Economic forecasts climb as orders rise

Home sales jump best in 47 years; factories fuel sustained recovery

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WASHINGTON — Sales of new homes took the biggest monthly jump in 47 years in March, while orders for most large manufactured products rose by the largest amount since the recession started.

The two reports were a sign that the recovery is picking up speed, and some economists are raising their estimates for U.S. economic growth this year.

"The recovery has been proceeding at a more rapid pace than we thought," said Zach Pandl, economist with Nomura Securities in New York.

Factories are benefiting from a sharp increase in orders from U.S. and foreign businesses. But the housing market's fuel is coming from a less sustainable source: government subsidies. Some analysts predict demand for homes will fall again over the summer, preventing the beleaguered sector from adding much to the economic recovery.

The government is offering an $8,000 tax credit for first-time buyers and $6,500 for current homeowners who buy and move into another property. To qualify, buyers must have a signed contract complete by the end of next week and need to finish their transaction by the end of June.

While the homebuilding industry's future remains shaky, other businesses are accelerating their spending. That's critical to nation's recovery because consumers aren't spending as freely as in previous rebounds.

New orders for durable goods — those expected to last at least three years — fell by 1.3 percent, the government said. But excluding demand for aircraft and other transportation goods, orders surged 2.8 percent, much more than analysts had projected.

The report was evidence that businesses are spending more on new equipment in anticipation of a stronger economy.

"Firms are finally putting their money where their mouths are and betting on a rebound," Diane

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ORDERS

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Swonk, chief economist at Mesirow Financial, wrote in a note to clients.

Apart from a big drop in the aircraft industry, the gains in durable goods orders were broad-based. Orders for capital goods such as machinery and computers — a key measure of business investment — jumped by 4 percent, more than many economists forecast and the second straight increase.

Companies are also increasing their inventories, the report Friday showed, though at a modest pace. Rising inventories can be a sign of confidence in future sales. Stockpiles of durable goods rose 0.2 percent in March, the department said, the third straight monthly gain.

After slashing inventories during the recession to bring them in line with sagging sales, companies are replenishing their warehouses. That shift boosts production and accounted for about two-thirds of the economy's 5.6 percent growth in last year's fourth quarter.

Next Friday the government will release its first estimate of the economy's performance for the January-to-March quarter. Economists forecast it will show growth of 3.5 percent, according to Thomson Reuters.

That's normally a healthy pace, but it's slower than many previous recoveries. Economists also worry that it's not strong enough to quickly reduce the nation's unemployment, currently at 9.7 percent.

Major homebuilders like Lennar Corp., Hovnanian Enterprises Inc. and MDC Holdings Inc. are aggressively promoting countdowns to April 30 or "last chance" sales on their websites.

MDC Holdings, which builds communities in 10 states under the name Richmond American Homes, is also offering to pay closing costs for buyers. But CEO Larry Mizel warned investors Friday, "we remain cautious due to the impending expiration of the federal homebuyer tax credit and depressed overall economic conditions."

Nishu Sood, an analyst at Deutsche Bank, said after the credits are gone, "the most likely scenario is that, starting in May, sales will fall off again," said "You will see a letdown."

New home sales rose 27 percent in March, bouncing off February's record low, the Commerce Department said Friday. They rose to a seasonally adjusted annual pace of 411,000, the strongest month since last July.

Economists surveyed by Thomson Reuters had expected a sales pace of 330,000. February's results were revised upward to 324,000, but remained an all-time low. Sales had been especially weak over the winter, partly due to bad weather.

The rise in new home sales was seen nationwide. Sales grew a whopping 44 percent in the South and 36 percent in the Northeast. They also rose about 6 percent in the West and 3 percent in the Midwest.

The median sales price was $214,000, up more than 4 percent from a year earlier but down more than 3 percent from February. The number of new homes up for sale in March fell 2 percent to 228,000.

Still, new home sales are down 70 percent from their peak in July 2005, and some analysts predict they will sink back to the winter's dismal levels after the tax credit runs out.

priced items chosen for longevity, quality and design, and less in quantity."

That helps explain why some of the bottom dwellers on last year's sales charts, including Neiman Marcus and Saks Fifth Avenue, have seen big increases in the past couple of months.



MARY ALTAFFER / The Associated Press

An advertisement at the future site of the Hollister Co. clothing store is reflected on the window of designer St. John retail store on New York's 5th Ave.

Business consulting firm Bain last week predicted a 4% increase in the global luxury goods market in 2010 after an 8% decline last year. (North and South America are expected to gain 4% as well.) Sales of accessories, shoes and leather are expected to rise 5%, and apparel, watches and jewelry are forecast to grow 4%.

Still, Neiman Marcus and Saks are adjusting to the realities of the post-recession consumer. Neiman Marcus is testing a concept for in-store departments geared toward the "aspirational" (read: not rich) shopper. Saks said last month that it is closing its Portland, Ore., store.

But Saks CEO Stephen Sadove says he's heartened by recent trends.

"Customers are starting to shop again, and we are hearing many anecdotes from our stores that they are seeing customers they haven't seen in some time," said Sadove. "They have pent-up demand."

Midprice stores win

Stores that sell more to the middle class have done well as the economy has improved. Rist says J.C. Penney is increasing in popularity among survey respondents. Amazon's earnings, released Thursday, show first-quarter profit grew 68%.

With "a number of things still weighing on the consumer family budget," Penney CEO Mike Ullman says, shoppers continue to be "pragmatic about where they spend." He says that's leading more to try — and stick with — the midprice department store.

"People who do come and discover us aren't returning to their former loyalties," Ullman says.

Wyss, the economist, says that while discounters have gained a lot of market share, their sales increases flatten when the economy improves.

"People are getting tired of being thrifty," says Wyss. "You formed a solidarity with the unemployed by shopping at Walmart, and now you don't have to do that anymore."

Discounters don't tend to "distinguish themselves" in areas outside of commodities, Ullman says, so Penney tries to get consumers in to buy socks and keep them with an increasingly diverse group of brands and outside designers.

They've attracted Stewart, who uses the hair salon and shops Penney sales racks along with the Lands' End department at Sears.

Stewart, who had a baby five months ago, says she needed to get a new wardrobe that fit her better, so she started shopping more for clothes for herself rather than for her children.

"I decided to take more time out for me and my look," says Stewart.

She also couldn't bear to look at her 4-year-old daughter's room, which wasn't fully furnished. She's been gradually buying accessories for the room, some from a high-end consignment shop, and is working with a design expert on how to arrange the room once she buys larger pieces from a furniture store.

Like many, Stewart and her husband are sticking to a budget but letting themselves enjoy spending a bit. They decided, "Let's go out and do things and make the place more livable and likable," she says.

"We're going to make good investments, as we know we're going to have them for a while," says Stewart. "There's no point saying 'no' to ourselves anymore."