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U.S. housing data weaker than expected, but services sector expands

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By Moriah Costa

WASHINGTON (Reuters) - Contracts to buy previously-owned U.S. homes unexpectedly fell in June, but the data did little to change perceptions the housing sector was gradually recovering after slumping in late 2013.

Another report on Monday showed services sector activity held at a 4-1/2 year-high in July, a sign of economic momentum early in the third quarter.

The National Association of Realtors (NAR) said its Pending Home Sales Index, based on contracts signed last month, fell 1.1 percent to 102.7. The decline followed three straight months of increases.

Economists, who had expected contracts to rise 0.5 percent last month, were not fazed by the drop.

"The June pullback could be seen largely as a correction in a broadly improving trend, with housing data remaining somewhat choppy as the sector gradually continues to recover," said Gennadiy Goldberg, an economist at TD Securities in New York.

Pending home sales, which lead sales by a month or two, increased 6.0 percent in May. They were down 7.3 percent compared to June of last year. On a regional basis, contracts fell in the Northeast and the South, but rose in the West and the Midwest.

U.S. stocks fell on the report, with the PHLX housing sector index declining 1.2 percent. Shares in the nation's largest home builder, D.R. Horton, shed 1.5 percent. Housing has been making gains after hitting a soft patch last summer following a run-up in mortgage rates. Existing home sales hit an eight-month high in June.

Mortgage rates have declined, with the 30-year fixed rate at 4.16 percent in June compared to a peak of 4.49 percent last September. The recovery, however, continues to be uneven, with new home sales having plummeted 8.1 percent last month.

The sector has been hampered by higher interest rates and a persistent shortage of properties for sale, which is putting upward pressure on prices and sidelining many first-time buyers.

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"The lack of income growth with potential first-time buyers is problematic," said Ryan Sweet, senior economist at Moody's Analytics in West Chester, Pennsylvania.

"But this should take a turn for the better next year with faster wage growth and looser credits. If housing doesn't reaccelerate, the economy won't grow faster."

For now, the economy is pushing ahead. In a separate report on Monday, financial data firm Markit said its preliminary services Purchasing Managers Index was 61.0 in July, unchanged from June.

A reading above 50 signals expansion in economic activity, and June's reading was the highest final reading since the survey began in October 2009.

"Service sector companies continue to perform strongly against post-recession trends, and overall the latest manufacturing and services PMI surveys suggest that the economy has enjoyed a strong start to the second half of 2014," said Chris Williamson, Markit's chief economist.

The government is expected to report on Wednesday the economy grew at a 3.0 percent annual pace in the second quarter after contracting at a 2.9 percent rate in the first three months of the year.

(Writing by by Moriah Costa and Lucia Mutikani, Additional reporting by Richard Leong and Ryan Vlastelica in New York; Editing by Paul Simao)