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Gloomy U.S. consumers clip housing recovery hopes



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On Tuesday June 30, 2009, 1:02 pm EDT

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By Emily Kaiser



Reuters - Shoppers walk up Fifth Avenue in front of the Cartier jewellery building in New York, December 7, 2008. ...

WASHINGTON (Reuters) - U.S. consumer confidence took an unexpectedly steep slide in June, figures released on Tuesday showed, suggesting the 18-month-long recession had yet to loosen its grip on the economy.

A separate report on April house prices in major cities offered some encouraging signs that the worst of the housing slump may be over, but that was not enough to lift investors' spirits. Another crop of economic data showed business activity in New York City and the Midwest remained weak, while retail chains slogged through a rough June.

Billionaire investor George Soros added to the cautionary tone, saying that rising borrowing costs posed a threat to any eventual economic recovery.

"As markets revive, fear of inflation will drive up interest rates, which will choke off recovery," he said at a breakfast hosted by the Wall Street Journal.

Major stock market indexes fell after the Conference Board's consumer confidence index showed households felt gloomier about their current situation and less optimistic about what the

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coming months might bring.

Kevin Kruszewski, head of listed trading at Keybank Capital Markets in Cleveland, said the confidence data "kind of took the wind out of things a little bit."

Investors had been in a somewhat better mood since an early March trough as economic data suggested the pace of the recession was slackening. But with no clear sign that growth is about to resume, sentiment has begun to fade in recent weeks.

The consumer confidence index fell to 49.3 in June from 54.8 in May. Economists polled by Reuters had expected a healthier reading of 55.0 for the month.

Standard & Poor's/Case Shiller home price indexes showed prices of single-family homes declined in April from the prior month, but the pace of the slide moderated.

The 20-city price index dipped 0.6 percent from the previous month, which was far less dire than the 1.8 percent decline that economists polled by Reuters had predicted.

There were a few more glimmers of hope as 13 of the 20 metropolitan areas tracked showed some improvement. The laggards included Las Vegas, Phoenix and Miami, which were among the cities that saw the biggest run-up in house prices in the middle part of this decade.

"While one month's data cannot determine if a turnaround has begun, it seems that some stabilization may be appearing in some of the regions," said David Blitzer, chairman of the index committee at S&P. "We are entering the seasonally strong period in the housing market, so it will take some time to determine if a recovery is really here."

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Bill Schultz, chief investment officer at McQueen, Ball & Associates in Bethlehem, Pennsylvania, said less-bad news was certainly a relief to investors, but noted their patience may soon start to wear thin.

"To get the markets moving to the next level you're going to have to see prices stop falling and begin to rise here at some point in the not-so-distant future," he said.

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In New York, the National Association of Purchasing Management-New York's monthly measure of business activity showed conditions worsened in June, although the purchasing and supply managers surveyed felt a bit better about the six-month outlook.

The index of current business conditions tumbled to 44.8 in June from 61.3 in May, while the six-month outlook index rose to 58.3 from 56.1 a month earlier.

A similar report on activity in the U.S. Midwest in June showed some improvement from May, but still pointed to a weak economy.

Readings on the health of retailers were mixed. A report from the International Council of Shopping Centers and Goldman Sachs showed that chain store sales rose modestly last week from a year earlier, but a separate report from Redbook Research showed a sharp decline.

Still, both groups expected a weak monthly performance from the major retail chains as consumers cut spending.

Analysts have had an even tougher time than usual trying to track retail sales because Wal-Mart Stores Inc (NYSE:WMT - News), the nation's biggest retailer, has stopped providing a monthly report on its sales.

(Additional reporting by Lynn Adler, Chris Reese and Mary Angela Rowe in New York; Editing by Dan Grebler)

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