Market Scan

Housing Ugly But Moving In Right Direction

Andrew Farrell, 10.17.07, 1:45 PM ET

The drastic decline in new home starts is a sobering reminder of the sorry state of the housing market, but also a necessary step to improve conditions.

The Commerce Department said Wednesday that new home construction fell to its lowest rate in 14 years last month. Housing starts dropped 10.2% to an annual rate of 1.191 million in September. Economists expected a rate of 1.285 million.

"This pain is perversely a very good thing for the industry, as excess inventory must be wrung out of the system," said Pali Capital analyst Stephen East.

The decline in home starts comes as homebuilders like D.R. Horton pull back sharply on construction. Excessive building, overeager speculators and problems in the mortgage market have created a glut of homes.

The weaker-than-expected housing data helped push some investors towards the relative safety of Treasury bond. The yield on the benchmark 10-year U.S. government issue droppped to 4.58% from 4.66% late on Tuesday. The Vanguard Long-Term Bond Exchange-Traded Fund, which holds Treasury issues, was up 0.6%, or 48 cents, at $75.11, where it yielded about 5.35%.

The weak news on housing seemingly overcame some slightly worrisome inflation data in the minds of bond investors. The U.S. Labor Department said Wednesday that its Consumer Price Index rose 0.3% in September. Economists expected 0.2% growth. The core CPI, which excludes volatile food and energy prices, rose 0.2%, which matched expectations.

The CPI, which measures the prices consumers pay for goods, is used by the Federal Reserve as an inflation gauge. The core CPI has now risen 2.3% over the last twelve months, slightly above the Fed's comfort zone. The Fed likes to keep inflation under 2%.

The economic data didn't disconcert Wall Street. The Dow Jones industrial average rose 0.2%, or 32.11, to 13,945.05. The technology-laden Nasdaq Composite did even better, up 1.3% on the heels of strong earnings announced Tuesday night by some of its major consituents.

On Wednesday, some of the Dow issues joined in the action. Coca-Cola, Intel and JPMorgan Chase all announced quarterly earnings that topped Street predictions.

Shares of Intel rose $1.05, or 4.1%, to $26.53; shares of JPMorgan gained $1.69, or 3.8%, to $46.80; and shares of coca-Cola added $1.59, or 2.8%, to $59.35.