

Realtor.org

Economic Slump Weakens Pending Home Sales

WASHINGTON, January 06, 2009

After holding fairly stable for a year, pending home sales declined in the face of job losses and an eroding economy, according to the National Association of Realtors®.

The Pending Home Sales Index,* a forward-looking indicator based on contracts signed in November, fell 4.0 percent to 82.3 from a downwardly revised reading of 85.7 in October, and is 5.3 percent below November 2007 when it was 86.9. The current index is the lowest since the series began in 2001.

Lawrence Yun, NAR chief economist, said a weakening was inevitable. “Mounting job losses and very weak consumer confidence deterred home buyers from signing contracts in November,” he said. “December’s housing market activity could be comparably lower due to ongoing problems in the economy, so a real estate-focused stimulus plan is urgently needed.”

Yun said the outlook will depend heavily on the stimulus package. “With a proper real-estate focused stimulus measure, home sales could rise more than expected, by more than 10 percent to 5.5 million in 2009, and easily begin to stabilize home prices in many parts of the country. Stable home prices will, in turn, lessen foreclosure pressures and lay the foundations for a solid economic recovery as the nation’s 75 million homeowners regain confidence,” he said.

The impact of mortgage interest rates declining to near 50-year lows in December is not reflected in current data.

The PHSI in the Northeast dropped 7.2 percent to 63.2 in November and is 14.6 percent below a year ago. In the Midwest the index fell 6.7 percent to 74.2 and is 10.1 percent below November 2007. The index in the South declined 2.2 percent to 85.3 in November and is 12.7 percent below a year ago. In the West, the index was down 2.4 percent to 101.2 but remains 19.3 percent higher than November 2007.

NAR President Charles McMillan, a broker with Coldwell Banker Residential Brokerage in Dallas-Fort Worth, said there can’t be an economic recovery without a focus on housing. “It’s crucial for Congress and the new administration to move quickly to remove impediments and offer home buyers the incentives they need to tap into today’s historic low mortgage interest rates,” he said.

“NAR advocates expanding a \$7,500 tax credit to all home buyers and eliminating the repayment feature, and permanently raising loan limits to bring down interest rates for many buyers in high-

cost areas. We also need to expedite short sales and unclog the mortgage pipeline,” McMillan said.

The 30-year fixed-rate mortgage should hold fairly steady through the first half of the year and rise slightly in the second half. NAR’s housing affordability index, which looks at the relationship between home prices, mortgage interest rates and family income, is on track to match a record high set in 1972.

“The unique housing affordability conditions in today’s market underscore the opportunity in giving consumers the necessary incentives to stimulate our economy through a housing recovery,” Yun said.

###

*The Pending Home Sales Index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing.

The index 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 from 2001 through 2004 parallels the level of closed existing-home sales in the following two months. There is a closer relationship between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than with month-to-month comparisons.

An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales.

Existing-home sales for December will be released January 26; the next Pending Home Sales Index will be on February 3.