

Datanote: US Pending Home Sales, May

In one line: Home sales on course to fall back in Q2.

- Pending home sales fell by 2.1% in May, below the consensus, +0.5%.

We had expected a partial rebound, at least, in May pending home sales in because the 7.7% plunge reported in June was the largest single-month fall in more than three years. The

further decline in last month takes the index to its lowest level in its 24-year history. Pending home sales had been running hot relative to the weak level of mortgage demand for some time, but now the two series have now fallen back into line. Mortgage demand remains very weak, suggesting that a meaningful rebound in June is unlikely. More generally, we suspect that home sales will struggle in Q3, as mortgage rates remain very high by the standards of the past couple of decades, and the labor market is

weakening.

Pending home sales tend to lead existing home sales by around one month, due to the usual lags between contract signings and closing. Existing home sales recently have been a bit stronger than suggested by pending sales, but a meaningful decline in existing sales in June now seems likely. New home sales also will probably be much weaker in Q2 overall than in Q1. We think total home sales are on course to fall at an annualized rate

of about 10% this quarter. Given the recent weakness in housing starts, and meager retail sales of building materials and hardware, residential investment will probably fall in Q2, adding to the drags on headline growth from net trade and equipment investment suggested by today's advance goods trade and durable goods orders reports, respectively.

