

U.S. Economy: Home Sales, Leading Indicators Rise

Written by By Bob Willis and Shobhana Chandra, Bloomberg

Two measures of U.S. economic performance unexpectedly turned positive in December, in sharp contrast to the tens of thousands of firings announced by companies as diverse as [Caterpillar Inc.](#) and Sprint Nextel Corp.

The National Association of Realtors said [sales of existing homes](#) rose 6.5 percent to an annual rate of 4.74 million last month, propelled by the biggest slump in prices since the Great Depression. The Conference Board's index of leading economic indicators increased 0.3 percent as the supply of money expanded.

Analysts said the indicators, while reflecting Federal Reserve and Treasury efforts to stave off a complete collapse of the economy, needed to be viewed against the backdrop of surging firings -- at least 74,000 announced today alone. The job losses, they said, may deepen the pullback in [consumer spending](#) and make banks more reluctant to lend, exacerbating what's already the longest recession since 1982.

"We are not out of the woods yet by any stretch," said [Jonathan Basile](#), an economist at Credit Suisse Holdings in New York. "People are in a funk and they aren't going to get out of it quickly. You keep losing jobs and that's going to extend the period of low confidence. Companies are in cost-cutting mode."

The next few months will be "very, very difficult" even as officials seek to revive growth, White House economic director [Lawrence Summers](#) warned yesterday.

Stocks Rose

Stocks advanced amid speculation Pfizer Inc.'s agreement to purchase Wyeth, the biggest drug tie-up in almost five years, may spur some recovery in mergers and acquisitions. The Standard & Poor's 500 index rose 0.6 percent to close at 836.57. Treasuries regained most early losses, sending benchmark 10-year note yields to 2.64 percent at 4:44 p.m. in New York from 2.62 percent at last week's close.

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“We expect 2009 will be the weakest year for economic growth in the postwar period,” Peoria, Illinois-based Caterpillar said today as it announced a 32 percent decline in fourth-quarter profit and plans to cut 20,000 jobs.

The leading indicators index would have fallen last month without the 0.99 percent increase in [money supply](#) adjusted for inflation, which has the biggest weighting in the index. That reflected the Fed’s campaign to unfreeze credit markets by purchasing securities and increasing lending to banks.

Fed’s Hand

“The Fed has successfully prevented an implosion of the money supply -- the economy is a different story,” [Ian Shepherdson](#), chief U.S. economist at High Frequency Economics Ltd. in Valhalla, New York, said in a note to clients. Shepherdson accurately predicted the gain in the leading indicators.

The Conference Board’s index points to the direction of the economy over the next three to six months. It was forecast to decline 0.2 percent, according to the median estimate in a Bloomberg News survey of 57 economists. Last month’s gain was the first in six months.

Rising numbers of Americans filing [claims](#) for unemployment benefits held the index down in December. First-time claims soared to 589,000 in the week ended Jan. 17, matching the highest level in 26 years, according to the Labor Department.

Employers “are each cutting thousands of jobs. These are not just numbers on a page,” U.S. President [Barack Obama](#) said today at the White House. “We cannot afford delays” in passing the economic stimulus program now before Congress, he said. Obama is seeking an \$825 billion economic recovery package.

Firings

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Sprint Nextel Corp., the U.S. wireless carrier, said today it will eliminate 8,000 jobs, or 14 percent of its workforce, in an effort to reduce expenses by \$1.2 billion a year. [Home Depot Inc.](#), the world's largest home-improvement retailer, said it will cut 7,000 jobs, or 2 percent of its workforce.

"We are in the midst of a global economic crisis; all of us are affected," [Mike Duke](#), the incoming chief executive officer of [Wal-Mart Stores Inc.](#), told employees of the world's largest retailer today in Bentonville, Arkansas. "Not a single one, not here or any country in the world, can be insulated from this situation globally."

Housing subtracted 0.31 percentage point from the leading index. Government figures showed last week that housing starts and building permits, a sign of future construction, both plummeted to a record low annual rate in December.

Sales of existing homes were down 3.5 percent compared with a year earlier, the NAR said today. Resales averaged 4.91 million in 2008, down 13 percent from 2007 and the fewest in 11 years. Resales were forecast to fall to a 4.4 million annual rate in December, according to the median estimate of 70 economists in a Bloomberg News survey.

House-Price Slide

The [median price](#) dropped to \$175,400, down 15 percent from a year ago, the biggest decline since records began in 1968 and probably the biggest in seven decades, according to the group. Sales of distressed properties accounted for about 45 percent of all sales last month.

Obama will use up to \$100 billion of the remaining half of the \$700 billion financial-rescue funds to ease the mortgage- foreclosure crisis, Summers, his top economic adviser, said in a letter to lawmakers on Jan. 15.

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Builders are scaling back as sales slump and foreclosures mount, contributing to the economic slump.

U.S. foreclosure filings jumped 81 percent last year as more than 2.3 million properties got a default or auction notice, or were seized by lenders, according to RealtyTrac Inc., an Irvine, California-based seller of default data.

KB Home, the fourth-largest U.S. homebuilder, on Jan. 9 reported a fourth-quarter loss exceeding analysts' estimates and predicted more pain for the housing market this year.

"The housing industry continues to confront unprecedented downward pressure," Chief Executive Officer [Jeffrey Mezger](#) said in a conference call. "These conditions persist nationally, with no visible signs of lessening in the near term."