

Pending Homes Sales Crash With a Record Fall to a Record Low

Data Following Expiration of Subsidies for Down-payments Suggests Hard Second Dip
Demand is Severely Weakened. Not A Single Major News Outlet Recognizes the News.

If It Bleeds It's Buried.

By Michael David White

The Index of pending home sales fell a record 30% in May to a record-low reading of 77.6 -- two huge pessimistic indicators of future prices nationwide. Yet the combination of two record negatives went barely reported when the stats were announced last week.

So here's the news for you now, a week late, but new to the marketplace of ideas. Pending-home sales now stand below the worst numbers we have seen since the housing crash started in 2006. The rubber bands and duct tape are breaking apart. Presume the fix of a fall is in.

Take a look at the three charts below and judge for yourself how important the facts are which the National Association of Realtors announced last Thursday (July 1st).

The oversight by major news outlets -- snubbing record negatives -- is egregious by virtue of its ignorance of the expiration of the free-down-payment program. The pending-home-sales stat gave us our first view of buyer demand for housing without the hugely popular prop from the federal government.

Speculation has run rampant as commentators have wondered about the direction of prices as government support starts to fall away.

The future direction of real estate prices is a major obsession of almost all economy watchers as the monthly bill for shelter overshadows others, as the value of homes is a predominant factor of family wealth, and because the banking sector has huge investments based upon residential property.

"If you're looking for a silver lining in housing, you aren't going to find it here," Mike Larson of Weiss Research said. "Demand has fallen off a cliff in the wake of the tax credit expiration, with pending sales falling by the biggest margin ever to the lowest level ever."

It is likely that Mr. Larson's comment drew attention to the two new record lows. Had he remained silent, these highly relevant facts likely would have gone unreported by almost all. The statement by NAR announcing pending-home sales makes no reference to either the record fall or the record new low. If their intention was to hide bad news, they got away with murder, and let's show you the fools who fell for it.

Among the outlets who failed to uncover either of the record negative stats are Barrons, Dow Jones, the Financial Times, the Los Angeles Times, Marketwatch, and StreetInsider.

I reviewed stories on pending-home sales by 15 leading news outlets – in addition to the flunking students mentioned immediately above, I also read Atlaticwire.com, BBC News, Bloomberg, Boston.com, CNBC, Investors' Business Daily, New York Times, Reuters, US News — and the only difference between the outlets was the extent to which they screwed up this critical epicenter-type data set (Please see the graphic nearby depicting the various degrees of incompetence.).

The future direction of housing prices are arguably the most critical factor in the most critical nation in the most critical financial crisis since the Great Depression. The signs are not hunky-dory in this market. The May pending-sale figures may in retrospect serve as a Rosetta Stone: A perfect guide to the true fortunes of residential real estate. Just in case you have forgotten, we are in one hell of a market, and Mom did not tell us this is what would happen when we grow up.

HousingStory.net estimates current inventory for sale of 3.9 million is 1.2 million units higher than it should be, and not too far away from the record high 4.5 million. Inventory stands at 8.3 months of sales, but it should be at 5.8 months.

Fourteen percent of mortgages are behind on payments -- about 7.7 million borrowers or, more starkly, one in seven. A record 4.63 percent of borrowers are in foreclosure. Approximately 13 million homeowners have no equity or negative equity. They would make nothing from the sale of their house if they could sell it. Or they would lose a little or a lot. Thus do we have the phenomena of strategic default -- now as common as no-money-down mortgages during the boom.

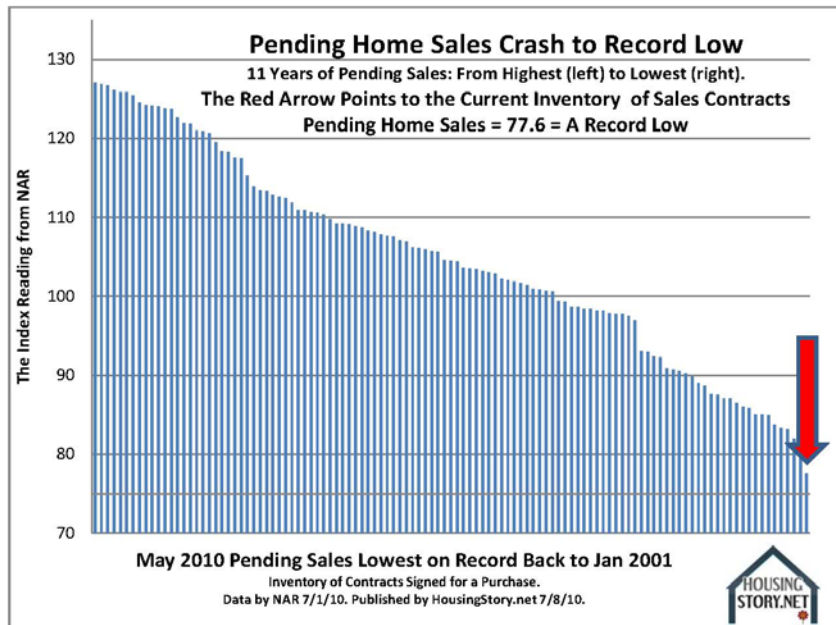
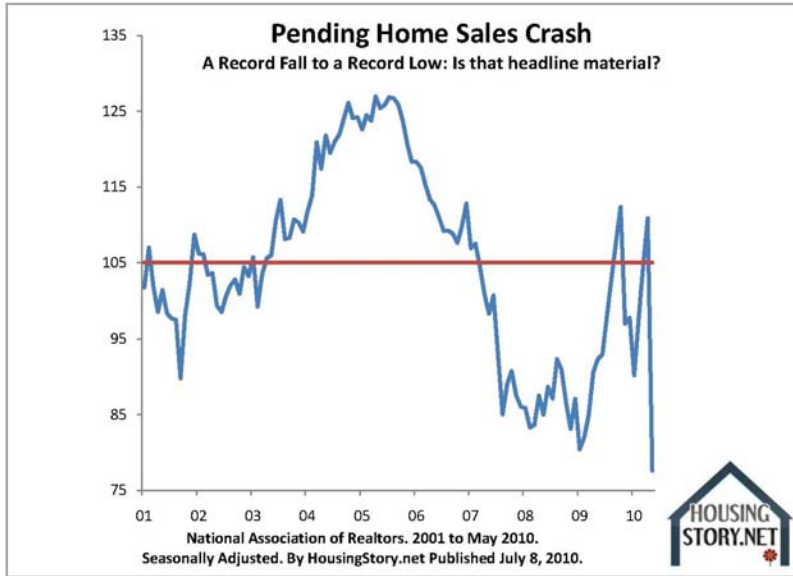
We are in a pause of a tectonic shift of plates. Prices have been flat since August 2009, but are down 30% from their peak. The fall of 30% was almost completely discounted as impossible prior to its occurrence.

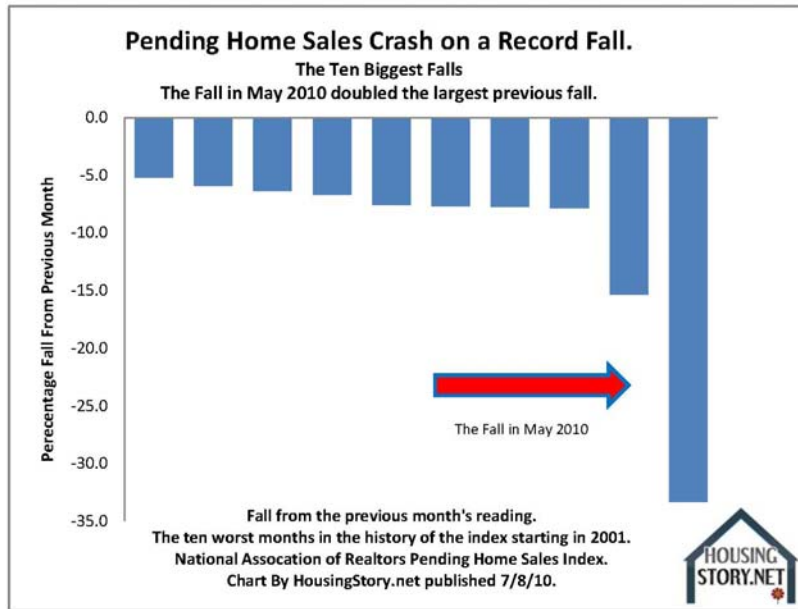
My speculation is that the fate of bubble-mortgage debt remains as our key obstacle blocking recovery (Unbelievers should rent the Godzilla movie "Eating the Lost Decades of Japan" for further enlightenment.). Total mortgage balances remain almost unchanged from the peak of the bubble -- \$11.68 trillion today versus \$11.95 trillion at the peak (see chart below).

The data released last week on pending home sales and the dismal record of reporting on that data proves that breaking news business journalism fails even in surface scratching. The cows just want to feed on the grass in front of them and go on to the next field.

The smart investor is going to look at these charts on pending-home sales and have a real advantage over the common media consumer. Readers of my work know I have found pessimistic facts easy to find. The pending-sales figures are a dramatic concurrence -- a record fall and a record low.

So I will give you my opinion: All hell has broken loose all over again in real estate. Don't buy a home. Sell one.





missed both record stats.

Barron's
 Dow Jones
 Financial Times
 Los Angeles Times
 Marketwatch
 StreetInsider.com

missed one record stat.

Atlatiwire.com
 Bloomberg
 Boston.com
 CNBC
 Investors Business Daily

buried the lead.

BBC News
 New York Times
 Reuters
 US News

The Headline of the Four Outlets Who Uncovered Both Record Stats:

BBC News: US home sales dive record 30% as tax break is removed
 New York Times: Home Sales and Building Slowed in May
 Reuters: US May pending home sales plunge 30 pct-Realtors
 US News: Home Sales Poised to Drop In Coming Months

The Right Headline:

Pending Homes Sales Crash in a Record Fall to a Record Low
 As Tax Break Expires & Doom is Ushered In