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New Home Sales



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A monthly update on the sales of new homes

May 2020

NEW HOME SALES FALL 4.2 PER CENT IN MAY

The announcement of HomeBuilder should arrest the fall in new home sales and improve market confidence.

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Methodology: Each month HIA surveys the largest 100 home builders in Australia on their sales (contract to build) volume for the previous month. These builders account for 33 per cent (2018/19) of all houses built in Australia. This sample is used to extrapolate results for the rest of the market including a seasonal adjustment.

Each October the sample surveys are re-calibrated to reflect changes in the market share of each of the 100 largest builders. This can affect the comparison between September and October results.

The COVID-19 restrictions have been in place for three months. Over this time new home sales have displayed consistently weak results as consumer confidence fell away. Building a new home is one of the largest purchasing decisions that households can make in their lifetime. Given the uncertainty in the economy, households chose to cancel or delay housing purchase decisions.

New home sales in the three months to May 2020 were lower by 20.3 per cent than the previous three months. Compared to the same three months last year when the Federal election was held and there was uncertainty surrounding housing taxation policies, sales have fallen by 18.2 per cent.

The decline in sales since the introduction of the COVID-19 restrictions were further compounded by an increase in the cancellation rate of projects. The cancellation rate is the share of projects that were cancelled in that month relative to the number of sales. Typically, the cancellation rate is around 7 per cent of new home sales due to changes in a household's financial situation or a change of mind.

The cancellation rate in April exceeded 30 per cent and has been relatively constant through the COVID-19 period with a rate of 26 per cent in May. The cancellation rate was significantly higher during this period than levels seen during previous shocks such as the GFC.

The COVID-19 related fall in new home sales occurred at a time when work on the ground had already contracted by 18 per cent since mid-2018 due to the natural cooling of the home building cycle which was further exacerbated by restrictions on the access to finance.

This sustained fall in the new home sales over the past three months would typically flow through to a reduction in the volume of work on the ground for most jurisdictions during the September 2020 quarter. The announcement of the HomeBuilder program in June should arrest the fall in new home sales and improve market confidence. This in turn improves the outlook for residential building in the second half of the year and the wider economy.

In addition to HomeBuilder, a number of state governments have initiated their own programs that will positively impact home building activity in the second half of 2020.

Across the jurisdictions, South Australia has seen the largest decline, falling by 31.7 per cent in the three months to May 2020 compared to the previous three months, followed by New South Wales with a 25.3 per cent decline. Western Australia and Queensland declined by 19.0 per cent and 18.7 per cent respectively and Victoria declined by 16.5 per cent.

