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Home prices drop, consumers turn gloomier

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By Leah Schnurr

NEW YORK (Reuters) - Home prices fell more steeply than expected in November, and consumers turned less optimistic in January, highlighting the hurdles still facing the bumpy economic recovery.

After accelerating at its fastest pace in 1-1/2 years at the end of 2011, the U.S. economy is expected slow in early 2012.

The S&P/Case-Shiller composite index of single-family home prices in 20 metropolitan areas, released on Tuesday, declined 0.7 percent on a seasonally adjusted basis, a bigger drop than the 0.5 percent economists expected.

The decrease added on to the 0.7 percent decline in October from September.

Separately, an index of consumer attitudes fell to 61.1 in January from 64.8 the month before, as Americans turned gloomy about the job market and income prospects, said the Conference Board, representing private companies.

The data frustrated expectations for an increase after sharp gains in consumer confidence in November and December.

"We are braced for a more bumpy picture over the next few months. A lot of expectations probably ran away or got a little too lofty coming into the end of the year," said Sean Incremona, economist at 4Cast Ltd in New York.

"We are still in a very modest recovery, and we do see consumption slowing this quarter, and data like this supports that picture."

Some improving housing data in late 2011 had raised hopes the recovery was finding its footing. But weaker numbers this month have underscored how lengthy the healing process will be.

"I'm absolutely of the opinion we've bottomed out. The debate now is whether the recovery begins, and I'm not sure that recovery is earnestly underway," said Eric Lascelles, chief economist at RBC Global Asset Management in Toronto.

"The reality is the housing market is so far from normal that it will take years to get back to its normal state. Similarly it will take a while before it really is contributing properly to economic growth."

U.S. housing prices have plunged by about a third from their peak before the financial crisis, and a combination of high unemployment, tight mortgage lending conditions and more foreclosures in the pipeline are holding back a recovery.

Would-be homeowners have also shied away and data from the Commerce Department on Tuesday showed the homeownership rate dipped in the fourth quarter to 66.0 percent from 66.3 percent.

Aside from the second quarter of 2011 when the rate was at 65.9 percent, homeownership is at its lowest level since the second quarter of 1998.

The day's disappointing data took Wall Street lower, undermining earlier optimism over a possible Greek debt deal.

Also weighing on the market was a report that showed business activity in the U.S. Midwest grew more slowly than expected in January - the index fell to 60.2 compared with a forecast of 63 - hurt by a weaker labor market.

A wider reading of the U.S. factory sector is due on Wednesday with the release of the Institute for Supply Management national manufacturing survey.

Last week, the Federal Reserve showed the extent of its concern about the uncertain U.S. economic recovery by signaling it would keep interest rates near zero for nearly three more years. That gloomy assessment was echoed on Tuesday by a

Congressional Budget Office report that saw U.S. unemployment above 8 percent this year and in 2013.

Companies are feeling the pinch too. Growth expectations for

first-quarter earnings are declining sharply, due to worries about slowing growth and weak revenue trends at major U.S. firms, according to Thomson Reuters data.

A report released on Monday showed spending was flat in December as Americans focused more on saving.

Once a key pillar of the U.S. economy, Americans have taken a more frugal tack as many struggle with hefty debt burdens.

"With the global economy slowing and domestic fiscal policy a drag on growth, the wellbeing of the U.S. consumer is crucial to the recovery," Alistair Bentley, economist at TD Bank Group, wrote in a note.

"Today's number, coupled with yesterday's disappointing personal spending data, offers a reminder that underlying demand is still too soft to absorb the economy's excess slack."

On a seasonally adjusted basis, 17 of 20 cities racked up monthly home price declines, and average national prices were around levels seen in mid-2003, according to S&P/Case-Shiller.

Prices in the 20 cities also steepened their year-over-year decline, falling 3.7 percent compared to a 3.4 percent decline in October.

Last week, the Obama administration took steps to head off a new foreclosure crisis but critics and even some supporters said it was unlikely to prove much more successful than other government programs to date.

Some Federal Reserve officials have said the central bank should consider buying more mortgage-backed securities to help boost the struggling sector, though some economists question how effective that would be with borrowing costs already so low.

(Additional reporting by Chris Reese; Editing by Chizu Nomiyama)