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Fall in mortgage rates leads to better home sales by Apil Gupta

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Riding high on the phenomenally low mortgage rates, there has been an increasing demand for new US homes in May. There was an increase up to an annual rate of 346,000, a hike of 0.9 percent from343,000 in April, as per a median forecast of 56 economists in a Bloomberg survey. Last weekâ€™s data also showed that builders ha better success with regards to single-family houses last month, which industry confidence rose to its highest level in five years, this June. The slump in borrowing costs, coupled with more affordable properties, is expected to ensure a higher number of borrowers, while the stagnant job market and limited access to credit impede the recovery. Last week, the Federal Reserve had also extended a program that was intended to keep long term interest rates on the lower side, so as to reduce unemployment, prevent a global slowdown and sustain the housing growth.

Builders broke ground on 516,000 single family houses in May, which was an increase of 3.2 percent from April, and the highest this year, owing to the improving demand.The National Association of Home Builders (also known as Wells Fargo Sentiment Index) also increased by 1 point, its highest ever jump since May 2007. The stability of the housing market has also resulted in better share prices for builders. The Standard 7 Poorâ€™s Supercomposite Homebuilder Index has increased by 33 percent in 2012, much higher than the 6.2 percent increase of S&P 500. However, lower mortgage rates have not contributed to economic growth during an entire year since 2005, when it was responsible for a 0.4 percentage point of the 3.1 percent hike in GDP.

Last year, newly constructed houses comprised 6.7 percent of the residential market, significantly lower from the peak of 15 percent during the housing boom. However, nobodyâ€™s complaining, since itâ€™s a sign that things are improving.

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