

A Surprise in Pending Sales Kicks Off 2019

By: Jann Swanson | Wed, Feb 27 2019, 10:27 AM

Expectations were high for a strong pending home sales report to christen the New Year. Those expectations were more than satisfied. The National Association of Realtors® (NAR) says its Pending Home Sales Index (PHSI) **jumped 4.6 percent**, climbing to 103.2 in January from 98.7 in December. It was the first gain in four months. The surge was not enough however to provide an annual increase. The Index still lags its January 2018 level by 2.3 percent, marking the 13th straight month of year-over-year losses.

The increase held across all four regions, with the largest improvement in the South. Three regions are still lower compared to one year ago, while the Northeast enjoyed a slight growth spurt.

The Index is a forward-looking indicator of existing home sales. Contracts signed in January are expected to culminate in closed sales in one to two months.

Lawrence Yun, NAR chief economist, had expected an increase in January home sales. "A change in Federal Reserve policy and the reopening of the government were **very beneficial to the market**," he said.

Analysts polled by Econoday had also predicted the PHSI would be higher, although even their most aggressive forecasts were far short of the actual number. Estimates ranged from a 3.0 percent loss to a 2.0 increase. The consensus was for a 1.0 percent gain.

Yun said **higher rates discouraged many would-be buyers in 2018**. "Homebuyers are now returning and taking advantage of lower interest rates, while a boost in inventory is also providing more choices for consumers."

He noted year-over-year increases active listings in many metro areas compared to a year ago. The greatest increases were in Denver, Seattle, San Diego, Los Angeles, and Nashville.

Yun says **positive pending home sales figures in January will likely continue**. "Income is rising faster than home prices in many areas and mortgage rates look to remain steady. Furthermore, job creation will help lift home buying."

Yun expects there will be about 5.28 million existing home sales this year, down 1.1 percent from the 5.34 million sales in 2018. He also forecasts an increase in the national median existing-home price this year of around 2.2 percent. In 2018, existing sales declined 3.1 percent and prices rose 4.9 percent.

The PHSI in the **Northeast** was up 1.6 percent to 94.0 in January, putting it 7.6 percent higher than in January 2018. In the **Midwest**, the Index increased 2.8 percent to 100.2 but still is down 0.3 year-over-year.

Pending home sales in the **South** jumped 8.9 percent to an reading of 119.8 but remain 3.1 percent lower than this time last year. The **West** eked out an 0.3 percent gain in January, but at 87.3 the Index is still 10.1 percent below a year ago.

The PHSI is based on a large national sample, typically representing about 20 percent of transactions for existing-home sales. In developing the model for the Index, it was demonstrated that the level of monthly sales-contract activity parallels the level of closed existing-home sales in the following two months.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined. By coincidence, the volume of existing-home sales in 2001 fell within the range of 5.0 to 5.5 million, which is considered normal for the current U.S. population.

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