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On Wednesday the US Census Bureau reported that year-over-year new home sales increased 47.8 percent in April. This is the second consecutive month new homes have increased. On the surface this is great news. Perhaps the housing market is gaining some real momentum. However, if we dig a little deeper we discover that this is most likely an artificial increase caused by government tax incentives.

The expanded and revised homebuyer tax credit expired April 30. Under this program first-time homebuyers can claim an \$8,000 tax credit while repeat homebuyers can claim a \$6,500 tax credit. In order to claim these credits purchase contracts had to be signed by April 30. Incidentally, the purchase must close by June 30.

We suspect that these increases were due to the pending expiration of the tax credits and do not reflect improved economic conditions in the housing market. This phenomenon occurred at the end of last year when the original tax credits expired. Unfortunately, this is just another case of government intervention skewing the data.

Although improving, the economy is still weak. Banks continue to charge off record amounts of bad loans and are hesitant to fund new loans. Unemployment remains high. Wages are stagnant. In all likelihood, new home sales will decline in May. There not enough economic activity to keep this trend going.