Home prices in 20 U.S. cities rose in the year ended in July at the slowest pace in almost two years as still-tight credit and limited wage gains weigh on demand.

The S&P/Case-Shiller index of property values increased 6.7 percent from July 2013, the smallest 12-month gain since November 2012, a report from the group showed today in New York. Nationally, prices rose 5.6 percent after a 6.3 percent gain in the year ended June.

Property values have shown more subdued appreciation as investors step back from the market and first-time buyers remain a historically smaller share. Easing price increases and strides in the labor market may help more Americans consider homeownership even as wage growth has shown little acceleration.

“In order to support further gains in home prices, you would need stronger housing demand, an improvement in the rate of household formation, and inventory levels to remain lean,” said Michael Gapen, a senior U.S. economist for Barclays Capital Inc. in New York. “You will get all of this, it will just be at a moderate pace” since owners shouldn’t anticipate “8 to 10 percent out of your home forever,” Gapen said.

Stock-index futures trimmed earlier gains after the report. The contract on the Standard & Poor’s 500 Index maturing in December rose 0.1 percent to 1,972 at 9:22 a.m. in New York.

The median projection of 28 economists surveyed by Bloomberg called for a 7.4 percent advance in the 20-city index. Estimates ranged from gains of 5.6 percent to 7.8 percent. The S&P/Case-Shiller index is based on a three-month average, which means the July figure was also influenced by transactions in May and June.

Monthly Decrease

Home prices in the 20-city index adjusted for seasonal variations decreased 0.5 percent in July from the prior month, the worst performance since November 2011. The Bloomberg survey median called for unchanged. Unadjusted prices rose 0.6 percent.

The year-over-year gauge, based on records dating back to 2001, provides better indications of trends in prices, the group has said. The panel includes Karl Case and Robert Shiller, the economists who created the index.
Nineteen of the 20 cities in the index showed smaller year-over-year gains, according to the report. San Francisco experienced the biggest deceleration, cooling to 10.3 percent in the year ended July from 13.2 percent the prior month. Cleveland was the only city to maintain its year-over-year gain at 0.9 percent, the smallest advance among the group.

Today’s report included national figures that are now being reported on a monthly basis. The gain covering the entire U.S. was also the smallest since November 2012.

Sales, Construction

August data on purchases and construction have showed mixed results as the housing industry recoups lost ground from an unusually cold and wet winter that held back buyers and sellers.

New home purchases surged 18 percent in August to a 504,000 annualized pace, the highest level in more than six years.

At the same time, sales of existing homes unexpectedly fell last month to a 5.05 million annual pace from 5.14 million in July as fewer investors made purchases, NAR data showed last week. Construction fell last month, with housing starts dropping 14.4 percent to a 956,000 annualized rate from July’s pace that was the strongest in almost seven years.

Borrowing costs have eased since their climb in the second half of last year. The average rate on a 30-year fixed mortgage was at 4.20 percent in the week ended Sept. 25, down from 4.53 percent at the start of 2014, according to Freddie Mac in McLean, Virginia.

Job Market

Progress in the labor market may help boost demand for big-ticket purchases including homes, providing support for property values. Employers have added an average 215,380 to payrolls a month so far this year, the strongest pace since 1999. Economists project job gains to average 216,000 for all of 2014, according to the median in a Bloomberg survey conducted Sept. 5-10. The Labor Department will release September figures Oct. 3.

So far, the rates of jobs and income gains are keeping homebuilders such as Los Angeles-based KB Home from counting on acceleration in the housing rebound.

“The biggest obstacle to a full recovery is the lack of real job and income growth,” Chief Executive Officer Jeffrey Mezger said on a Sept. 24 earnings call. “With this limited income growth, there is also no advancement in buying power. Both job and income growth are essential to a fulsome housing recovery.”

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