

Pending Home Sales' Recent Decline is Nothing Compared to Yearly Gains

By: Jann Swanson | Fri, Jan 29 2021, 11:11 AM

Pending home sales **retreated for the fourth straight month in December**. The National Association of Realtors® (NAR) said its Pending Home Sales Index, which indicates contracts signed during the month to purchase single-family houses, townhomes, condos, and cooperative apartment, dipped 0.3 percent to 125.5. The decline was primarily due to fewer new contracts in the Midwest. Before the recent retreat started in September, pending home sales had put together four months of strong results resulting in the index reaching 132.8 in August. The December PHSI was **21.4 percent higher than its level in December 2019** and the highest ever recorded for a December as the seasonal dislocation of traditional home buying patterns continues.

Analysts polled by Econoday were spot on with their December forecast. They had predicted that the index would fall as much as 3.6 percent or rise as much as 1.0 percent. Their consensus, however, was a downturn of 0.3 percent.

"Pending home sales contracts have dipped during recent months, but I would attribute that to having **too few homes for sale**," said Lawrence Yun, NAR's chief economist. "There is a high demand for housing and a great number of would-be buyers, and therefore sales should rise with more new listings. his elevated demand without a significant boost in supply has caused home prices to increase and we can expect further upward pressure on prices for the foreseeable future," he said.

In its existing home sales report for December, NAR put the inventory of homes for sale at only 1.07 million units at the current sales rate. This is estimated at a 1.9-month supply, an all time low. A six-month supply is traditionally viewed as a balanced market.

Yun continues to project that 2021 will bring about strong economic growth, supported by low mortgage rates and fiscal stimulus, which in turn will bolster existing-home sales. "I expect the 30-year fixed mortgage rate to average 3 percent, with the Federal Reserve refraining from any rate increases this year," he said.

Yun added that, with rates to remain low, existing-homes sales are likely to reach 6.49 million, which would be a 15 percent increase from 5.64 million in 2020. "There will also be slower home price appreciation, likely 6.6 percent, as increased confidence from homebuilders will **ultimately lead to an increase in housing starts**."

The PHSI in the Northeast rose 3.1 percent to 112.0 in December, a 22.1 percent increase from a year ago. In the Midwest, the index fell 3.6 percent to 111.7. That was 13.9 percent above the level in December 2019.

Pending home sales in the South increased ticked up 0.1 percent to a PHSI of 150.6, a 26.6 percent annual increase. The West's index was unchanged from November's 111.3 level, but was up 18.9 percent from 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. Existing home sales numbers for January will be released on February 25.

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.

View this Article: <https://www.mortgagenewsdaily.com/news/01292021-pending-sales>