

(BN) Price Gains Signal U.S. Housing Market to Boost Growth: Economy

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Jan. 29 (Bloomberg) -- Home prices in 20 U.S. cities rose in the 12 months to November by the most in more than six years, showing the housing market will play a more central role in the U.S. economic expansion this year.

The S&P/Case-Shiller index of property values increased 5.5 percent from November 2011, the biggest year-over-year gain since August 2006, according to data released in New York today. Confidence sank more than forecast in January as consumers were stung by a drop in take-home pay, another report showed.

Mortgage rates near a record low will probably spur a third consecutive advance in home sales this year, which will keep property values rising. The resulting gains in home equity may help support consumer sentiment and spending, the biggest part of the economy, softening the hit from the two percentage-point increase in the payroll tax that took effect this month.

"Rising home prices are providing an important cushion," said Millan Mulraine, a New York-based economist at TD Securities LLC, who correctly forecast the gain in values. Lower confidence and smaller paychecks "will slow consumer spending this quarter, but the effect will abate in coming months."

The New York-based Conference Board's sentiment index fell to 58.6 this month, the weakest since November 2011, from 66.7 in December, the private research group said. The 8.1-point drop was the biggest since August 2011, the month after lawmakers wrangled over how to trim the budget deficit.

"The souring in moods is a reflection of the brinkmanship in Washington and the higher payroll tax," Mulraine said.

Shares Climb

Stocks advanced as earnings at companies from Pfizer Inc. to Valero Energy Corp. beat analysts' estimates. The Standard & Poor's 500 Index rose 0.3 percent to 1,504.68 at 12:27 p.m. in New York.

The data come as Federal Reserve policy makers start two days of meetings today to discuss how to spur the economic expansion. Chairman Ben S. Bernanke will push to renew a commitment to purchase assets, according to a Bloomberg survey of 44 economists, even as some central bank officials warn his unprecedented balance-sheet expansion will impair efforts to tighten policy when necessary.

India, meantime, today became the first major Asian economy to lower borrowing costs this year, after inflation moderated to a three-year low and the government called for cheaper credit. The Reserve Bank of India reduced the repurchase rate to 7.75 percent from 8 percent, it said in Mumbai.

European Growth

In the latest example of economic struggles in Europe, Poland's economy in 2012 grew the least in three years. Gross domestic product advanced 2 percent from a year earlier, when it climbed 4.3 percent, the Central Statistical Office said in a preliminary report in Warsaw today.

The median projection of 30 economists surveyed by Bloomberg called for the U.S. 20-city home-price index to climb 5.6 percent. Estimates ranged from 3.4 percent to 6.4 percent. The S&P/Case-Shiller index is based on a three-month average, which means the November data were influenced by transactions in October and September.

The index accelerated from a 4.2 percent year-to-year advance reported for October.

Home prices adjusted for seasonal variations climbed 0.6 percent in November from the prior month, matching October's increase.

The month-over-month gain was led by San Francisco and Minneapolis.

Case, Shiller

The year-over-year gauge provides better indications of trends in prices, the group has said. The panel includes Karl Case and Robert Shiller, the economists who created the index. Year-over-year records began in 2001.

"There are a lot of good signs," Case said in an interview on Bloomberg Radio with Tom Keene. Nonetheless, "there's a long way to go before we would declare victory over this housing market."

Nineteen of the 20 cities in the index showed a year-over-year gain, led by a 22.8 percent jump in Phoenix and a 12.7 percent increase in San Francisco.

New York was the only city to show decreases both month to month and year to year. Over the 12-month period, values in the city decreased 1.2 percent.

"Housing is clearly recovering," David Blitzer, chairman of the S&P index committee, said in a statement. "These figures confirm that housing is contributing to economic growth."

Combined sales of new and previously owned properties last year rose 9.9 percent, the biggest annual gain since 1998, data showed last week.

Builder Earnings

Lennar Corp., the largest U.S. homebuilder by market value, reported fiscal fourth-quarter earnings that beat analysts' estimates as revenue jumped 42 percent. Stuart Miller, chief executive officer of the Miami-based company, said "a long-term demographic need for housing" is driving the housing recovery, which also is bolstering prices.

As "pent-up demand unwinds, homebuilders are gaining pricing power," Miller said on a Jan. 15 earnings conference call. "After years of home prices falling, in 2012 the trend turned positive, initially stabilizing and then allowing for price increases across the country."

D.R. Horton Inc., the largest U.S. homebuilder by volume, said today that fiscal first-quarter profit more than doubled as demand for new houses climbed. Orders jumped 39 percent to 5,259 homes. The company's contract backlog, an indication of future sales, rose 80 percent to \$1.76 billion.

Mortgage Rates

Low borrowing costs are helping buyers who qualify for financing. The average rate on a 30-year fixed mortgage was at 3.42 percent last week, close to the 3.31 percent in November that was the lowest in data going back to 1972, according to McLean, Virginia-based Freddie Mac.

The fiscal pact passed by Congress on Jan. 1, while avoiding sweeping tax increases, let the payroll tax used to pay for Social Security benefits return to the 2010 level of 6.2 percent from 4.2 percent. That reduces the paycheck by about \$83 a month for someone who earns \$50,000.

Congress is now debating how best to reduce the nation's budget deficit. Automatic spending cuts are slated to go into effect March 1.

The protracted debate may be shaking consumers, as confidence about the current state of the economy and the outlook over the next six months both dropped, today's Conference Board report showed.

The share of consumers expecting more jobs to become available through the middle of the year was the smallest since December 2011.

A report this week is projected to show the job market kept making headway in January. Employers added 161,000 workers to payrolls this month after a 155,000 December increase, according to the median forecast in a Bloomberg survey before a Feb. 1 Labor Department report.

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