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U.S. Economy: Home Sales Stabilize as Labor Market Improves

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By Courtney Schlisserman and Timothy R. Homan



Dec. 2 (Bloomberg) -- Pending sales of U.S. existing houses unexpectedly jumped by a record 10 percent in October, indicating the industry at the center of the last recession is stabilizing as the job market improves.

The **increase** in the number of Americans signing contracts to buy previously owned homes followed a 1.8 percent drop in September, the National Association of Realtors said today in Washington. Another report showed claims for jobless benefits over the past month on **average** dropped to a two-year low.

Combined with figures showing chain-store sales topped estimates last month, the reports added to evidence the world's largest economy is strengthening, sending stocks up for a second day. Cheaper borrowing costs, lower **prices** and more jobs may entice homebuyers in coming months, helping the real-estate market regain its footing after the end of a tax credit caused demand to slump.

"The fundamentals that are driving home sales are low mortgage rates combined with job and income growth and that's why housing should be expected to grow in coming months," said **Dean Maki**, chief economist at Barclays Capital Inc. in New York. "Housing activity will still look low relative to the boom years, but we expect a solid growth rate to occur."

The **Standard & Poor's 500 Index** rose 1.1 percent to 1,218.97 at 11:31 a.m. in New York. Treasury securities gained, pushing the yield on the benchmark 10-year note down to 2.95 percent from 2.97 percent late yesterday.

Claims Slowing

The number of applications for jobless benefits averaged 431,000 a week over the month ended Nov. 27, the lowest level since August 2008, Labor Department figures showed. **Claims** increased by 26,000 last week, more than forecast, to 436,000, after reaching a two-year low.

"The labor market is definitely improving," said **Ryan Sweet**, a senior economist at Moody's Analytics Inc. in West Chester, Pennsylvania. "Overall, the economy seems to be outperforming expectations this quarter, which is encouraging because it gives us positive momentum into next year."

A Labor Department report tomorrow may show employers added 145,000 workers last month and the **unemployment rate** held at 9.6 percent.

Pending home sales were projected to decrease 1 percent, based on the median of 40 forecasts in the Bloomberg survey. **Estimates** ranged from a drop of 4.8 percent to a gain of 3 percent.

Three of four U.S. regions saw an increase, today's report showed, including gains of 27 percent in the Midwest, 20 percent in the Northeast and 7.1 percent in the South. Purchases fell 0.4 percent in the West.

'Uneven' Recovery

"The housing market clearly is in a recovery phase and will be uneven at times, but the improving job market and consequential boost to household formation will help the recovery process going into 2011," **Lawrence Yun**, NAR's chief economist, said in a statement. "But activity needs to improve further to reach healthy, sustainable levels."

Compared with October 2009, pending sales were down 22 percent.

Housing is an ongoing concern for Federal Reserve policy makers, who last month announced additional asset purchases to spur growth and reduce unemployment.

"Housing markets remain depressed, with several Districts reporting further weakening during the past six weeks," the Fed said in its Beige Book report, which is based on anecdotal information.

The Fed's report, released yesterday, showed the economy strengthened across much of the U.S. as hiring improved, manufacturing expanded and retailers anticipated a stronger holiday shopping season.

November comparable-store sales rose 5.3 percent at U.S. retailers, compared with a 3.5 percent estimate, Retail Metrics Inc. president **Ken Perkins** said in an interview.

Mortgage Rates

The **average rate** on a fixed 30-year mortgage reached 4.17 percent in mid November, the lowest level since Freddie Mac records going back to 1972, after the Fed announced it would pump another \$600 billion into the banking system by June to spur growth. The average rate climbed to 4.46 percent in the week ended today, a four-month high, on mounting evidence the economy is improving.

The real-estate agents group's housing **affordability index**, which takes into account borrowing costs, home prices and household incomes, climbed to a record in October.

Pending home sales are considered a leading indicator because they track contract signings. Purchases of previously owned homes are tabulated when a contract closes, typically a month or two later.

Credit's Influence

Sales of **existing** homes, which now make up about 90 percent of the market, fell more than forecast in October as foreclosure moratoriums and a lack of credit disrupted the market, data from the Realtors group showed last week. In July, sales ran at the weakest pace in records going back a decade.

The tax credit worth as much as \$8,000 required contracts be signed on April 30 and closed by Sept. 30. Many of the closings occurred in May and June because the original incentive called for transactions to be completed by June 30.

Companies including **Beazer Homes USA Inc.**, which builds houses for first-time buyers, are cautious about next year.

"Sustained high unemployment levels and the overhang of foreclosures make it very difficult to predict when and to what extent the housing market will recover," **Ian McCarthy**, chief executive officer of Atlanta-based Beazer, said on a conference call with analysts on Nov. 5.

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Last Updated: December 2, 2010 11:34 EST

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