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Case-Shiller Shows Broad-Based Gains

The S&P/Case-Shiller 20-City Composite Home Price Index advanced 1.2% y/y in July (Consensus and Decision Economics: +1.1%), building on the positive trend that the Index has taken since the turn of 2012. This is the strongest 12-month increase since August 2010. Sixteen of the twenty cities reported price increases from a year ago, led by Phoenix (+16.6% y/y). Moreover, for the third consecutive month, all of the 20 cities showed gains in monthly terms.

As the shadow inventory of foreclosed properties is being worked through, the drag on prices has alleviated. Mortgage rates matching 40-year lows are attracting buyers who perceive the market turning the corner. To date, low mortgage rates have not translated into increased refinancing as underwater homeowners have been unable to secure new loans. With rising home prices, some homeowners will move into the black. Combined with the potential effects of QE3 to lower long-term interest rates, we may see refinancing activity pick up-likely a plus for household spending.

It is particularly reassuring that the price increases cover the entire nation, as progress in the housing recovery has been choppy. The risk of using a broad-based policy tool to help the housing market is that the more damaged markets like Detroit, Las Vegas, and Atlanta might lag while the healed markets like Washington DC, Los Angeles, and New York might overheat. Obviously, this data does not reflect the open-ended QE3 from the Fed (and will not for some time, as the transmission mechanism is repaired), but the differences between markets must be monitored going forward.

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