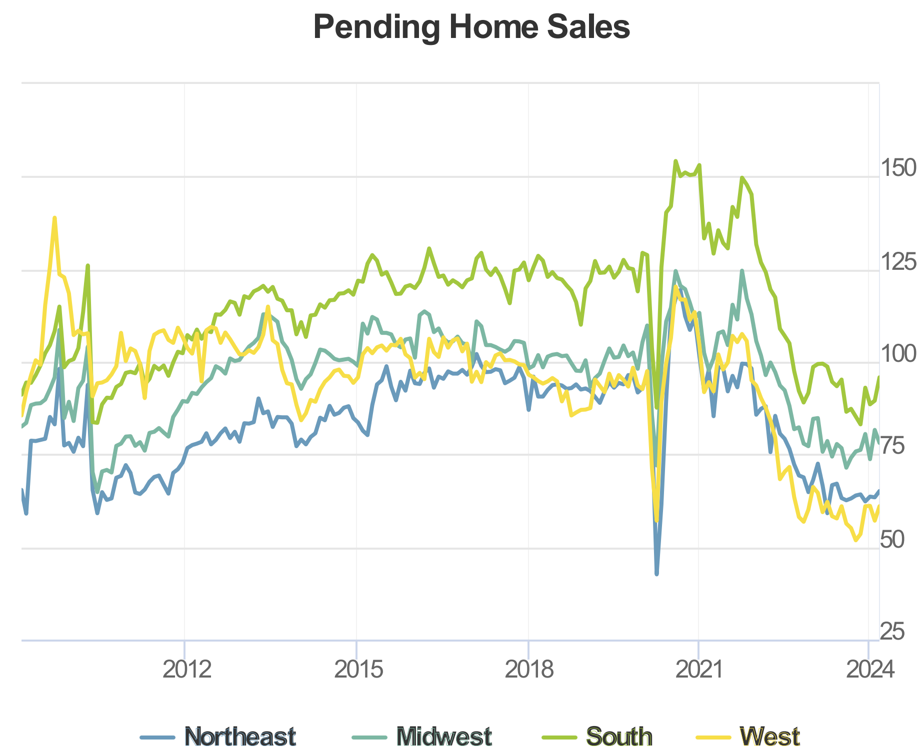
Pending Home Sales Fall for Sixth Straight Month

The National Association of Realtors® (NAR) says its Pending Home Sales Index (PHSI) in April represents a sixth consecutive monthly decline. The Index, based on signed contracts to purchase existing homes, slid 3.9 percent from March to a 99.3 reading. Both new and existing home sales also experienced significant drops during the month.

In October, the last time pending sales posted a gain, the index was at 125.1. The An index of 100 is equal to the level of contract activity in 2001.

The PHSI has now been **lower than during the same period a year earlier for 11 consecutive months.** Last month's index was 9.1 percent below the April 2021 level.



"Pending contracts are telling, as they better reflect the timelier impact from higher mortgage rates than do closings," said Lawrence Yun, NAR's chief economist. "The latest contract signings mark six consecutive months of declines and are at the slowest pace in nearly a decade." With mortgage rates rising, Yun forecasts existing-home sales to wane by 9 percent in 2022 and home price appreciation to moderate to 5 percent by year's end.

Yun added, "The escalating mortgage rates have bumped up the cost of purchasing a home by more than 25 percent from a year ago, while steeper home prices are adding another 15 percent to that figure."

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The NAR report notes that the higher mortgage rates are increasing monthly payments on new mortgages by as much as $500 per month. Indeed, the Mortgage Bankers Association (MBA) reported Thursday morning that the national media mortgage payment, based on recent applications for loans, rose from $1,736 in March to $1,889 in April, an 8.8 percent increase. Yun notes that such price hikes are already a burden, but they **become even more problematic to a family on a budget contending with rapid inflation**, including surging fuel and food costs.

“The vast majority of homeowners are enjoying huge wealth gains and are not under financial stress with their home as a result of having locked into historically low interest rates, or because they are not carrying a mortgage,” Yun explained. “However – in this present market – potential homebuyers are challenged and thus may attempt to mitigate the rising cost of ownership by opting for a 5-year adjustable-rate mortgage or by widening their geographic search area to more affordable regions.” He added that more work-from-home opportunities have allowed would-be buyers to expand their home search.

Yun does see some scenarios where the buying market might soon improve. “If mortgage rates stabilize roughly at the current level of 5.3 percent and job gains continue, home sales could also stabilize in the coming months.” Still, he expects those sales to fall by about 9 percent this year and if rates reach 6 percent, the slowdown could climb to 15 percent.

His optimism, however, **doesn’t extend to any hope for immediate price relief**. “There is an ongoing housing shortage, and properly listed homes are still selling swiftly – generally seeing a contract signed within a month.”

The April PHSI was lower month-over-month in three regions and year-over-year in all four. Contract signings plunged in the Northeast, down 16.2 percent from March and 14.3 percent from April 2021 to 74.8. The Midwest did see a monthly gain of 6.6 percent to 100.7, but that was down 2.8 percent from a year earlier.

Pending sales transactions dipped 4.7 percent in the South to an index of 119.0, a 10.3 percent annual decline. The index in the West slipped 4.3 percent and 10.5 percent from the two earlier periods to an 85.9 reading

The PHSI is based on a large national sample of about 20 percent of existing-home sales. It is a leading indicator, expected to parallel closed home sales over the following two months. Existing home sales numbers for May will be released on June 27.