

Pending Home Sales Just Hit a New All-Time High

By: Jann Swanson | Wed, Sep 30 2020, 10:04 AM

Contracts for existing home purchases rose for the fourth straight month in August and **more than doubled** the increase expected by most analysts. The National Association of Realtors® (NAR) says its Pending Home Sales Index (PHSI) rose from 122.1 in July to 132.8 in August, an increase of 8.8 percent.

The PHSI, based on contracts to purchase existing single-family houses, townhouses, condos, and cooperative apartments, is now at an all time high and is 24.2 percent above its level in August 2019. The index is also up 44.6 points from the point to which it plunged in April after the widespread business closures and stay-at-home responses to the COVID-19 pandemic.

Most analysts had looked for a strong report, but still didn't come close to predicting the actual gains. Those polled by Econoday had looked for an increase between 2.0 and 4.0 percent with a consensus of 3.1 percent. Analysts forecasting for Trading Economics had a consensus increase of 3.4 percent.

"Tremendously low mortgage rates - below 3 percent - have again helped pending home sales climb in August," said Lawrence Yun, NAR's chief economist. "Additionally, the Fed intends to hold short-term **fed funds rates near 0 percent for the foreseeable future**, which should in the absence of inflationary pressure keep mortgage rates low, and that will undoubtedly aid homebuyers continuing to enter the marketplace.

"While I did very much expect the housing sector to be stable during the pandemic-induced economic shutdowns, I am pleasantly surprised to see the industry bounce back so strongly and so quickly."

Given the record high level of the PHSI, Yun did try to somewhat dampen expectations. He noted that not all contracts lead to closings and that, combined with the usual variations in sampling and analysis, the index may not be followed by record sales numbers in the following months. He again noted as well that without an increase in the supply of available homes this level of recovery will not be sustainable.

"Home prices are heating up fast," he said. "The low mortgage rates are allowing buyers to secure cheaper mortgages, but many may find it **harder to make the required down payment.**"

The increase in pending sales from July to August applied to all four of the nation's major regions and did double-digit year-over-year gains. The PHSI in the **Northeast** rose 4.3 percent to 117.1 in August, a 26.0 percent jump from a year ago. In the **Midwest**, the index rose 8.6 percent to 124.5 and was 25.0 percent higher than a year earlier.

Pending home sales in the **South** increased 8.6 percent to an index of 154.2 in August and was 23.6 percent higher year-over-year. The **West** saw a monthly increase of 13.1 percent and year-over-year gains of 23.6 percent. The region's index reads 120.3.

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. Existing-Home Sales for July will be reported October 22.

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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