Flat existing-home sales likely before gradual recovery

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The volume of existing-home sales is expected to hold steady through late spring, with a gradual recovery during the second half of the year as the mortgage situation improves in high-cost areas, according to the latest forecast by the National Association of Realtors.

Lawrence Yun, NAR chief economist, said many buyers have been waiting for higher mortgage loan limits. "The higher loan limits for both FHA and conventional loans will increase consumer choice and provide greater access to lower interest rate mortgages in high-cost regions," he said. "Therefore, a notable rise in home sales can be anticipated in the second half of the year."

The Pending Home Sales Index,* a forward-looking indicator based on contracts signed in January, held at a stable level of 85.9, unchanged from December, but was 19.6 percent below the January 2007 reading of 106.8. "This additional sign of a stabilizing market is encouraging, and our members are telling us there's been a pickup in shopping activity," Yun said. "Our hope is that the increased traffic of buyers looking at homes will translate soon into more contract offers."

The PHSI in the West jumped 13.0 percent in January to 93.8 but remains 12.7 percent below a year ago. In the Midwest, the index rose 0.6 percent to 85.2 but is 13.3 percent lower than January 2007. The index in the Northeast declined 4.1 percent in January to 69.6 and is 28.0 percent below a year ago. In the South, the index fell 6.1 percent in January to 89.5 and is 23.8 percent below January 2007.

Existing-home sales are forecast to remain flat around an annual level of 4.9 million in the first half of the year before improving to a 5.8-million pace in the second half. With a weak first half, total sales for 2008 are projected at 5.38 million, but are then seen to rise 3.5 percent to 5.60 million in 2009. The aggregate existing-home price is projected to decline 1.2 percent to a median of $216,300 this year, and then increase 3.5 percent to $223,800 in 2009.

A pattern of disparate price performance continues around the country with a roughly even split between up and down markets. Recently released data for the fourth quarter shows strong price gains in markets such as the Kennewick-Richland-Pasco area of Washington; Topeka, Kan.; and Atlantic City, N.J. At the same time, many areas that have lost jobs are showing price declines.

"Significant price declines in some local markets have sharply and quickly improved local affordability conditions, and are inducing buyers to return to the marketplace," Yun said. NAR's housing affordability index is forecast to rise 14 percentage points to 127.0 in 2008.

New-home sales should decline 23.7 percent to 590,000 this year before rising 7.2 percent to 633,000 in 2009. Housing starts, including multifamily units, will probably fall 25.1 percent to 1.01 million this year, and then continue to slip another 2.7 percent to 987,000 in 2009.

"As builders sharply cut back production, vacant new-home inventory has consistently declined over the past year-and-a-half," Yun said. "That will permit a quicker return to balanced market conditions in many local areas." The median new-home price is likely to fall 6.1 percent to $232,200 this year, and then rise 5.1 percent in 2009.

The 30-year fixed-rate mortgage, which has moved erratically in recent weeks, is expected to hover around 5.8 percent most of the year, and then rise to an average of 6.3 percent in 2009.

Growth in the U.S. gross domestic product (GDP) should be 1.5 percent this year and 2.4 percent in 2009. The unemployment rate is projected to average 5.4 percent in 2008 and 5.5 percent next year.

Inflation, as measured by the Consumer Price Index, will probably be 3.2 percent this year and 1.5 percent in 2009. Inflation-adjusted disposable personal income is expected to grow 1.4 percent in 2008 and 3.1 percent next year.

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

*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.