Home construction fails to lift recovery

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WASHINGTON — Homebuilders are sending a message: They won't be able to contribute much to the economic recovery now that government home-buying incentives have vanished.

Home construction and applications for building permits sank in May, overshadowing favorable reports on manufacturing and wholesale inflation.

Fewer homes means fewer jobs. Construction fuels a broad swath of industries across the economy. Yet double-digit unemployment is among the main reasons people have passed on buying new homes. Even with near-record-low mortgage rates and a glut of foreclosed properties on the market, the industry is struggling.

"The economy is growing and the housing market is still in recession," said Eugenio Aleman, senior economist with Wells Fargo Securities. "It;s not going to contribute to growth, but it is not going to pull the economy back down."

Overall, new home and apartment construction fell 10 percent in May to a seasonally adjusted annual rate of 593,000, the Commerce Department said Wednesday. April's figure was revised downward to 659,000.

Applications for new building permits — a sign of future activity — sank 5.9 percent to an annual rate of 574,000. That was the lowest level in a year.

Builders are scaling back now that tax credits of up to $8,000 have expired. The biggest evidence of that trend: the number of new single-family homes tumbled 17 percent, the largest monthly drop since January 1991.



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A for sale sign is posted in a lot for sale next to a new home under construction, in Cincinnati. Home construction plunged last month to the lowest level since December as builders scaled back without a federal tax credit to lure buyers.