# Latest Housing Numbers May be an Aberration


Even Lawrence Yun, NAR's chief economist, was cautious in his announcement, perhaps chastened by NAR's admission last week that they had overstated sales for the past five years: "Housing affordability conditions are at a record high and there is a pent-up demand from buyers who've been on the sidelines, but contract failures have been running unusually high." And to avoid making the same mistake twice, Yun said that some of the increase in pending home sales may be people who couldn't qualify before who are attempting to make another purchase now.

The pending home sales index hit 100.1, the first time it has been over 100 since April of 2010 when sales were goosed by the expiration of the government's homeowner tax credit. Actual home sales were up in November as well, hitting a seven-month high, according to the Commerce Department.

New construction activity is inching higher along with builder confidence while the inventory of homes for sale is declining. Aaron Smith, an economist at *Moody's Analytics,* was cautious: "It looks like buyers are becoming more confident and attracted to record-low interest rates [but] activity still looks depressed by historical standards."

Both consumers and economists appear to be gaining some confidence for the start of the New Year. The Conference Board said on Tuesday that its Consumer Confidence index rose to 64.5 from 55.2 in November, climbing back toward the high of 72 recorded last February. And the November index was 15 points higher than it was in September. And economists surveyed by the *Associated Press* are estimating that the country's Gross Domestic Product (GDP) will grow next year by 2.4 percent, up from this year's expected 2.0 percent. They are also estimating that job growth will move slightly higher as well, but not be enough to keep up with population increases or be enough to make a dent in the current 8.6 percent official unemployment rate.

On the flip side, residential real estate prices are continuing to fall, according to the S&P/Case-Shiller index, with prices declining by 3.5 percent through September. And the Consumer Confidence index, noted above, is still far below the 90 level that would indicate that the economy is on solid footing.

With prices declining, and pending contracts failing to close, the shadow inventory that exists but can't be measured still hangs over any long-term economic recovery. And another study showing that many homeowners who are underwater have decided to "tough it out" rather than walk away, which means that their ability to move to where employment opportunities might be better (i.e., North Dakota and Pennsylvania) is being hindered.

Another negative indicator is the increase in the number of homeowners who are 90 days late or more in making their mortgage payments. Many of these will show up as foreclosures next year, putting additional downward pressure on home prices.

This review says nothing about the exogenous concerns outside of the housing market: the potential for economic declines in Europe to seep over into the American economy, the continuing gridlock in Washington such as the silly two-month extension of withholding tax breaks, the consumer recovering from his Christmas shopping binge, to name just a few.

While the good news is gratifying to see, the head winds are daunting, and make the outlook for homeowners, potential homebuyers, the consumer, and the economy challenging indeed.