



MARKET SNAPSHOT

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U.S. stock market frets about recovery in housing market

Next hurdles: new home-sales report and next month's demise of tax credit

By Kate Gibson, MarketWatch

NEW YORK (MarketWatch) -- The U.S. stock market's focus on the housing sector intensified Thursday, with equities battered for a second day after data shook investors already bracing for next month's expiration of a tax break for new home buyers.

"The market is very susceptible to anything that puts into question the recovery. The housing data today did just that," said Benny Lorenzo, chairman and CEO of New York-based investment bank Kaufman Brothers.

The major stock indexes tossed aside early gains after the National Association of Realtors reported home resales fell 2.7% in August after four consecutive months of gains.

Energy and material shares lost the most in the wake of the housing report, which came along with a dip in oil prices that took a barrel of crude down to a nearly two-month low.

The Dow Jones Industrial Average slipped 41.11 points, or 0.4%, to end at 9,713.44. The S&P 500 Index dropped 10.09 points, or 1%, to 1,050.78. The Nasdaq Composite declined 23.81 points, or 1.1%, to 2,107.61.

"We believe we're still on track for a V-shape recovery. But, you're going to see these kinds of conflicting signals and data points; that's the hallmark of a turn," added Lorenzo.

The disappointing report could well be a preview of coming months once the first-time home-buyer credit expires, said Joe Liro, equity strategist at Stone & McCarthy Research Associates.

"We'll see what happens to home sales once we take away that crutch," said Liro.

Investors had expected Thursday's report to illustrate the gradual improvement recently seen in residential real estate, looking for signs that the brighter picture was "not just driven by

incentives given to first-time home buyers," said Art Hogan, chief market strategist at Jefferies & Co.

"We have to cross the bridge from an economy growing from government stimulus to an economy that is self-sustaining. If investors have one concern, that's it," Hogan said.

The \$8,000 government subsidy for new home buyers expires Nov. 30.

The coming expiration of the tax credit was expected to bring some weakening in sales, as the incentive likely "pulled a portion of existing home sales forward into the summer months," Omar Sharif, an analyst at RBS Securities Inc., wrote in a research note.

"While we still hold to that idea, it is not clear if the August drop reflects that dynamic or simply a modest pullback following the largest percentage gain in resales since at least 1999," he added.

On Friday, the economic data will include another report on housing, with new home sales expected to climb about 2% to a seasonally adjusted annual rate of 433,000 in August, which would mark the fifth straight increase and the highest level in a year.