BUSINESS

Rosy data trump analysts' worries

Recovery could face pitfalls this year

By Alan Zibel
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WASHINGTON — The economy is improving, with home sales up, jobless claims down and inflation tame. Yet there are concerns the economic rebound won't get much juice from the housing market, which is being fueled by tax breaks.

Sales of previously occupied homes grew by nearly 7 percent last month, more than expected, the National Association of Realtors said Thursday. It was a welcome sign after three months of declines, and a solid kickoff to what's expected to be a strong spring season.

Nevertheless, many analysts caution that the housing rebound could fade in the second half of the year. They predict a flood of low-priced foreclosures will hit the market and push down prices in a destabilizing "double dip" in prices.

Another threat to the U.S. recovery is fallout from the Greek debt crisis. Thursday, Europe's statistics agency reported Greece's budget deficit last year was larger than previously thought, which may push the country to seek emergency loans.

But so far, "the recovery looks like it will continue," said Jay Feldman, senior economist with Credit Suisse. "We don't see another recession."

Underscoring that view, the government reported Thursday that new claims for unemployment benefits fell by 24,000 to a seasonally adjusted 456,000, the Labor Department said.

And in a separate report, the government said wholesale prices rose 0.7 percent last month. But excluding volatile food and energy costs, prices rose only 0.1 percent, which means little risk of inflation.

Speaking in lower Manhattan, President Barack Obama said the economy is recovering in what he called "the fastest turnaround in growth in nearly three decades."

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AMY SANCETTA / The Associated Press

Home sales rose more than expected in March, reversing three months of declines.

The Obama administration says its policies have helped stop the housing freefall. The government is offering tax credits to homebuyers and trying to stem foreclosures by paying incentives to lenders who rework loans for troubled borrowers.

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

But critics contend the administration's policies will just postpone the pain. They say the government shouldn't be providing a subsidy to buyers who would have acted anyway.

Home prices could fall another 10 to 20 percent, warns Dean Baker, co-director of the Center for Economic and Policy Research, a liberal Washington think-tank.

There are already signs of weakness. A government index of home prices, also released Thursday, declined 0.2 percent in February, the third-straight monthly drop. Nationally, the median sales price in March was $170,700, nearly unchanged from a year earlier, the National Association of Realtors said.

Despite warnings that the market will worsen, real estate agents are seeing business boom this spring.

"When people are optimistic about everything, then they are going to spend money, and that can only help the economy," said Mike Bowman, president of a Century 21 agency in Grapevine, Texas.

Nationally, sales are up 18 percent from their low in early 2009, but are still down 26 percent from their peak in fall 2005. Last month's sales rose in every region, surging more than 7 percent in the Midwest and South, 6.6 percent in the West and 6 percent in the Northeast.