U.S. housing, confidence data point to recovery

By Ros Krasny Tue Aug 25, 2009

CHICAGO (Reuters) – **Larger-than-expected gains in U.S. housing prices and consumer confidence on Tuesday lent new weight to views that the economy is emerging from the longest recession since the 1930s.**

U.S. single-family home prices rose for the second month in a row in June, according to a closely watched index, and consumer confidence jumped in August.

In addition, President Barack Obama nominated Ben Bernanke to a second term as chairman of the Federal Reserve, removing some niggling doubt from investors' minds. The move promised a consistent approach to monetary policy in the years ahead.

The developments helped buffer the blow of projections for the U.S. budget deficit to reach its highest level in 2009, relative to the total economy, since World War Two.

"The recession appears to be over, with consumer attitudes lagging behind broad economic developments," said Steven Wood, chief economist at Insight Economics in Danville, California.

Major U.S. equities indexes closed higher after briefly hitting new 2009 highs on the day's events. Treasury bond prices initially fell as signs of a resurgent economy reduced interest in safer investments, but later rose after decent demand for an auction of two-year notes.

The Conference Board, an industry group, said consumer confidence climbed to a reading of 54.1 in August from 47.4 in July, handily beating forecasts, on an improved outlook for the job market and the overall economy.

The rise sent the index to its highest level since May. Still, some analysts warned not to get carried away.

"Confidence remains well below its historical average of 95 and it has not even regained the level of 61 seen before the collapse of Lehman almost a year ago," said Paul Dales, U.S. economist at Capital Economics in Toronto.

The weak labor market remains a sticking point to recovery, and especially a revival in consumer spending. Even the Fed has conceded the likelihood of a "jobless recovery," with the unemployment rate staying high long after growth resumes.

Americans saying that jobs were "hard to get" in August dropped to 45.1 percent from 48.5 percent but only 4.2 percent said jobs were plentiful.

"Most of the strength was in the 'expectations' component, so it looks like even though the near-term conditions are still a bit rocky, there is hope for the future," said Kim Rupert, managing director, global fixed income analysis, Action Economics LLC in San Francisco.

HOUSING PRICES IN BROAD-BASED GAINS

Other data supporting recovery hopes came from the Standard & Poor's/Case-Shiller housing price index. The housing market is considered a critical component to an economic recovery.

Prices of U.S. single family homes rose by 1.4 percent in June from May, after creeping up by 0.5 percent in April, suggesting the crippling housing slump is easing.

The Case-Shiller 10- and 20-city indexes have plunged by 54.3 percent and 45.3 percent, respectively, from their 2006 peaks.

June's improvement was broad based, with 18 of 20 metropolitan areas logging gains for the month.

"The most important take-away is the breadth of the rise," said Adam York, economist at Wells Fargo Securities in Charlotte, North Carolina. "The absolute worst is behind us."

Separately, the Federal Housing Finance Authority said U.S. home prices rose by 0.5 percent in June, according to its seasonally-adjusted monthly index, while prices fell by 0.7 percent in the second quarter.

"The S&P/Case-Shiller report dovetails with evidence from the FHFA house price index and the National Association of Realtors existing home sales report, suggesting that house price deflation has bottomed," said Anna Piretti, economist at BNP Paribas in New York.

BEN'S BACK

Bernanke's reappointment, while widely expected, was seen as a plus for markets that feared new uncertainty at a time the U.S. economic ship is finally righting itself.

Fed officials have warned that politicizing the U.S. central bank risked higher long-term interest rates as investors began to fear higher inflation taking root.

"Were Bernanke to be denied a second term in favor of, say, a current White House 'insider,' this would inevitably add to concerns about the blurring of lines between fiscal and monetary policy and the potential compromising of Fed independence," said strategists at analysis firm 4CAST Ltd.

For the time being, though, Bernanke & Company still face deflationary pressure from the huge "output gap" in the U.S. economy created by the deep recession.

"The news that the deflation-conscious Bernanke is going to be at the helm .... provides tentative support to our view that the zero-interest rate policy will remain in place until 2011 at the earliest," said Capital Economics' Dales.

The nonpartisan Congressional Budget Office (CBO) on Tuesday gave updated projections on the likely U.S. budget deficit in fiscal 2009 and beyond.

Spiraling deficit forecasts stretching far into the future have been cited as one element behind a dip in Obama's polling numbers, as Americans start to fear that tax hikes will almost inevitably follow.

The CBO forecast a fiscal 2009 deficit at $1.59 trillion, or 11.2 percent of projected gross domestic product, falling to $1.4 trillion or 9.6 percent of GDP in 2010.

It gave a 10-year deficit forecast of $7.14 trillion against $9.1 trillion.

Separately, the White House raised its forecast for the budget deficit between 2010 and 2019 to a total of about $9 trillion.

Courtesy of JB Goodwin