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Case-Shiller: Equilibrium?

The June Case-Shiller house price index improves more than expected, showing a 0.5% rise, year-on-year (Consensus: unch; Decision Economics: -0.1%).

Seasonally adjusted figures showed prices up 0.9% from May, with only two of twenty cities showing month-to-month declines--Charlotte (-0.1%) and Dallas (-0.1%). In June 2011, prices were down 0.2% from May, with twelve cities showing declines--ranging from -0.2% to -0.8%.

The broadening-out of the incidence of rising prices is evidence that local markets are coming into better demand/supply balance across the nation. And, that balance seems more stable for having been established at a level of inventory months-supply (between 6 and 6.5 months) not much higher than prevailed in the stable-price years of the early-to-mid 1990s (5-6 months).

These results encourage hopes that negative wealth effects on consumer spending are a diminishing threat to the economic outlook. Fed hawks will see that as evidence that natural forces are slowly bringing the economy into a healthier-growth equilibrium.

Doves will see an opportunity to hasten the process by taking steps to lower mortgage rates further--downplaying hawkish concerns that yet another distorted-market situation will be created.

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