



Pending Home Sales Slide a Bit After Banner Year

Pending home sales slid for the third straight month in November and the 2.6 percent decline was the largest of the three. The National Association of Realtors® (NAR) said its Pending Home Sales Index (PHSI), a leading indicator of sales of existing single-family homes, townhomes, condominiums, and cooperative apartments, dipped to 125.7 from its 128.9 level in October. The current PHSI is still the highest NAR's books for any November and was 16.4 percent higher than a year earlier

The index had declined by 2.2 percent in September and another 1.1 percent in October, ending a four-month string of strong gains. Analysts had not expected a reversal of the current trend in November. Those polled by both Trading Economics and Econoday had expected the index to be unchanged from October.

"The latest monthly decline is largely due to the shortage of inventory and fast-rising home prices," said Lawrence Yun, NAR's chief economist. "It is important to keep in mind that the current sales and prices are far stronger than a year ago.

"The market is incredibly swift this winter with the listed homes going under contract on average at less than a month due to a backlog of buyers wanting to take advantage of record-low mortgage rates," Yun said.

He continues to predict a favorable outlook for the housing market in the coming year. Although his projections for 2021 include a slight uptick in mortgage rates from the current 2.7 percent rate to around 3 percent, he still expects existing-home sales to rise by about 10 percent and new home sales by 20 percent next year.

"Economic growth is guaranteed from the stimulus package and from vaccine distribution, but high government borrowing will put modest upward pressure on interest rates," he said.

The month-over-month downturn in contract signings reflected in the PHSI was present in all four major regions while all maintained double digit increases over the previous November. In the **Northeast**, the index was down 3.3 percent to 108.6 but was 15.3 percent higher year-over-year. The index fell 3.1 percent in the **Midwest** to 115.9 last month but remained 14.1 percent higher on an annual basis.

Pending home sales in the **South** decreased 1.1 percent to an index of 150.0 and was up 21.3 percent from the prior November. The **West** posted a 4.7 percent decline in its index to 111.3, which is up 10.4 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 December will be released on January 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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