

The Mortgage Corner

January Home Sales Cool

Both new and pending home sales declined in January from a strong upturn in December due to unusual weather patterns, according to the National Association of Realtors. New-home sales plunged 16 percent to 937,000 annualized units, the biggest drop since 1991. Existing-home sales rose just 3 percent to 6.4 million annualized units.

January new-home sales' plunge was the biggest percentage decline in 13 years. Sales were down 20 percent over January 2006. So the jury is still out on whether housing will make a turnaround this year. Housing starts were also down to 1.41 million annualized units in January.

David Lereah, NAR's chief economist, said observers shouldn't overreact to the existing sales gain, or to other short-term effects. "Although we're expecting existing-home sales to gradually rise this year, and buyers are responding to the price correction, some unusually warm weather helped boost sales in January," he said. "On the flip side, the winter storms that disrupted so much of the country in February could negatively impact the housing market.

The NAR's Pending Home Sales Index (PHSI) is a leading indicator for the housing sector, which could indicate how housing will fare in 2007. Based on contracts signed in January, it fell 4.1 percent to an index of 108.7 from an upwardly revised reading of 113.3 in December, and is 8.9 percent lower than January 2006.

Aside from December, which got a lift from mild weather, the January PHSI index was the highest since last August. More importantly, there has been a narrowing trend from year-ago levels since last July when the index was 14.7 percent lower than a year earlier.

David Lereah, NAR's chief economist, believes the index has recovered from a low in October. "We are seeing temporary near-term weather disruptions in much of the country, but there is an underlying pattern of stabilization in the housing market," he said. "As a result of these weather disruptions, it may take a couple months for the picture to fully clarify, but a modest recovery is likely. Housing remains a great long-term investment."

But sales are stabilizing is at a much lower sales rate than one year ago—from 1-11 percent lower. "The rapid shift in January to frigid air in much of the country had a cooling affect on home shopping that went beyond normal seasonal factors," Lereah explained. "Weather disruptions have continued since."

The PHSI is derived from pending sales of existing homes. The PHSI in the Northeast jumped 9.3 percent in January to 101.8 but was 1.3 percent below a year ago. The index in the West rose 0.2 percent to 110.8 but was 7.0 percent below January 2006. In the Midwest, the index was down 2.4 percent in January to 100.1 and was 10.8 percent lower than a year earlier. The index in the South fell 11.7 percent to 116.7 and was 11.8 percent below January 2006.