

Inventories Continue to Constrain Home Purchase Activity

By: Jann Swanson | Mbn, Aug 30 2021, 10:53 AM

While existing home sales have increased in the last two months after a four-month slump, those sales don't look especially bright as we head into the fall and winter doldrums. The National Association of Realtors® (NAR) says pending home sales dipped modestly in July, following a 1.9 percent dip in June. Its Pending Home Sales Index (PHSI), a leading indicator of existing home sales, fell 1.8 percent from its June level to a reading of 110.7. It was the fifth time this measure, based on contracts to purchase single-family homes, townhouses, condos, and cooperative apartment, has retreated in the last seven months. **The index is now down 8.5 percent from the July 2020 level of 121.0.**

"The market may be starting to cool slightly, but at the moment there is **not enough supply to match the demand** from would-be buyers," said Lawrence Yun, NAR's chief economist. "That said, inventory is slowly increasing and home shoppers should begin to see more options in the coming months.

Aslight increase in the index had been expected. Analysts polled by *Econoday* had a consensus forecast of an 0.3% gain, but estimates ranged from a 1.0 percent loss to growth of 1.7 percent.

"Homes listed for sale are still garnering great interest, but the multiple, **frenzied offers** - sometimes double-digit bids on one property - **have dissipated in most regions**," Yun said. "Even in a somewhat calmer market, a number of potential buyers are still choosing to waive appraisals and inspections."

As of July, 27 percent of buyers bypassed appraisal and inspection contingencies. By refraining from these evaluations, in most cases, buyers are looking to accelerate the homebuying process, according to Yun.

Only the West registered a month-over-month gain in contract activity, while the other three major U.S. regions moved lower. All four regions saw transactions decrease year-over-year.

The **Northeast** experienced the greatest decline. Its PHSI fell 6.6 percent to 92.0 in July, a 16.9 percent annual deficit. The **Midwest** index dropped 3.3 percent to 104.6, down 8.5 year-over-year.

Pending sales transactions in the **South** decreased 0.9 percent to a 130.9 reading, 6.7 percent lower than its PHSI in July 2020. The index in the **West** rose 1.9 percent for the month, but its PHSI of 99.8, represented a 5.7 percent decline from the previous July.

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 August will be released on September 22.

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