



What CoreLogic data tells us about the record fall in housing finance

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Thursday's [lending indicator data from the ABS](#) shows the value of new finance commitments for the purchase of dwellings fell by a record 11.6% over May 2020. This is the largest single monthly drop in the 18 year series.

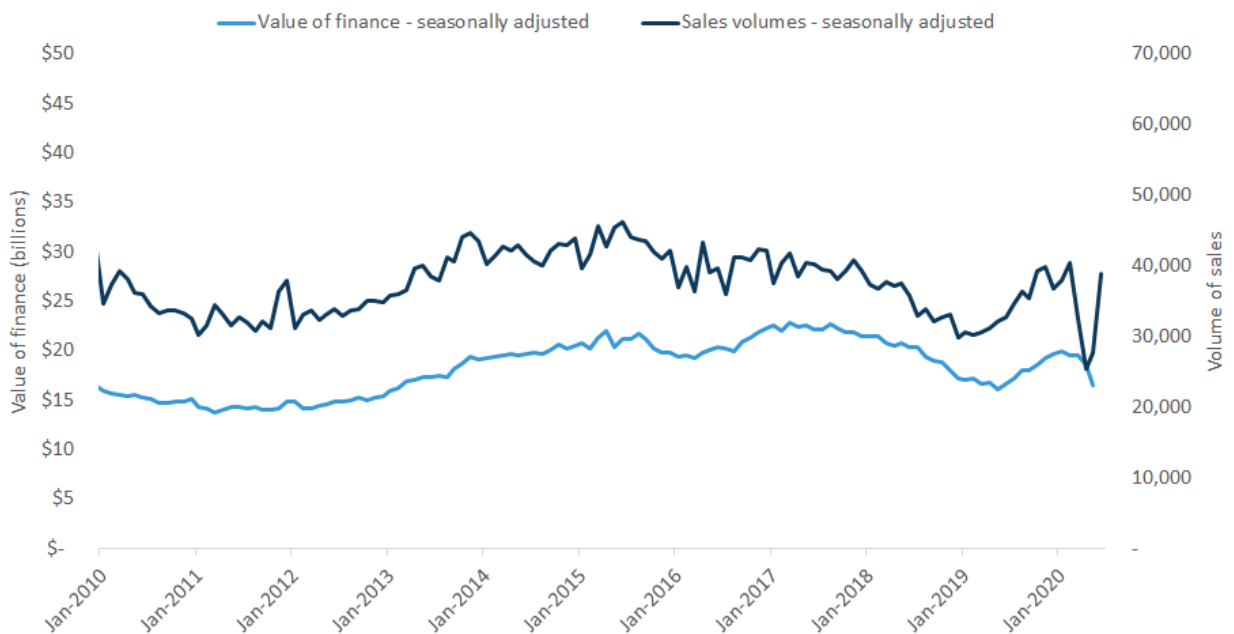
In seasonally adjusted terms, it represents a \$2.2 billion monthly fall in the value of housing finance, and is \$2.0 billion below the decade average level of lending.

But CoreLogic data suggests that the June results could show a partial recovery.

Can CoreLogic sales data tell us what will happen to the housing finance data?

The chart below shows the monthly value of new finance for housing from the ABS, against the number of property transactions estimated by CoreLogic. The two metrics have moved quite closely together historically. This suggests that when more money is lent for the purpose of buying property, we will typically also see a rise in the number of transactions.

Monthly CoreLogic sales volume estimates v value of housing finance - Australia wide



While this is intuitive, there is something curious about the relationship. In some instances, shifts in the direction of sales volume estimates produced by CoreLogic are a month *ahead* of changes in the direction of new housing finance. The correlation coefficient between the two series is slightly strengthened when the sales volumes are lagged by one month.

The lagging of finance data has been particularly evident in the dramatic disruption that has played out amid COVID-19. CoreLogic sales volumes started rebounding over May, while housing finance saw a record decline.



This could be because of the way sales volumes and finance commitments are dated. CoreLogic sales volumes generally date sales from the *sale's contract date*. But housing *finance commitments*, according to the ABS, are only counted when the following three criteria are met:

- A home loan application has been approved;
- a loan contract or letter of offer has been issued to a borrower; *and*
- the borrower has accepted the offer.

This means that a housing finance commitment could occur in the month after property is purchased.

The lag between the two events could be days, or weeks depending on multiple factors, including the time it takes for a property to be valued, or the time the borrower spends reviewing the loan contract before accepting it. More recently, [anecdotal evidence](#) suggests an additional lag in the housing finance data could be caused by COVID-19 related factors. These include banking staff and processes adjusting to remote working conditions, processing additional forbearance provisions, and a surge in refinancing applications.

Understanding this detail of the data could help us understand whether housing finance numbers will have fallen further in June, or if they would start to recover.

Based on the fact that CoreLogic sales estimates rebounded 29.5% over June, housing finance values may actually have bottomed out in May.

Other indicators suggest transaction activity has been steadily recovering. One of these is the change in volume of valuations ordered for property purchases through CoreLogic platforms. Underlying data shows an 11.5% increase in valuations for the purchase of property between May and June. The [Early Market Indicators](#) report has continued to show an uplift through July, rising 11.1% in the week ending July 9th.

The number of advertised listings provides another signal for higher sales. While the number of *new* capital city listings has increased by more than 40% since early May, while the total listings count has reduced by close to 3% over the same period. This implies a new listings to sales ratio of around 1.3. In other words, more homes are being sold than what is being added to the market.

Despite signs of rising transaction activity and finance volumes recently, significant headwinds lie ahead for sales activity. With the re-introduction of the stage 3 lockdown across Melbourne, the impact on sales volumes is two-fold. There is the physical limitation on selling homes that come with social distancing, as well as a more general fall in consumer confidence. The [ANZ-Roy Morgan Consumer Confidence](#) index has declined in the past two weeks of measurement. Declines in consumer sentiment are associated with falls in property transactions.

This means that while finance volumes could bottom out in May for the 2019-20 financial year, the potential for another significant fall exists while social distancing policies are required.