

Pending Home Sales Fired Up After April Slump

By: Jann Swanson | Thu, Jul 1 2021, 11:25 AM

Pending home sales in April unnerved a lot of people. At what should have been a high point in the spring market, they fell 4.4 percent from the previous month and the National Association of Realtors'® (NAR's) Pending Home Sales Index (PHSI) neared the 20-year old benchmark of 100. Every consensus estimate from analysts that we could find **was badly off the mark.**

They are widely off again this month, but the industry's reaction is probably quite different. Rather than the 0.8 and 2.0 percent declines expected by analysts polled by Econoday and Trade Economics, respectively, **May's PHSI soared 8.0 percent higher than in April** and was up 13.1 percent from May 2020.

The Index, based on contracts signed to purchase existing single-family homes, townhouses, condos, and cooperative apartments, reached 114.7. NAR said it was the highest reading for any May since 2005. The Index is a leading indicator, expected to predict existing home sales over the following one or two months. Contract signings rose in all four major regions.

"May's strong increase in transactions - following April's decline, as well as a sudden erosion in home affordability - was indeed a surprise," said Lawrence Yun, NAR's chief economist. "The housing market is attracting buyers due to the decline in mortgage rates, which fell below 3 percent, and from an uptick in listings."

Yun said, despite the obstacles over the last year, including an unprecedented pandemic, record-high prices and all-time low inventory, buyers are still lining up at a feverish pace. While these hurdles have contributed to pricing out some would-be buyers, the record-high aggregate wealth in the country from the elevated stock market and rising home prices are evidently providing funds for home purchases," Yun said. **"More market listings will appear in the second half of 2021,** in part from the winding down of the federal mortgage forbearance program and from more home building.

"Home price growth will steadily moderate with increased supply, but a broad and prolonged decline in prices is unlikely," Yun continued. "However, if a reduction occurs in some markets, homebuyers will view the lower home price as a second-chance opportunity to get into the market after being outbid in previous multiple-bid market conditions."

New sales contracts increased in the **Northeast** by 15.5 percent, bringing the PHSI for the region to 98.5. This is 54.6 percent higher than a year earlier. In the **Midwest**, the index grew 6.7 percent to 107.7 last month, up 7.8 percent from May 2020.

Pending home sales transactions in the **South** rose 4.9 percent to an index of 135.5, a 6.1 percent year-over-year change. The index in the **West** increased 10.9 percent and that reading, 102.0, was 12.5 percent higher than the prior May.

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 May will be released on July 29.

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