

HOME PRICES TURN UP

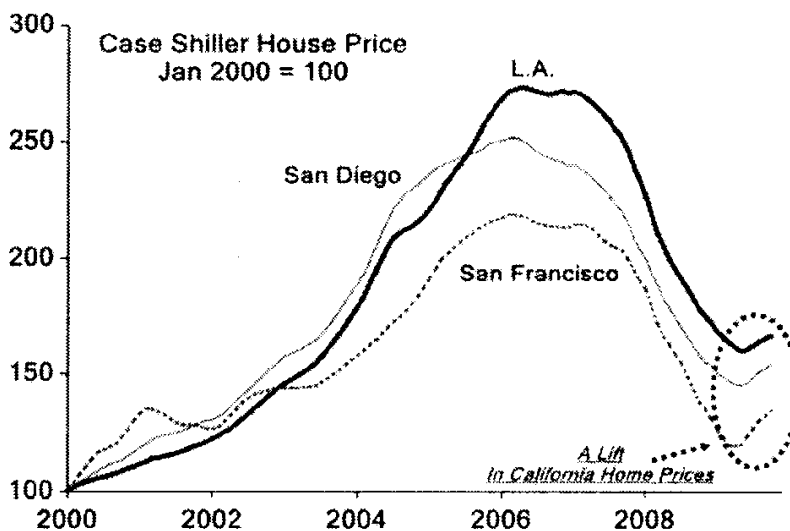
Alfred F. Kugel

Chief Investment Strategist

At long last, home prices appear to have turned the corner and are now improving from a very depressed level.

Following an excruciating decline extending back for three years, home prices appear to have reached a bottom and are now starting to recover. The widely-quoted Case-Shiller index of housing has now been rising for five consecutive months, although it is still down about 7% for the latest 12 months and by nearly 30% from the record high. Nevertheless, the latest turn is good news for homeowners, banks holding mortgages and consumers in general. Although the last reading showed a decline in sales of new homes, this appears to be due primarily to fewer units being built rather than a lack of purchasers. In general, then, the housing sector appears poised for a measure of recovery in 2010. Even in depressed California prices have turned up as shown in the following ISI Group chart:

California No Longer Is Slipping Into the Pacific.



Everyone has been waiting for a signal that house prices have reached bottom, and there is now increasing evidence that this has happened. Although there is risk of a relapse, average prices have been gradually recovering for five months now, even in the most depressed areas, such as California. The most important recent development is that the inventory overhang has been reduced noticeably, thus bringing us nearer to an actual upturn in new housing starts. On this basis, we would expect to see new residential construction become a contributor to overall economic growth in the quarters ahead.

Source of Data: Standard & Poor's Case-Shiller.

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