



"Seesawing" Pending Sales May Signal Market Turning Point

Pending home sales fell back slightly in June after a notable and unexpected 8.0 percent gain in May. The National Association of Realtors® (NAR) said its Pending Home Sales Index (PHSI) dipped 1.9 percent from May to a reading of 112.8. This was also 1.9 percent lower than the index in June 2020.

The PHSI is based on newly signed contracts to purchase existing single-family homes, townhouses, condos, and cooperative apartments. It is considered a leading indicator of those sales which are generally expected to close over the next one to two months.

"Pending sales have seesawed since January, indicating a turning point for the market," said Lawrence Yun, NAR's chief economist. "Buyers are still interested and want to own a home, but record-high home prices are causing some to retreat."

"The moderate **slowdown in sales is largely due to the huge spike in home prices**," Yun continued. "The Midwest region offers the most affordable costs for a home and hence that region has seen better sales activity compared to other areas in recent months."

The decline was slightly larger than anticipated. Analysts polled by Econoday had predicted the range of change from -1.0 percent to a 2.5 percent increase. The consensus was an 0.8 percent decline.

The PHSI for the Northeast region was up 0.5 percent from May to 98.5 and was 8.7 percent higher than in June 2020, the only region to increase on an annual basis. In the Midwest, the index grew 0.6 percent to 108.3 last month, but was down 2.4 percent from a year earlier.

Pending home sales transactions in the South fell 3.0 percent to an index of 132.4 which was 4.7 percent below the reading the prior June. The index in the West decreased 3.8 percent to 98.1, down 2.6 percent year-over-year.

According to Yun, the 30-year fixed mortgage rate is likely to increase to 3.3 percent by the end of the year and will average 3.6 percent in 2022. With the slight uptick in mortgage rates, he expects existing-home sales to marginally decline to 5.99 million this year and 6 million in 2021. He added that, with demand easing and housing starts improving to 1.65 million and 1.565 million this year and next, the rate of existing home price gains should slow to 4.4 percent in 2022 from the 14.1 percent this year, reaching a median of \$353,500.

"In just the last year, increasing home prices have translated into a substantial wealth gain of \$45,000 for a typical homeowner," he said. "These gains are expected to moderate to around \$10,000 to \$20,000 over the next year."

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 July will be released on August 23.



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