

The Mortgage Corner

PENDING HOME SALES UP

The Pending Home Sales Index, based on contracts signed in February, stood at 109.3 – down 8.5 percent from February 2006 when it reached 119.4, but is 0.7 percent higher than a downwardly revised reading of 108.5 in January. Earlier, mild weather caused the index to spike at 113.3 in December.

David Lereah, NAR's chief economist, said there has been a steady narrowing from year-ago readings since last July. "If it wasn't for the unusually bad weather in February, we'd be seeing a better performance in pending home sales," he said. "We also may be seeing some fallout from a decline in subprime lending, but a slight improvement in the more volatile month-to-month index is encouraging – the data suggests an underlying stabilization is taking place in the housing market, but it will take another month or two to clarify."

"Problems in the subprime mortgage market will become more apparent over time, and they will modestly depress the overall level of improvement in existing-home sales we expect as the year progresses," Lereah 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, the first year to be examined and the first of five consecutive record years for existing-home sales. There is a closer relationship between annual changes in the index and actual market performance than with 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 over time.

The PHSI in the South rose 4.5 percent in February to 121.9 but was 8.0 percent below a year ago. The index in the Midwest increased 2.9 percent from January to 103.0 but was 9.7 percent lower than February 2006. The index in the Northeast slipped 1.3 percent in February to 99.1 and was 8.2 percent below a year earlier. In the West, the index fell 6.0 percent from January to 104.1 and was 8.2 percent lower than February 2006.

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