News Analysis: U.S. homes sales up, but could slip again

by Matthew Rusling

WASHINGTON, Aug. 4 (Xinhua) -- U.S. home prices made their first monthly climb in nearly three years, which may provide relief to the embattled housing sector after last year's price plunge sent the economy reeling.

A new home sits for sale in Lemont, Illinois, July 27, 2009. U.S. home prices made their first monthly climb in nearly three years, which may provide relief to the embattled housing sector after last year's price plunge sent the economy reeling. (Xinhua/Reuters Photo)
Photo Gallery>>>

But experts warn the uptick may be temporary and that continuing unemployment could curb a significant rise.

The Standard & Poor's Case-Shiller Home Price Index, which tracks home prices in 20 major cities, increased half a percent age point in May -- the latest available statistics -- from the previous month.

And that's not the only good news. The National Association of Realtors and the Federal Housing Finance Agency also point to an upward price trend. More affordable homes have stirred activity in the housing market. Sales climbed in June and foreclosure sales are down between 45 and 50 percent from earlier in the year, according to Goldman Sachs, an investment bank.

Experts said a more stable housing market would boost consumer confidence and help lessen bank losses due to foreclosures. But they also noted the sector may not be out of the woods yet, as much hinges on the labor market.

Indeed, foreclosures could climb until unemployment -- 9.5 percent as of June and possibly rising -- levels off.

Mark Calabria, director of financial regulation studies at the CATO Institute, a Washington, D.C. think tank, said people do not buy homes when they are unemployed.

Moreover, it remains unknown when unemployment will bottom out.

"Any increase in unemployment will have an adverse impact on the housing market," he said.

And a significant rise in new monthly unemployment claims -- around half a million or more -- could spark an uptick in foreclosures, he said.

For now, it could take time for foreclosures to mitigate.

"When the labor market gets better we will see fewer foreclosures, but it could be six months before they level off," he said.

As for the Case-Shiller price increases, Calabria said they are small and lack nationwide uniformity, adding that it could take at least a year before the housing sector sees any real rise in prices.

Dean Baker, co-director at the Center for Economic and Policy Research, a Washington, D.C. think tank, agreed the price uptick is weak and that high rates of foreclosure continue, which will keep prices down while rising unemployment dampens demand.

Many experts also predict the foreclosure wave will continue until 2011.

Baker expects prices to continue to sink and said the decline may not reverse for six to 12 months. Housing prices often rise with inflation, and this time will be no different, he said. Moreover, homes are unlikely to make the kind of gains seen prior to this recession.

"If people think they are going to rise 10 to 15 percent they are dreaming," he said.

Further dampening price increase is an excess supply of homes. Despite the sales increase, Goldman Sachs puts the number of homes for sale at around 3.66 million, far higher than previous levels of around 2 million seen over the last decade.

Ben Carliner, director of research at the Economic Strategy Institute, a Washington, D.C. think tank, said it will take a sustained turnaround in the real economy -- new job creation and rising wages -- to pull the housing market out of its slump.

"The Case-Shiller numbers do suggest that the housing numbers are getting worse more slowly, but that is not the same thing as saying we've reached bottom and things can only go up from here," he said.

The amount of time houses are on the market before they sell is still rising, builders are still reducing prices of newly-built homes to promote sales, and the number of home sales is still weak by historical standards, he said.

There is too much uncertainty at this point to say for sure where the sector is heading, he said. Others, however, have expressed optimism over the uptick, although they expect prices to slide somewhat before significant gains occur.

Goldman Sachs economist Jan Hatzius said in a report that the downturn in the U.S. residential real estate market may be drawing to a close. Still he expects the Case-Shiller index will fall 40 to 45 percent, which suggests another 10-percent drop.

Carliner said in the future, when the recession has ended and growth begins to pick up, the recovery is likely to be restrained because the so-called "wealth effect" will no longer drive demand.

The "wealth effect" is what drove up private sector demand in the United States until the housing market crashed. Until then, rising house prices made home owners feel richer. Many took equity out of their houses -- through reverse mortgages, for example -- and used that money to fund consumption.

But now that the housing bubble has burst, people are suddenly feeling much poorer, cutting back on consumption and trying to save more, said Carliner.

The United States needs sustained increases in productivity to improve its real standard of living, "and it is harder to create productivity growth than to ride asset bubbles like the (one) we just went through," he said.

"So perhaps the worst is behind us," he said. "But there's a lot of hard work ahead to restore the fundamental health of the economy."

Special Report: Global Financial Crisis