



Popular Economics

Promoting the Popular Understanding of Economics

The Mortgage Corner Home Sales to Surge in 2010?

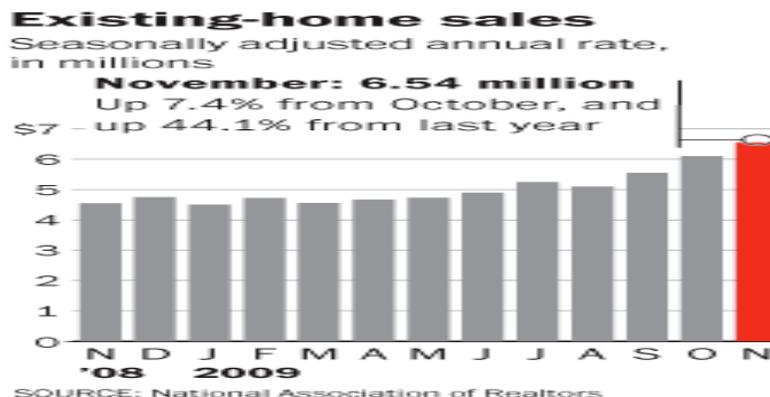
Contract activity for pending home sales fell after a surge of activity in preceding months to beat the original deadline for the first-time home buyer tax credit but remains comfortably above a year ago, according to the National Association of Realtors.

The Pending Home Sale Index, a forward-looking indicator based on contracts signed in November, fell 16.0 percent to 96.0 from an upwardly revised 114.3 in October, but is 15.5 percent higher than November 2008 when it was 83.1.

NAR chief economist Lawrence Yun said a drop was expected. "It will be at least early spring before we see notable gains in sales activity as home buyers respond to the recently extended and expanded tax credit," he said. "The fact that pending home sales are comfortably above year-ago levels shows the market has gained sufficient momentum on its own. We expect another surge in the spring as more home buyers take advantage of affordable housing conditions before the tax credit expires."

It also shouldn't be a surprise that home sales are surging. A homeowner's survey done by Robert Shiller and Karl Case of the S&P Case-Shiller Home Price Index some months ago said that consumers expected home prices to rise 11 percent annually in coming years. Home owners now watch housing markets carefully, they concluded, and buyers obviously believe real estate values are on the rebound

This is probably why existing home sales increased a whopping 7.4 percent in November, across all parts of the country, and are 44.1 percent higher than the 4.54 million-unit pace in November 2008. Current sales remain at the highest level since February 2007 when they hit 6.55 million. This is while total housing inventory at the end of November declined 1.3 percent, which represents a 6.5-month supply at the current sales pace, down from a 7-month supply in October.



But there is a warning in this data. Much of it comes from the home buyers' tax credit, which initially expired in December, but now has been extended until June 2010.

And a large percentage is distressed sales, which has hurt new-home sales that have been essentially flat for the last 6 months. Therefore the ‘Distressing Gap’ between existing and new-home sales discussed by Calculated Risk. Combined new and existing home sales peaked at more than 8 million units in 2006, but only existing home sales have risen substantially this year.



Both personal incomes and corporate profits are rising again, which is why this will be a sustained recovery. Corporate profits increased 10.8 percent in Q3, which is fueling stock prices, and personal incomes have been rising at a 3 percent rate, in line with spending. This is why GDP should grow more than 4 percent in this Q4.



U.S. Bureau of Economic Analysis

Harlan Green © 2010