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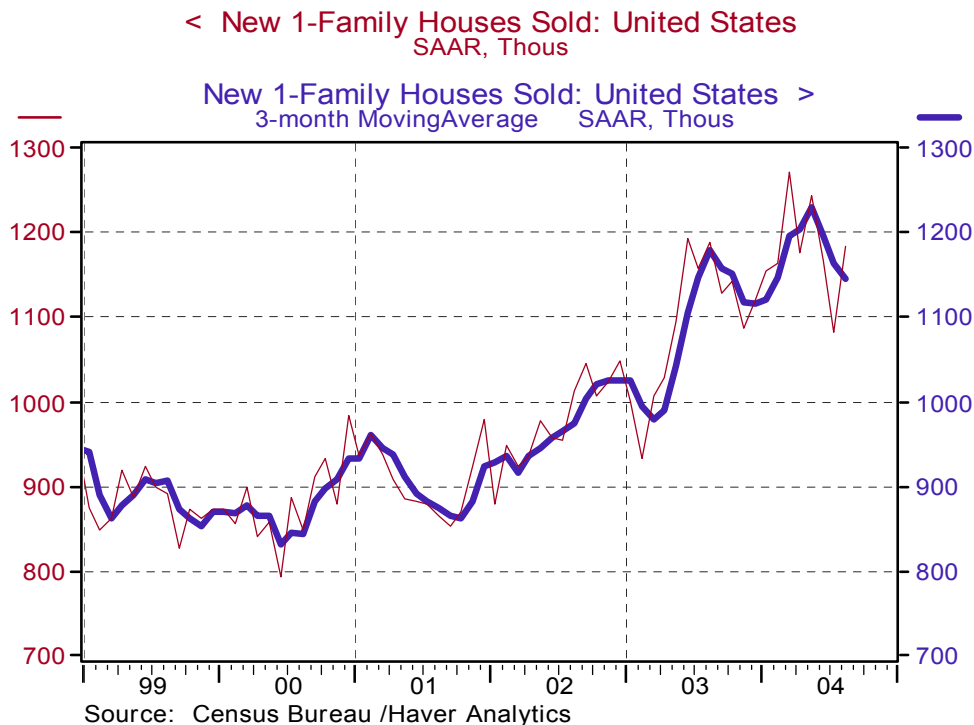
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Sales of New Homes Rebound, But Underlying Trend Is Soft

Sales of new single-family homes increased 9.4% in August to an annual rate of 1.184 million units. The August increase follows declines in sales during June and July. The bright side of the story is that the current 3-month moving average (1.144 million units) is above the 2003 average sales mark (1.089 million units). The important aspect, however, is that the underlying trend is pointing south (see chart 1 for 3-month moving average).

Chart 1

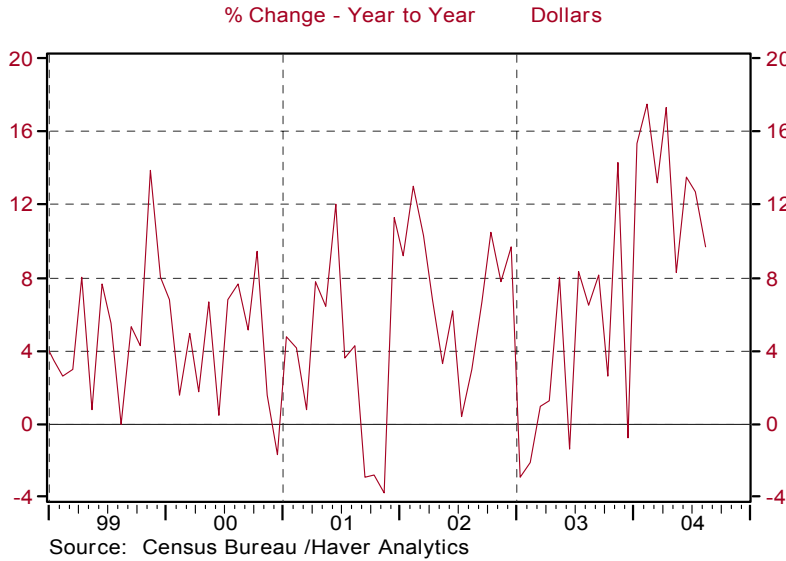


On a regional basis, sales of new homes rose in the Northeast (+6.1%), South (+12.6%), and West (+19.5%) but dropped 8.3% in the Midwest. The median price of a new single-family home was \$208,900, up 9.7% from a year ago. Chart 2 illustrates that the median price of new single-family homes has decelerated from the beginning of the year. How does the 2004 performance rank in a historical framework? Look at chart 3.

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Chart 2

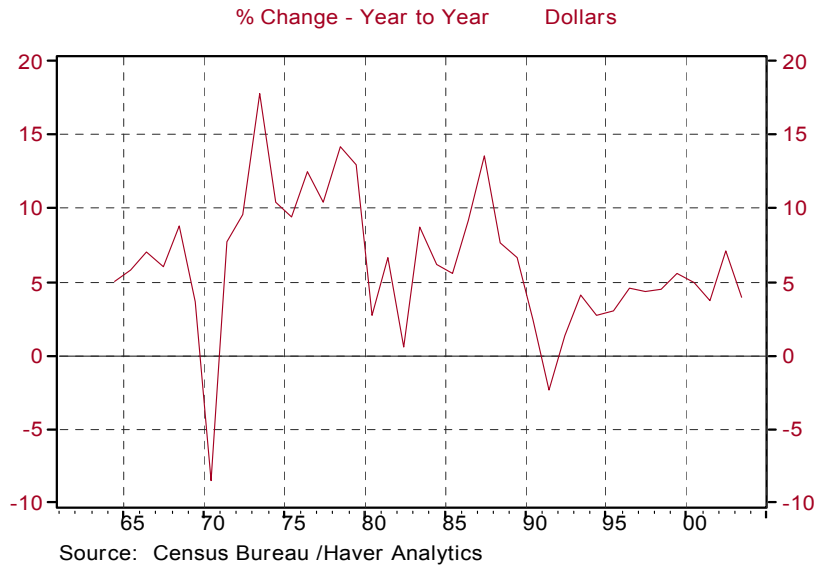
New 1-Family Houses: Median Sales Price (1999- August 2004, monthly)



The current upward trend of new home prices in 2004 shows a significant increase (see chart 3) compared with prior years. This prompts one to raise concerns about the housing market.

Chart 3

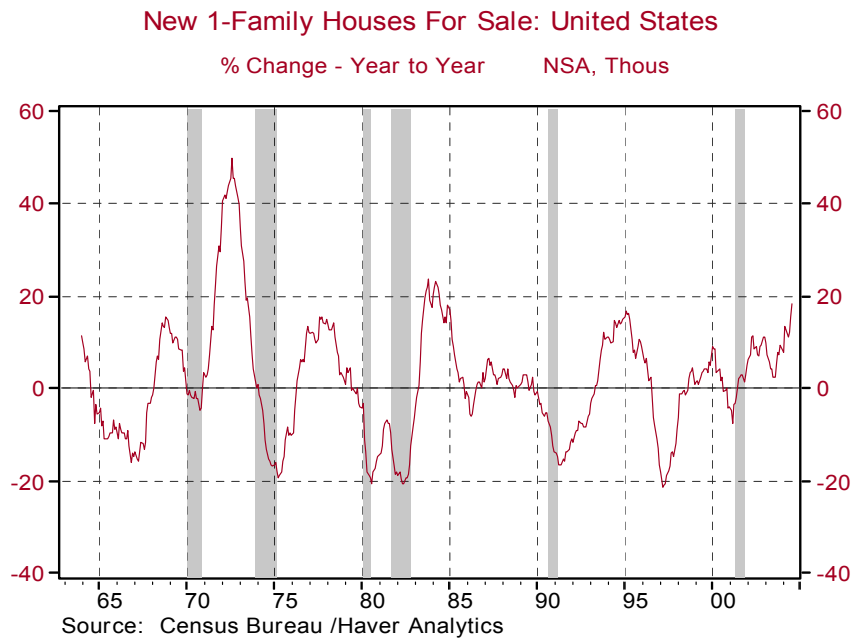
New 1-Family Houses: Median Sales Price (1963-2003)



The inventory of unsold new single-family homes edged down to a 3.9-month supply in August from 4.2 month in July. More importantly, the number of homes for sale rose 18.1% over the past year to 404,000 units. Of the three categories of unsold new homes, the largest category is homes under construction, with homes not started and homes completed sharing the remainder. From Chart 4, it appears that a large inventory of unsold homes is gradually accumulating.

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Chart 4



The details of the market for new single-family homes suggest that trouble is brewing. Strong growth in employment is essential for growth in sales of homes.

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