Economic News
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UNITED STATES

Home sales continue to disappoint

HIGHLIGHTS

- Sales of new single-family homes tumbled from 449,000 units in February to 384,000 units in March.
- Existing home sales slipped from 4,600,000 units in February to 4,590,000 units in March.

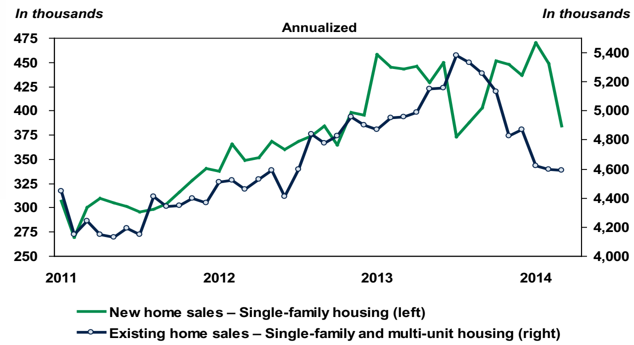
COMMENTS

Even though the return of nicer weather in the United States after a particularly hard winter has brought some new life to several economic indicators, the situation in the housing market remains disappointing. Resales fell slightly less than forecast in March, but still recorded a seventh monthly drop in eight months and the lowest level of sales seen since June 2012. New single-family home sales saw a fourth drop in five months, marking the lowest level of sales since July 2013.

Weather problems partially explain this weakness, exacerbating regional disparities. Data for March show strong sales growth in the Northeast of the United States, but this is just a rebound effect, following the previous month's difficulties. The other regions have posted overall declines, and the general trend is far from positive. In one year, existing home sales have fallen off 7.5% across the United States, with drops of 10.3% in the Midwest and 13.4% in the West. New single-family homes were down 13.3% on a national level from a year ago, including a 27.9% fall in the West. The problems in the housing market clearly go beyond bad weather.

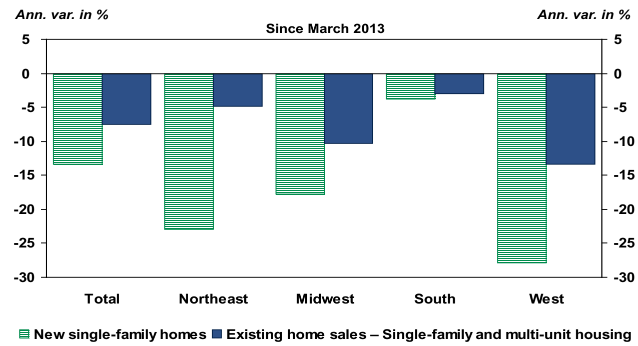
Interest rates are one of the many factors that could explain the current sluggishness in home sales. In one year, 30-year mortgage rates rose from 3.40% to 4.30%, with most of the increase occurring over a few months during the summer of 2013 (the rates were even higher in August 2013 and January 2014). Despite easing conditions, bank credit supply continues to be problematic. Sales from investors and sales of properties foreclosed during the crisis are also flagging.

Housing recovery loses steam



Sources: U.S. Census Bureau, National Association of Realtors and Desjardins, Economic Studies

Widespread drop in home sales



Sources: U.S. Census Bureau, National Association of Realtors and Desjardins, Economic Studies

Implications: Stagnating home sales is worrisome, but the sustained improvement of the economy and the labour market should help this market snap out of its lull. In the meantime, this weakness is an argument against the Federal Reserve making a move to accelerate the tapering of its securities purchases or rising the key rate earlier than expected in 2015.

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