



Pending Home Sales Continue Remarkable Rebound

Pending home sales soared again in June, although the liftoff was relatively shallow compared to the 43 percent increase in May. The National Association of Realtors'® (NAR's) Pending Home Sales Index (PHSI). The index, a forward-looking indicator based on contracts to purchase existing homes, rose 16.6 percent compared to May, and increased year-over-year by 6.3 percent. The index is now at 116.1.

The two months of improving activity have brought the index back from its April level of 69.0 where it landed after falling by more than 20 percent in both that month and in March as much of the nation was shut down by the COVID-19 pandemic.

The gains were above even the best guesses by analysts polled by Econoday. Their predictions ranged from a 10 percent downturn to gains of 15.6 percent. The consensus was an increase of 5.2 percent.

Lawrence Yun, chief economist says, "Consumers are taking advantage of record-low mortgage rates resulting from the Federal Reserve's maximum liquidity monetary policy."

In light of the apparent housing market turnaround, NAR has raised its forecast for the home sales market. For all of 2020, existing-home sales are expected to decline by only 3 percent and should be at an annual rate of 5.6 million by the fourth quarter. The same percentage increase is expected for new home sales.

Yun says he expects that the GDP will grow 4.0 percent in 2021 and that, along with mortgage rates that are anticipated to stay at near 3 percent over the next 18 months, should boost home sales. He projects a 7 percent growth in existing sales and 16 percent in new home sales in 2021. Home prices will likely appreciate 4 percent this year then moderate to 3 percent next year as more new supply comes to market.

Each of the four major regions experienced a second month of growth in month-over-month pending home sales transactions. The **Northeast**, which saw a 54.4 percent gain from May was the only region that did not move higher on an annual basis. Its PHSI is now at 95.4, down 0.9 percent from June 2019.

Pending home sales in the **South** increased 11.9 percent to an index of 140.3, 10.3 percent above a year earlier. The index in the **West** improved by 11.7 percent to 99.6, a 4.7 percent annual gain.

"The Northeast's strong bounce back comes after a lengthier lockdown, while the South has consistently outperformed the rest of the country," Yun said. "These remarkable rebounds speak to exceptionally high buyer demand."

Yun says that as house hunters seek homes away from bigger cities - likely to avoid the coronavirus - properties that were once an afterthought for potential buyers are now growing in popularity.

"While the outlook is promising, sharply rising lumber prices are concerning," Yun said. "A reduction in tariffs - even if temporary - would help increase home building and thereby spur faster economic growth."

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 August 21.



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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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