The Mortgage Corner

February Existing Home Sales, Mortgage Applications Dip

By **Harlan Green** / Special to CASA

TOTAL EXISTING-HOME SALES, completed transactions that include single-family homes, townhomes, condominiums, and co-ops fell 4.9 percent to a seasonally adjusted annual rate of 4.82 million in January (lowest since last April at 4.75 million) from an upwardly-revised 5.07 million in December, said the NAR. Despite January's decline, sales are higher by 3.2 percent than a year ago.

Lawrence Yun, NAR chief economist, says the housing market got off to a somewhat disappointing start to begin the year with January closings down throughout the country. "January housing data can be volatile because of seasonal influences, but low housing supply and the ongoing rise in home prices above the pace of inflation appeared to slow sales despite interest rates remaining near historic lows," he said. "REALTORS® are reporting that low rates are attracting potential buyers, but the lack of new and affordable listings is leading some to delay decisions."

Better news was that the Chicago Fed National Activity Index (CFNAI) edged up to +0.13 in January from –0.07 in December, with industrial production up. Three of the four broad categories of indicators that make up the index increased from December, and only one of the four categories made a negative contribution to the index in January.

The index is a weighted average of 85 indicators of national economic activity drawn from four broad categories of data: 1) production and income; 2) employment, unemployment, and hours; 3) personal consumption and housing; and 4) sales, orders, and inventories.

Total existing-home inventory at the end of January increased 0.5 percent to 1.87 million existing homes available for sale, but is 0.5 percent lower than a year ago (1.88 million). Unsold inventory is at a 4.7-month supply at the current sales pace – up from 4.4 months in December. The median existing-home price for all housing types in January was $199,600, which is 6.2 percent above January 2014. This marks the 35th consecutive month of year-over-year price gains.

This follows the Conference Board's LEI, which slowed to a not-so-strong plus 0.2 percent versus a slightly downward revised plus 0.4 percent in December. Once again the yield spread is the biggest positive for the index reflecting the Fed's near zero rate policy. Consumer expectations are the second largest positive in the month, though one that may reverse in the next report given last week's plunge in the consumer sentiment index. Credit indications, which continue to be very positive in this report, are the third largest positive.

Both indexes show increased employment in 2015, which should mean home sales will pick up with the selling season and better weather in the spring. "Although sales cooled in January, home prices continued solid year-over-year growth," adds Yun. "The labor market and economy are markedly improved compared to a year ago, which supports stronger buyer demand. The big test for housing will be the impact on affordability once rates rise."

All four regions had reduced sales, probably because of winter conditions. But new-home sales and housing starts are up more than five percent in a year, which will stimulate more building, and hence more homes for sale, which is now the major restriction on increased home sales.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.