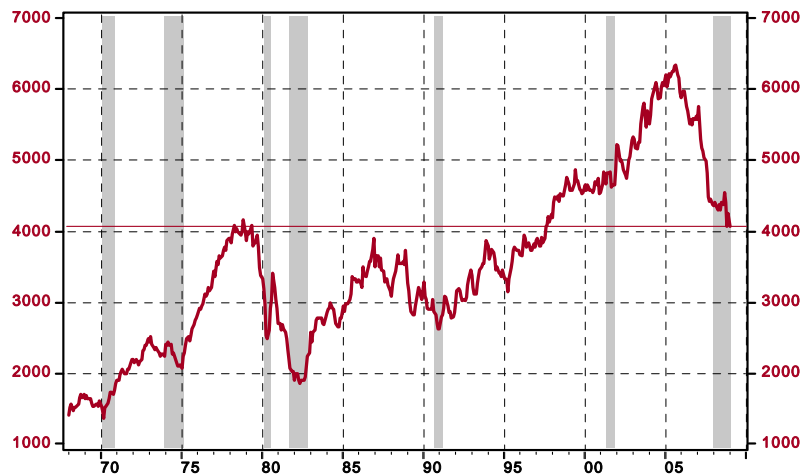
February 25, 2009

Sales of all existing homes declined 5.3% to 4.49 million units in January. Purchases of single-family homes fell 4.7% to an annual rate of 4.05 million units, which is 36% below the cycle peak in September 2005 (6.34 million units).

Chart 1

## Existing 1-Family Home Sales: United States

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Stepping back in time, the largest drop in sales of existing single-family homes (see table 1) was in the 1981-82 recession (-45.3%).

Table 1 Existing Home Sales across Business Cycles

Recession - Economy	Peak of Single-Family Existing home sales Date	'000s units	Trough of Single-Family Existing home sales Date	'000s units	Peak-to-trough change (percent)
Dec. 69-Nov.70	Dec-68	1710	Mar-70	1370	-19.88%
Nov. 73-Mar.75	Feb-74	2380	Jan-75	2060	-13.45%
Jan.80-Jul. 80	Nov-78	4150	May-80	2480	-40.24%
Jul.81-Nov. 82	Sep-80	3400	May-82	1860	-45.29%
Jul. 90-Mar.91	Dec-88	3730	Dec-90	2620	-29.76%
Mar. 01-Nov. 01	Mar-01	4830	Sep-01	4630	-4.14%
Current cycle	Sep-05	6340	Jan-09	4050	-36.12%

The median price of an existing single-family home was \$169,900 in January, down 2.9% from the prior month and down 13.8% from a year ago. In December, the price of an existing single-family home had dropped 14.6% from a year ago. To this extent there is a moderation in the pace of price declines.

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Chart 2

**NAR Median Sales Price: Existing 1-Family Homes, United States**



However, the median price of an existing single-family home has dropped 26.4% from the peak in July 2006 (see table 2). The median decline in home prices across business cycles is only 3.9%. Therefore, the current decline in home prices is a distinct outlier.

**Table 2 Median Price of an Existing Single-Family Home across Business Cycles**

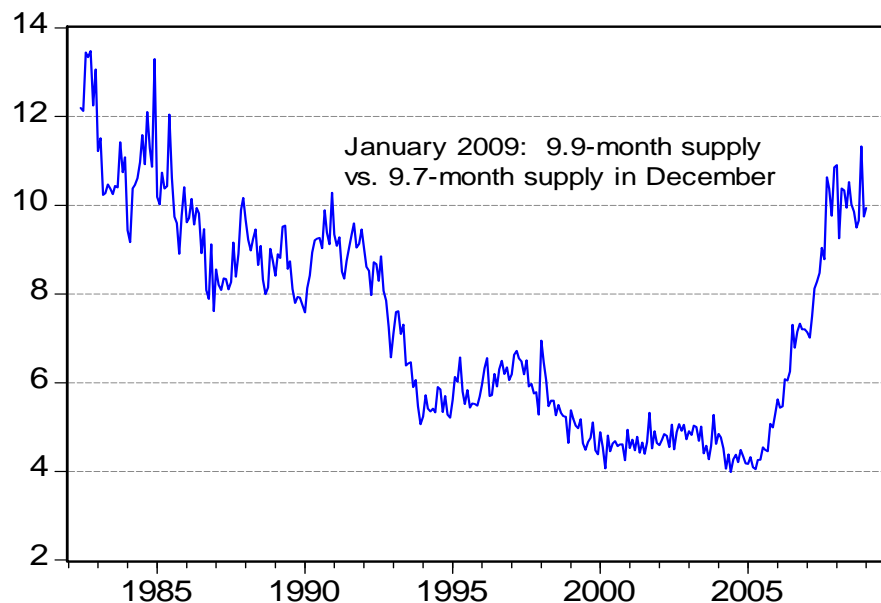
Recession - Economy	Peak of Median Price Existing Single-Family Home Date	\$	Trough of Median Price Existing Single-Family Home Date	\$	Peak-to- trough change (percent)
Dec. 69-Nov.70	Jul-70	23,700	Oct-70	22,700	-4.22%
Nov. 73-Mar.75	Jul-74	33,000	Oct-74	31,900	-3.33%
Jan.80-Jul. 80	Jun-79	56,800	Nov-79	55,600	-2.11%
Jul.81-Nov. 82	Jun-82	69,400	Oct-82	66,900	-3.60%
Jul. 90-Mar.91	Jun-90	101,200	Dec-90	94,200	-6.92%
Mar. 01-Nov. 01	Jun-01	160,800	Oct-01	153,800	-4.35%
<b>Current cycle</b>	Jul-06	230,900	Jan-09	169,900	-26.42%

The inventory situation of existing single-family homes bodes poorly for home prices in the months ahead. The seasonally adjusted inventory of existing single-family homes has hovered above a 9.3-month supply mark in the past twelve months. In January, the inventory-sales ratio was a 9.9-month supply, up from a 9.7-month supply the previous month.

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Chart 3

Existing Single-Family Homes - Inventory-Sales Ratio  
Months' Supply, SA



Other details of the report indicate that sales of existing homes fell in three regions of the nation (Northeast: -14.7%, Midwest: -5.7%, and South: -5.8%) but held steady in the West. The National Association of Realtors indicated 45% of sales in January were foreclosed homes or lender mediated short sales, with the largest percentage of these sales occurring in California. The \$8000 tax credit for first-time home buyers, the raised limit for conforming loans, and lower mortgage rates due to the Fed's purchase of mortgage securities are factors supporting expectations of a recovery in home sales. The Fed announced the program under which it would purchase mortgage securities, both direct obligations of government-sponsored enterprises (Fannie Mae, Freddie Mac, and the Federal Home Loan Banks) and mortgage-backed securities (MBS) backed by Fannie Mae, Freddie Mac, and Ginnie Mae on November 25, 2008. The 30-year fixed rate mortgage was a few basis points over 6.00% prior to the announcement of this program. As of the week ended February 20, the 30-year mortgage rate was 5.04%, a full percentage-point lower. From a historical perspective, mortgage rates are at historical lows (see chart 5).

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Chart 4

FHLMC: 30-Year Fixed-Rate Mortgages: U.S.

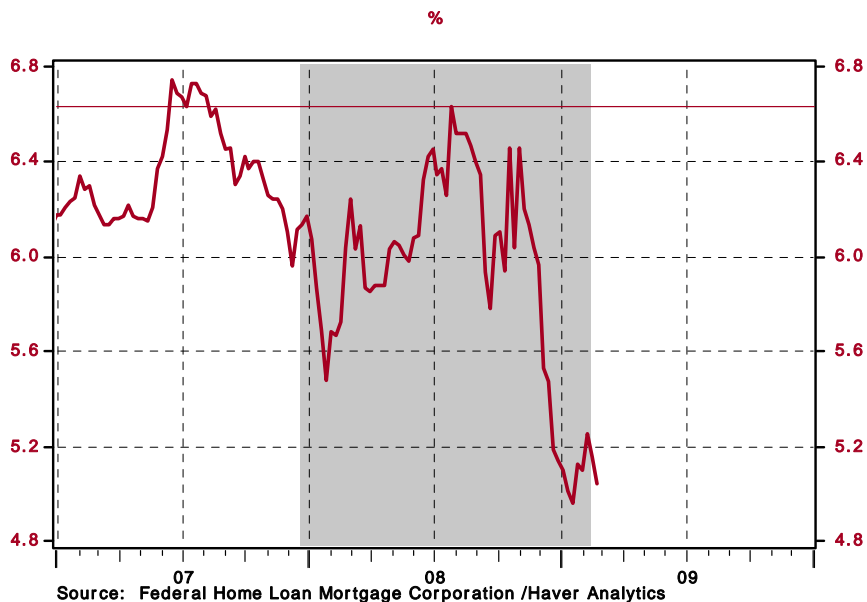
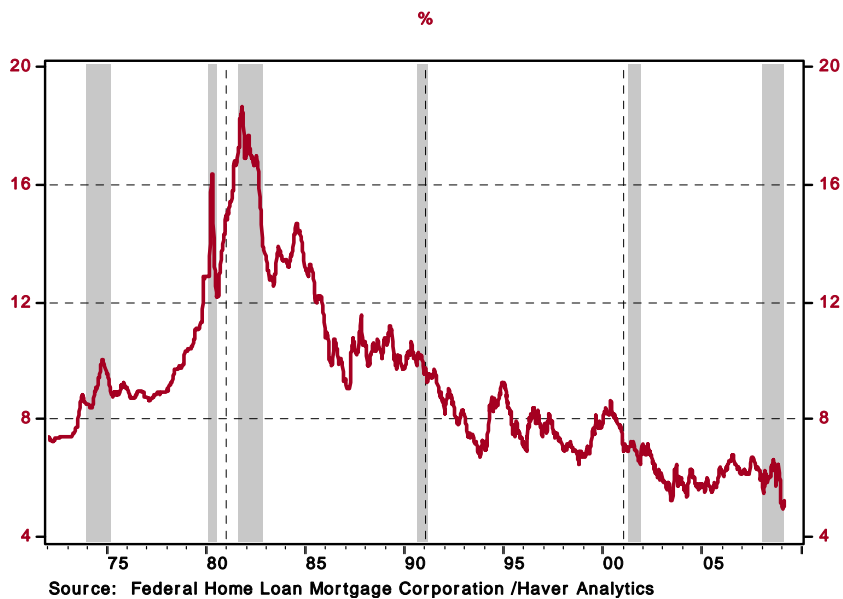


Chart 5

FHLMC: 30-Year Fixed-Rate Mortgages: U.S.



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