

Pending Home Sales Erase More Than Half of 2019's Gains in a Single Report

By: Jann Swanson | Wed, Jan 29 2020, 10:35 AM

December's pending home sales erased the small gain posted in November and the National Association of Realtors' (NAR's) Pending Home Sales Index (PHSI) **ended the year exactly where it had begun.**

The PHSI is a forward-looking indicator of existing home sales based on purchase contracts signed during the month. **It fell 4.9 percent in December, from 108.5 in November to 103.2.** While this is 4.6 percent higher than the index in December 2018 (a reading of 99), it matches precisely the January 2019 level.

Analysts had **anticipated that contract signings would slow, but not decline.** Those polled by Econoday had expected results ranging from no change to an increase of 1.0 percent after a 1.7 percent gain in November. Their consensus estimate was an increase of 0.4 percent.

NAR chief economist Lawrence Yun said, "Mortgage rates are expected to hold under 4 percent for most of 2020, while net job creation will likely exceed two million." While he noted that these factors are promising for the housing market, he cautioned that low inventory remains a significant longer-term concern.

"Due to the shortage of affordable homes, **home sales growth will only rise by around 3 percent,**" Yun predicted. "Still, national median home price growth is in no danger of falling due to inventory shortages and will rise by 4 percent. The new home construction market also looks brighter, with housing starts and new home sales set to rise 6 percent and 10 percent respectively."

Yun says those locations where listing prices are around \$250,000 - an affordable price point in most markets nationally - are drawing some of the most significant buyer attention. He pointed to Fort Wayne, Indiana; Burlington, North Carolina; Topeka, Kansas; Pueblo, Colorado; and Columbus, Ohio.

"The state of housing in 2020 will depend on whether home builders bring more affordable homes to the market," he continued. "Home prices and even rents are increasing too rapidly, and more inventory would help correct the problem and slow price gains."

Pending indices fell in all four regions in December. In the **Northeast** the PHSI slipped 4.0 percent to 92.4, down 0.1 percent from the previous December. The **Midwest** PHSI was down 3.6 percent to 98.8 which was still 1.3 percent higher than a year earlier.

Pending home sales in the **South** decreased 5.5 percent to an index of 118.1, a 7.4 percent year-over-year gain. The **West** saw a decline of 5.4 percent to 93.1, an increase of 7.0 percent from a year ago.

The PHSI is a leading indicator of existing home sales and 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. NAR will release existing home sales results for January on February 21.

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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