As house prices rise, Obama orders more of the same

Christine Seib New York

House prices in the United States, a key factor in dragging the world into recession, showed the first real signs of life for three years yesterday, when the S&P/Case-Shiller index — the most influential measure of the American property market — recorded its first quarter-on-quarter increase since the market started to fall three years ago.

The news helped to push shares higher, even after markets had already been boosted by President Obama's reappointment of Ben Bernanke for a second term as Chairman of the US Federal Reserve. Mr Bernanke said on Monday that share prices had partially recovered from the worst financial crisis since the Great Depression.

The S&P/Case-Shiller tracks property prices in 20 cities across America and rose by 1.4 per cent in the three months to June 30, compared with the first three months of the year. Economists had been expecting only a 0.2 per cent increase. The index rose 0.5 per cent from April to May.

David Blitzer, chairman of the index committee, said: "For the second month in a row, we're seeing some positive signs." He said that there were "more than green shoots" in the housing market, but added a warning that a rise in interest rates could easily snuff out the upturn.

The Federal Housing Finance Agency said that its house price index was also up in May and June, although prices in the second quarter were down 0.7 per cent on the first. The agency's index cuts out houses bought with sub-prime and "jumbo", or high-value, mortgages, making it less volatile than the S&P/Case-Shiller.

Consumer confidence is also rising. The much-watched Conference Board index, compiled by the private research group, showed a rise from 47.4 in July to 54.1 in August. Nevertheless, the index was still well below the 61 points that it hit before Lehman Brothers' collapse last September, emphasising the continuing worries about jobs and housing felt in many American households.

Mr Obama interrupted his holiday to surprise markets by announcing the reappointment of Mr Bernanke — whose original term is not due to expire until January 31 — to end uncertainty about the direction of the Fed.

The central banker, whose reappointment must be approved by the Senate, has been credited with taking aggressive action to contain the US recession. The President said that Mr Bernanke's "temperament, his courage and his creativity" had helped to avert a second Great Depression.

While the 55-year-old former economics professor at Princeton University has been criticised for failing to predict the global crisis, economists welcomed his second-term nomination. Thomas Cooley, Professor of Economics at New York University's Stern Business School, said: "He's seen as a serious person who really believes in the mission of the Fed and that means he's well respected within the Fed system."

Laurence Kantor, head of research at Barclays Capital, said that Mr Bernanke had done an "outstanding job" of restoring stability to the US economy.

The challenges awaiting Mr Bernanke in his second four-year term were underlined yesterday when the White House added $2 trillion to its long-term budget deficit predictions, based on worsening unemployment and sluggish economic growth.

Peter Orszag, director of the Office of Management and Budget, said that America's 2009 budget deficit would be $1.58 trillion, down from the $1.84 trillion predicted in May, because the Government would not use about $262 billion (£160 billion) that it had set aside in case further bailouts were needed. However, Mr Orszag said that the deficit between 2010 and 2019 would be $9 trillion, rather than the $7 trillion estimated in May, blaming the need for higher spending on unemployment benefits and food stamps. The Obama Administration expects unemployment to hit 10 per cent next year.

Mr Orszag also reduced the White House's estimate of economic growth in 2010 from 3.2 per cent to 2 per cent.

The non-partisan Congressional Budget Office agreed that the budget deficit would be $1.58 trillion for this year but predicted a $7 trillion deficit up to 2019, on the assumption that tax cuts put in place by the Bush Administration will lapse in 2011.

President Obama announces the reappointment yesterday of Ben Bernanke, left, for a second four-year term as Chairman of the Federal Reserve

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Chairmen of the Board of Governors of the Federal Reserve System

- Marriner Eccles, 1934–48
- Thomas McCabe, 1948–51
- William Martin, 1951–70
- Arthur Burns, 1970–78
- William Miller, 1978–79
- Paul Volcker, 1979–87
- Alan Greenspan, 1987–2006
- Ben Bernanke, since Feb 2006

Three reasons to cheer continuity at the helm

Viewpoint Gerard Lyons

The reappointment of Ben Bernanke is good news for three main reasons. First, the timing. There has been increasing speculation about Mr Bernanke's reappointment. If this had continued, it would have triggered unnecessary uncertainty. Instead, we have continuity at the Fed and this should ensure consistency at the heart of President Obama's economic policy.

Second, it points to a prolonged period of low US rates. The US and world economy are recovering, but the rebound is in its infancy and is fragile. It is thus vital that policymakers around the world do not tighten policy prematurely. Mr Bernanke's speech at the weekend, to the annual gathering of central bankers at Jackson Hole in Wyoming, shows clearly he understands this. Expect US monetary policy to remain accommodative for some time.

Third, Mr Bernanke has done a great job. The first time I met him at the Fed a few years ago he impressed me with his global and historical perspective, both of which have been valuable assets in this crisis.

He and others, such as Mervyn King, have shown clear leadership over the past year. They played a vital role in pulling the world economy back from the abyss and in ensuring a policy-induced recovery.

Although actions speak louder than words, Mr Bernanke has clearly articulated his policy, to the financial markets and the general public. However, the job is only half-done. Navigating a sustainable recovery cannot be taken for granted.

While inflation is not a problem, many investors are wary about liquidity in the US economy and the Fed's exit strategy. Mr Bernanke is the person best-placed to preside over this.

● *Gerard Lyons is chief economist at Standard Chartered*

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