Weak home building a drag on recovery

Uncertainty over tax credit a factor

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THE ASSOCIATED PRESS

WASHINGTON — The budding economic recovery is getting little help from the home building industry, which normally creates jobs and boosts growth as a recession ends.

Construction of homes unexpectedly plunged last month to its lowest point since April, the Commerce Department said Wednesday. The weak figures show that builders fear there aren't enough buyers to soak up the glut of unsold homes already on the market — a supply magnified by record-high foreclosures.

They also illustrate how much the fledgling recovery depends on government aid. Builders held back in part because of uncertainty in October about whether Congress would extend a tax credit for homebuyers. Earlier this month, lawmakers renewed the credit and extended it to more buyers.

Even with government support, the weakness of the housing sector is dragging on the economy.

"It will take a while before residential construction begins to contribute meaningfully to growth," Jennifer Lee, an economist at BMO Capital Markets, wrote in a research note.

The tepid recovery is also holding down inflation. While consumer prices edged up faster than expected in October, they remain lower than they were a year ago. And inflation is expected to stay subdued.

The Labor Department said consumer prices rose 0.3 percent in October, a bit more than the 0.2 percent economists had expected. Core inflation, which excludes energy and food, rose 0.2 percent, compared with expectations for a 0.1 percent rise.

The higher figure was driven by another increase in energy prices and the biggest jump in new car prices in 28 years. The price of used cars and trucks also rose.

Analysts said the jump in used car prices partially reflected the government's Cash for Clunkers rebate program. The program reduced the stockpile of used vehicles. This happened because cars that qualified for the clunkers program were junked and so weren't available for resale.

The rise in both new and used car prices accounted for 90 percent of the increase in core inflation last month, government analysts said.