Home prices in 20 U.S. cities rose in August from a year ago by the most since February 2006 as stronger demand boosted values.

The S&P/Case-Shiller index of property prices in 20 cities increased 12.8 percent from August 2012, more than forecast, after a 12.3 percent gain in the year ended in July, a report from the group showed today in New York. The median projection of 28 economists surveyed by Bloomberg called for a 12.5 percent advance.

“You’ve got some momentum,” said Brian Jones, senior U.S. economist at Societe Generale in New York, who forecast a 12.9 percent increase in home prices. “The more encouraging thing is not just that prices accelerated, every area reported higher selling prices. The breadth of the increase was across the entire country.”

Tight inventories have boosted prices as buyers compete for a limited number of properties for sale. While housing continues to be a source of strength for the economy, higher mortgage rates and limited improvement in the labor market and wages risk slowing the pace of progress.

As of August, average home prices in the U.S. were back to mid-2004 levels, and the 20-city index was up 22.7 percent from its March 2012 low.

Retail Sales

Another report today showed retail sales excluding motor vehicles rose 0.4 percent in September after a 0.1 percent gain, indicating households were sustaining the economic expansion before the government shutdown this month shook confidence. The Commerce Department’s figures showed total sales dropped 0.1 percent, restrained by the biggest decrease at auto dealers since October 2012, as purchases early in the month were included in the August data.

Stock-index futures rose, after the Standard & Poor's 500 Index climbed to a record, as Federal Reserve policy makers begin a two-day meeting. The contract on the S&P 500 expiring in December climbed 0.1 percent to 1,760.7 at 9:28 a.m. in New York.

Estimates in the Bloomberg survey ranged from year-over-year home-price gains of 11.6 percent to 12.9 percent. The S&P/Case-Shiller index is based on a three-month average, which means the August figure was influenced by transactions in July and June.
The July reading previously was reported as a year-over-year advance of 12.4 percent.

**Monthly Gain**

Home prices adjusted for seasonal variations rose 0.9 percent in August from the prior month after a 0.6 percent increase. That compares with the Bloomberg survey median of a 0.7 percent increase.

The month-over-month price gains were led by Las Vegas, followed by Los Angeles and San Diego. Property values rose in all 20 metropolitan areas.

“The monthly percentage changes for the 20-city composite show the peak rate of gain in home prices was last April,” David Blitzer, chairman of the S&P index committee, said in a statement. “Since then home prices continued to rise, but at a slower pace each month. Recent increases in mortgage rates and fewer mortgage applications are two factors in these shifts.”

Unadjusted prices climbed 1.3 percent in August from the previous month.

The year-over-year gauge, which uses records dating back to 2001, provides a better indication of price trends, according to Karl Case and Robert Shiller, creators of the index. Earlier this month, Shiller was one of three economists awarded the 2013 Nobel Prize in Economic Sciences for research on how financial markets work and assets such as stocks are priced.

**All Increase**

All 20 cities in the index showed a year-over-year gain, led by a 29.2 percent increase in Las Vegas. Values advanced 25.4 percent in San Francisco and 21.7 percent in Los Angeles.

Higher borrowing costs are already starting to bite. Fewer Americans signed contracts to purchase existing (ETSLTOTL) homes in September, the National Association of Realtors reported yesterday. The group’s index fell 5.6 percent, the most in more than three years and the fourth straight decline.

Existing-home sales, measured when a deal closes, also fell in September for the first time in three months, the Realtors’ group reported last week. Purchases dropped 1.9 percent to a 5.29 million annual rate.

**Mortgage Rates**

The average rate for a 30-year fixed mortgage was 4.58 percent in the week ended Aug. 22, the highest level since July 2011. It’s since fallen, averaging 4.13 percent for the week ended Oct. 24, according to Freddie Mac in McLean, Virginia.

Homebuilders and their suppliers are getting a lift from the housing recovery. Weyerhaeuser Co. (WY), a timber supplier and developer based in Federal Way, Washington, expects to close more than 1,100 homes in the last three months of this year, up about 35 percent from a year ago, President and Chief Executive Officer Doyle Simons said.
“We continue to be encouraged as long-term favorable housing fundamentals remain in place,” Simons said on an Oct. 25 earnings call. “With that said, the housing recovery appears to have taken a slight pause due to higher home prices, higher interest rates, although still very low by historical standards, slowing job growth and the antics of our government.”

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