

Pending Home Sales Take a Big Hit, Back to Pre-Covid Levels

By: Jann Swanson | Wed, Mar 31 2021, 10:57 AM

February's pending home sales **suffered a double digit month-over-month decline in February** and fell below the pace a year earlier for the first time in eight months. The National Association of Realtors® (NAR) said its Pending Home Sales Index (PHSI) dropped from 122.8 to 110.3, a decline of 10.6 percent from January and 0.5 percent compared to February 2020. The PHSI reflects contracts to purchase existing single-family houses, townhomes, condos, and cooperative apartments and is a leading indicator of existing home sales over the following one to two months.

The PHSI has been trending down since peaking at 130.3 in August and **analysts were anticipating further weakness**, although the size of February's decline was not reflected in their forecasts. The consensus of those polled by *Econoday* was a 3.0 percent loss while *Trading Economics*, and *Market Watch* each posted a consensus of -3.1 percent.

"The demand for a home purchase is widespread, multiple offers are prevalent, and days-on-market are swift but contracts are not clicking due to record-low inventory," said Lawrence Yun, NAR's chief economist. **"Only the upper-end market is experiencing more activity because of reasonable supply.** Demand, interestingly, does not yet appear to be impacted by recent modest rises in mortgage rates."

Despite recent increases, Yun expected mortgage rates to remain relatively low at no more than 3.5 percent this year. He calls "still advantageous to both prospective buyers and to current homeowners who are contemplating refinancing."

It has been houses priced above \$250,000 that have largely been driving home sales for the last several months. However, Yun says that even homes priced up to around \$1 million are facing the same low-inventory dilemma.

"Potential buyers may have to enlarge their geographic search areas, given the current tight market," Yun said. **"If there were a larger pool of inventory to select from** - ideally a five- or a six-month supply - then **more buyers would be able to purchase properties at an affordable price.**"

Pending sales were down in all four major regions compared to January although they remained higher than a year earlier in the South and West. The PHSI in the Northeast fell 9.2 percent to 92.3, which was a 3.9 percent dip from a year ago. In the Midwest, the index dropped 9.5 percent compared to January. The 102.4 reading was 6.1 percent lower than the prior February.

Pending home sales transactions in the South declined 13.0 percent to a PHSI of 133.2 but remained up 2.9 percent year-over-year. The 96.9 index reading in the West was 7.4 percent lower than January's, but 1.9 percent higher on an annual basis.

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 March will be released on April 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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