

Pending Homes Sales Index Declines While Some Regions Are Up

WASHINGTON, July 03, 2007 -

Pending home sales, a forward-looking indicator, shows existing-home sales may ease but should stay fairly close to present levels in the months ahead, according to the National Association of Realtors®.

The Pending Home Sales Index*, based on contracts signed in May, rose in the West and Northeast but fell in the Midwest and South. The national index stood at 97.7 in May, down 3.5 percent from a downwardly revised April index of 101.2, and is 13.3 percent lower than May 2006 when the reading was 112.7. In April, the index was 10.4 percent lower than a year earlier.

Lawrence Yun, NAR senior economist, stressed that housing activity continues to be impacted by tighter lending criteria and a lack of buyer confidence. "Some transactions are being postponed from mortgage market disruptions," he said. "But better supervised lending will put housing in a fundamentally healthier state over the long term.

"Mortgage purchase applications are trending up, with some of the rise due to buyers reapplying for alternatives to subprime financing. Nonetheless, home sales should stay close to present levels in the months ahead given an accumulating pent-up demand," Yun said.

The pent-up demand results from slow household formation, which is significantly below levels that would be expected in a period of job creation and economic growth. "As consumer confidence improves, home sales will rise," he said.

The 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.

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.

Annual changes in the index are more closely related to actual market performance than are month-to-month comparisons. As the relatively new index matures and seasonal adjustment factors are refined, the month-to-month comparisons will become more meaningful.

The PHSI in the West rose 5.6 percent in May to 95.4 but was 13.7 percent below a year ago. In the Northeast, the index increased 3.8 percent from April to 93.1 but is 9.6 percent lower than May 2006. The index in the South fell 7.6 percent in May to 107.2 and was 15.4 percent below a year ago. In the Midwest, the index dropped 8.9 percent in May to 89.4 and was 11.7 percent below May 2006.

The National Association of Realtors®, “The Voice for Real Estate,” is America’s largest trade association, representing more than 1.3 million members involved in all aspects of the residential and commercial real estate industries.

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** The Pending Home Sales 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.*

The forecast will be revised July 11, and existing-home sales for June will be released July 25. The next Pending Home Sales Index will be on August 1.

