

New home sales, orders for most durable goods rise



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WASHINGTON – Sales of new homes took the biggest monthly jump in 47 years in March, while orders for most large manufactured products rose by the largest amount since the recession started.

While factories are benefiting from a sharp increase in orders from U.S. and foreign businesses, the fuel for new home sales is coming from a less sustainable source: government subsidies.

Some analysts predict demand for homes will fall again over the summer, preventing the beleaguered sector from adding much to the economic recovery.

The Commerce Department said Friday that new home sales skyrocketed 27 percent in March, bouncing off the February's record low. The figure blew past expectations as better weather and government incentives boosted sales.

New orders for durable goods — those expected to last at least three years — fell by 1.3 percent, the government said. But excluding demand for aircraft and other transportation goods, orders surged 2.8 percent, much more than analysts had projected.

The report was evidence that businesses are spending more on new equipment in anticipation of a stronger economy.

"Firms are finally putting their money where their mouths are and betting on a rebound," Diane Swonk, chief economist at Mesirow Financial, wrote in a note to clients.

New home sales, meanwhile, hit a seasonally adjusted annual pace of 411,000, the strongest month since last July. The data reflect signed contracts to purchase homes rather than completed sales and thus give economists a feel for how many buyers were out shopping.

It is likely capturing consumers who are trying to qualify for federal tax credits that will expire at the end of next week. The government is offering an \$8,000 credit for first-time buyers and \$6,500 for current homeowners who buy and move into another property.

To qualify, buyers must have a signed contract complete by April 30 and must complete their transaction by the end of June. "Everyone's just trying to sign on the dotted line," said Jennifer Lee, an economist with BMO Capital Markets.

The rise in new home sales was seen nationwide. Sales grew a whopping 44 percent in the South and 36 percent in the Northeast. They also rose about 6 percent in the West and 3 percent in the Midwest.

The number of new homes up for sale in March fell 2 percent to 228,000. At the current sales pace, it would take nearly 7 months to exhaust that supply.

Still, new home sales are down 70 percent from their peak in July 2005, and some analysts predict they will sink back to the winter's dismal levels after the tax credit runs out.

"I expect we'll see a very sharp drop back," possibly to new record lows, said Paul Ashworth, senior U.S economist with Capital Economics.

So while homebuilders might not be buying a lot of new equipment, other businesses are. And that's critical to nation's recovery because consumers aren't spending as freely as in previous rebounds.

Apart from a big drop in the aircraft industry, the gains were broad-based. Orders for computers and electronic products rose 3.4 percent, the most since February 2009, while demand for machinery jumped 8.6 percent.

Auto and auto parts orders rose 2.5 percent, and spending on capital goods such as computers and machinery jumped by 4 percent, more than many economists forecast and the second straight increase.

Companies are also increasing their inventories, the report Friday showed, though at a modest pace. Rising inventories can be a sign of confidence in future sales. Stockpiles of durable goods rose 0.2 percent in March, the department said, the third straight monthly gain.

After slashing inventories during the recession to bring them in line with sagging sales, companies are replenishing their warehouses. That shift boosts production and accounted for about two-thirds of the economy's 5.6 percent growth in last year's fourth quarter.

Next Friday the government will release its first estimate of the economy's performance for the January-to-March quarter. Economists forecast it will show growth of 3.5 percent, according to Thomson Reuters.

That's normally a healthy pace, but it's slower than many previous recoveries. Economists also worry that it's not strong enough to quickly reduce the nation's unemployment, currently at 9.7 percent.

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