

Datanote: US Pending Home Sales, March

In one line: Housing market activity likely to slow sharply in Q2

- Pending home sales rose by 3.4% in March, well above the consensus, 0.4%.

This jump in pending home sales is hard to explain since it takes activity even further above the level implied by mortgage demand, which weakened as the average 30-year conventional

mortgage rate rose to more than 7% by early March, from a low of 6.71% in December. The weather was also unfavorable for pending home sales last month, as March was cooler relative to seasonal norms than February. Our second chart shows a reasonably strong fit between shifts in winter temperatures relative to seasonal norms and the deviation in the monthly pending home sales prints from their trend.

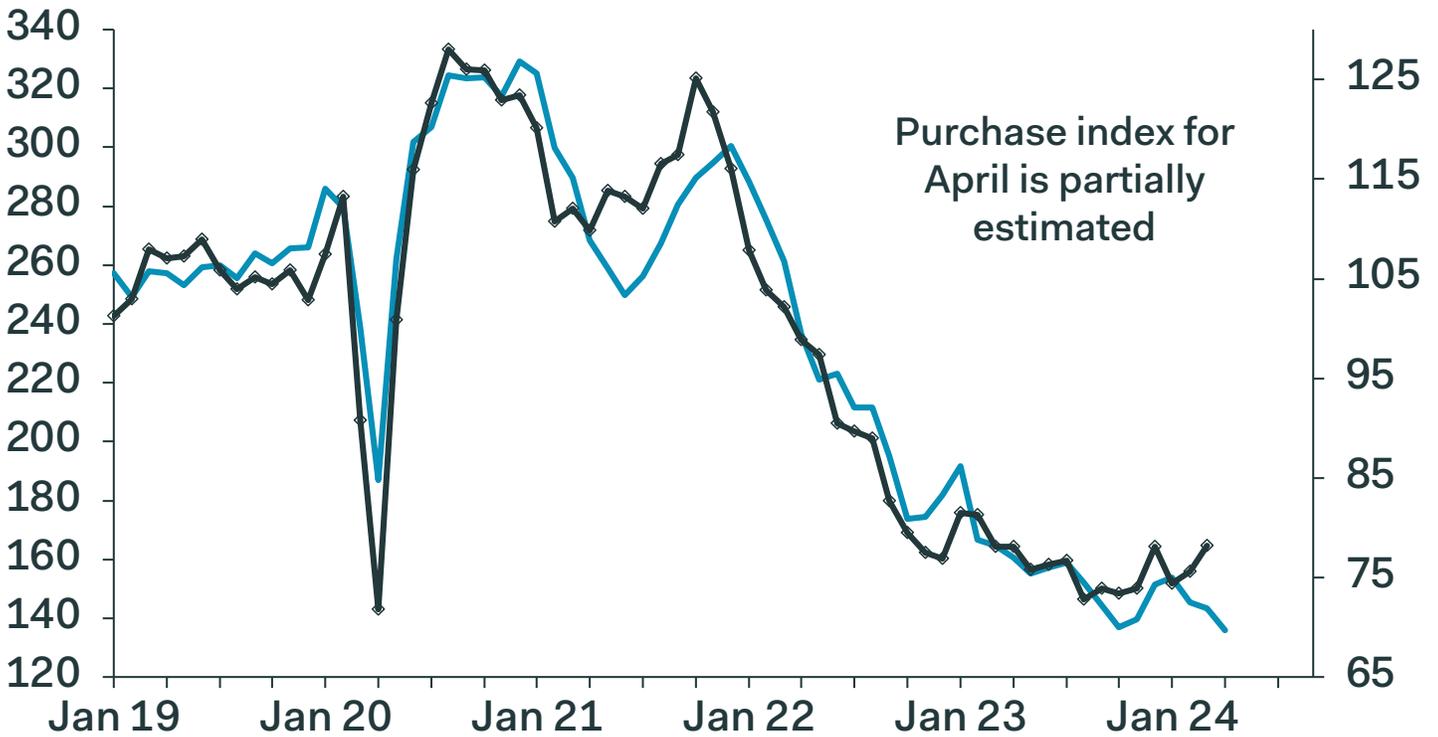
Looking beyond today's print,

pending home sales probably will drop back significantly over the next couple of months. Sales cannot defy weaker mortgage demand indefinitely, and applications have continued to soften in April. They likely have further to fall given the recent trajectory of Treasury yields. Rates are also so high that it is prohibitively expensive for most current homeowners to move, so the inventory of existing homes for sale will remain very limited too. We think that better news on inflation and a weaker labor market will mean that long-term rates

will drop back significantly eventually, but it will probably take another quarter or even two before this shows up clearly in housing market activity. March probably is as good as it gets for now. The previously tight short leading relationship between pending and existing home sales has broken down recently, but it still points to weaker existing home sales in the near term.

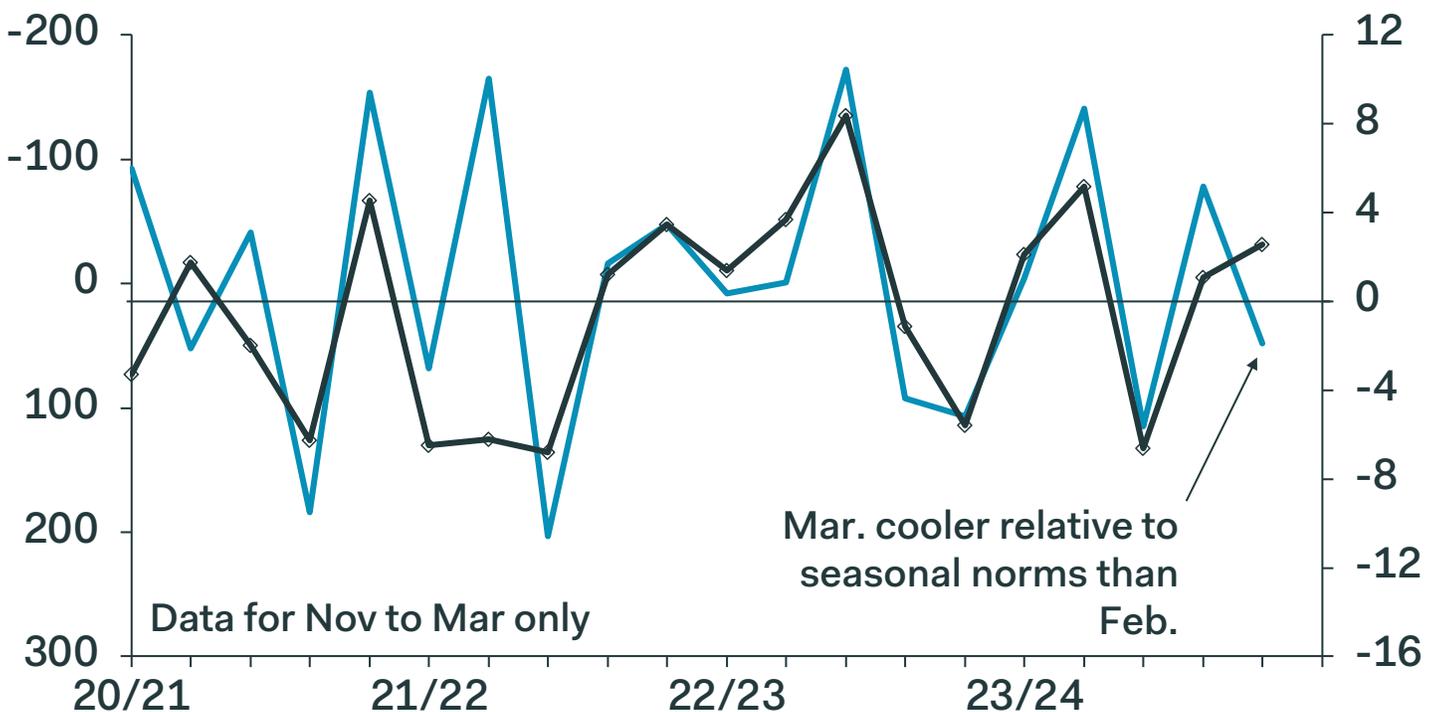
— MBA purchase applications index, re-adjusted by PM (Left)

— Pending home sales index (Right)



— Heating degree days, dev. from normal vs. prev. month (Left, Inv.)

— % m/m change in pending home sales less prior 3m avg. (Right)



— Pending home sales, % 2m/2m, adv. one month
— Existing home sales

