

Pending home sales show effects of weather, possible subprime impact

by Bend_Weekly_News_Sources

Home sales in February are down 8.5% from last year, but are .7% higher than the previous month

A forward-looking index based on pending home sales indicates that bad weather, and possibly the loss of some subprime lending, will dampen sales closed in March and April, according to the National Association of Realtors.

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.

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.

* 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 parallel between annual index changes (from the same month a year earlier) and year-ago changes in sales performance than there is with month-to-month comparisons.

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