Existing home sales plunge by 8 percent

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Sales of existing homes plunged by a record amount in September as turmoil in mortgage markets added more problems to a housing industry in its worst slump in 16 years.

The National Association of Realtors reported Wednesday that sales of existing homes fell 8 percent in September, the largest decline to show up in records dating to 1999. The seasonally adjusted annual sales rate of 5.04 million existing homes was also the slowest pace on record.

The weakness in sales translated into further pressure on prices. The median price — the point at which half the homes sold for more and half for less — fell to $211,700 in September, down by 4.2 percent from the sales price a year ago. It marked the 13th time out of the past 14 months that the year-over-year sales price has decreased.

The 8 percent decline in sales was bigger than the 4.5 percent decline that had been expected.

Analysts blamed the bigger-than-expected slump on the turmoil that hit credit markets and mortgage markets in August as worries increased over rising mortgage foreclosures.

Those worries resulted in a drying up of the availability of so-called jumbo mortgages, loans over $417,000, which are particularly important in high-cost areas such as California.

"Mortgage problems were peaking back in August when many of the September closings were being negotiated and that slowed sales notably in higher priced areas that rely more on jumbo loans," said Lawrence Yun, senior economist for the Realtors.

By region of the country sales were down 10 percent in the Northeast, 9.9 percent in the West, 7 percent in the Midwest and 6 percent in the South.

The slowdown in sales meant that the inventory of unsold homes rose to 4.4 million units in September. At the September sales pace, it would 10.5 months to eliminate the overhang of unsold homes, a record length of time.

Economists are worried that the huge levels of unsold existing and new homes will put further downward pressure on prices.

Yun said that the price declines should be put into perspective in that they are occurring after a five-year housing boom which pushed prices up to record levels.

He forecast that prices will decline by about 1.5 percent this year. That would be the first annual price decline on Realtors' records going back four decades.

The troubles in housing have been a drag on overall economic growth, increasing worries that the housing slump and related credit market troubles could become so severe that they will push the country into a recession.

However, many private economists believe that the Federal Reserve, which cut a key interest rate for the first time in four years last month, will continue cutting rates in a campaign to make sure that the weakening economy does not tumble into a full-blown recession.

Analysts said the price declines will worsen in coming months until inventories are reduced to more sustainable levels. Ian Shepherdson, chief U.S. economist at High Frequency Economics, predicted that the housing troubles will prompt the Fed to cut rates by a quarter-point at its meeting next week.

"The housing crunch is accelerating. The Fed can't stand by and watch," Shepherdson said.