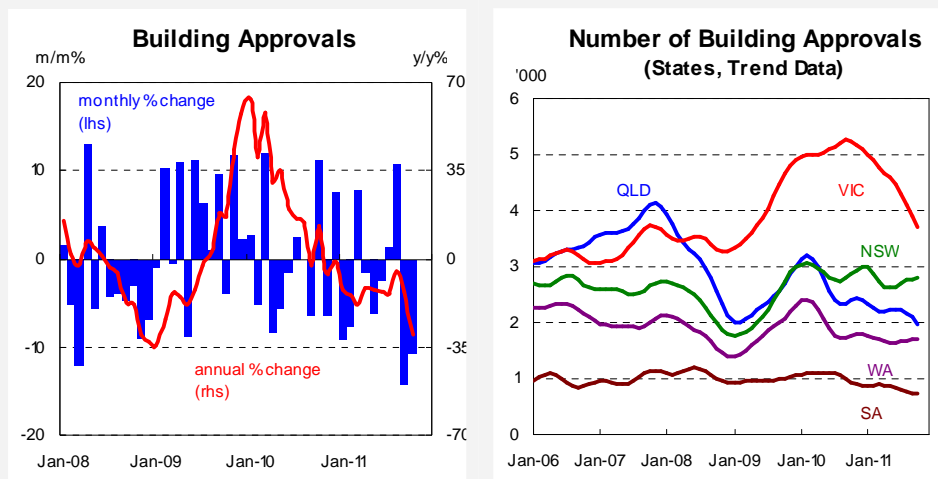


DATA SNAPSHOT

Building Approvals – Down in the Dumps

Thursday, 1 December 2011

- Building approvals dropped 10.7% in October, indicating that residential housing remains down in the dumps. This took the decline over September and October to 23.4%, the largest back-to-back decline in over 11 years. On an annual basis, total approvals are down 29.8%, the weakest annual pace since January 2009.
- While there has been unusually high volatility in the data over recent months, there is no denying that the overall trend growth has been weak, and indicates that the housing sector remains a weak spot in the domestic economy.
- Driving the decline were sharp drops in approvals in Queensland and Victoria. Approvals in Queensland have yet to show a convincing recovery despite the State government introducing grants for those buying or building new homes. Approvals in Victoria are still higher than those of any other State, but have eased significantly.
- Weak house price growth will continue to deter any pick up in residential construction. Although the rate cut from the RBA in November and potentially another as soon as next week might help stem the pain in housing, residential construction is likely to drag overall economic growth lower in 2012.



Building approvals dropped 10.7% in October, indicating that residential housing remains down in the dumps. The total number of approvals for October of 10.5k was the lowest monthly approvals in more than two and a half years. The sharp drop was surprising, especially given that total approvals slumped a revised 14.2% in September. This took the decline over September and October to 23.4%, the largest back-to-back decline in over eleven years. On an annual basis, total approvals are down 29.8%, the weakest annual pace since January 2009.

While there has been unusually high volatility in the data over recent months, there is no denying that the overall trend growth has been weak. In trend terms, building approvals have been in decline for eleven consecutive months.

By sectors, approvals were down across the board. In the private sector, both approvals for houses and "other dwellings" (multi-density dwellings such as townhouses, flats, etc) fell sharply. Approvals for private sector houses dropped 7.5%, and approvals for "other dwellings" fell 16.8%.

Public-sector dwelling approvals (both for housing and multi-unit developments) were down 13.0% in October, and have had double-digit declines for three consecutive months.

Although a relatively small component of total approvals, growth in this component is very weak, and is down 73.5% on a year ago, the weakest annual pace in five months.

States

Looking at the States, driving the decline were sharp drops in approvals in Queensland (-19.5%) and Victoria (-18.0%).

Approvals in Queensland have yet to show a convincing recovery despite the State government introducing a \$10,000 grant for those buying or building new homes from 1 August.

In Victoria, approvals over September and October have fallen below the long-run average of 3.8k approvals per month. Approvals in the State are still higher than those of any other State, but have eased after averaging around 5k approvals per month in the 18 months to June this year. It appears that residential building activity is slowing in a delayed response to moderating house prices over the course of this year.

Across other States, approvals in NSW (-0.4%) and SA (-3.3%) also declined, while WA was the only State to post an increase of 2.1% in October.

Outlook

Today's building approvals data indicates that the housing sector remains a weak spot in the domestic economy. The weak growth in residential construction also suggests that the housing shortage, which exists nationally and particularly in NSW, looks set to persist.

House prices have continued to soften - RP-Data Rismark house prices declined 0.5% in October and are down 4.0% over the year. This weak house price growth will continue to deter any pick up in residential construction. Although the rate cut from the RBA in November and potentially another as soon as next week might help stem the pain in housing, residential construction is likely to drag overall economic growth lower in 2012.

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