

Pending home sales rise – wider gains anticipated

WASHINGTON – Aug. 7, 2008 – Some improvement is projected for existing-home sales in the months ahead, with broader gains seen by the fourth quarter as buyers take advantage of new provisions provided through the recently-passed housing stimulus bill, according to the latest forecast by the National Association of Realtors® (NAR).

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in June, rose 5.3 percent to 89.0 from a downwardly revised reading of 84.5 in May, but remains 12.3 percent below June 2007 when it stood at 101.4.

Lawrence Yun, NAR chief economist, said sales have been in a pattern of rising and falling within a fairly narrow range. “The vacillation of data from one month to the next indicates a housing market in transition,” he said. “The rise in pending home sales was broad-based with all four regions showing gains. This is welcome news because a rise in contract activity is necessary for an overall housing recovery. With a tax credit now available to first-time home buyers, increases in home sales could be sustained with the momentum carrying into 2009.”

The PHSI in the South jumped 9.3 percent to 92.4 in June but is 16.6 percent below June 2007. In the West, the index rose 4.6 percent to 101.0 in June but remains 1.7 percent below a year ago. The index in the Northeast increased 3.4 percent to 79.6 but is 15.4 percent below June 2007. In the Midwest, the index rose 1.3 percent in June to 79.6 but is 13.3 percent below a year ago.

Sales gains have been consistently strong in recent months in Sacramento, Calif.; Las Vegas; and Fort Myers, Fla., where affordability conditions have greatly improved. The pickup in contract signings appears to be broadening with many affordable markets in mid-America now showing year-over-year gains, including Columbus, Ohio; Charleston, W.V.; Oklahoma City; and Colorado Springs, Colo. Pending sales have fallen significantly in Texas markets and in the Pacific Northwest – two regions with very strong local economies.

NAR President Richard F. Gaylord said the housing stimulus package will provide long-term relief. “Provisions to stem foreclosures are helpful, but a greater lift to the economy should come from higher mortgage limits, enhancements to the FHA loan program and the first-time home buyer tax credit,” he says.

“These are excellent tools that will help buyers get into the market to take advantage of the unprecedented drop in home prices in many areas, as well as a wide selection of inventory, to make an investment in their future,” Gaylord says.

With roughly 2.5 million first-time home buyers taking advantage of the temporary tax credit, existing-home sales are likely to rise 7.0 percent to 5.51 million in 2009 from a expected total of 5.15 million this year.

Yun said home prices did not fall as much as anticipated in the second quarter. “Buyers entering the hardest-hit markets, in some cases with multiple-bid offers, may have put a floor on prices,” he says. “In addition, rising commodity prices and higher construction costs have resulted in a very unusual market today with existing-home prices being less than replacement building costs in some areas. Home prices are projected to increase 3 to 6 percent in 2009.”

“Builders need to further cut production to help trim inventory. However, new-home sales are expected to bottom around the second quarter of next year with slight gains in the second half of 2009,” Yun says. New-home sales are forecast to drop 8.8 percent to 464,000 in 2009 from 509,000 this year. Housing starts, including multifamily units, should fall 8.8 percent next year to 795,000 from 960,000 in 2008.

The 30-year fixed-rate mortgage, which also has been vacillating, is likely to trend up to 6.5 percent by the end of 2008, and then hold at that level for most of next year. NAR’s housing affordability index is forecast to remain favorable this year, averaging 13 percentage points higher than in 2007.

Growth in the U.S. gross domestic product (GDP) is expected to be 1.7 percent this year and 1.5 percent in 2009. The unemployment rate is projected to average 5.5 percent in 2008 and 6.0 percent next year.

Inflation, as measured by the Consumer Price Index, is seen at 4.1 percent in 2008 and 2.6 percent next year. Inflation-adjusted disposable personal income is estimated to grow 1.7 percent this year and 1.1 percent in 2009.