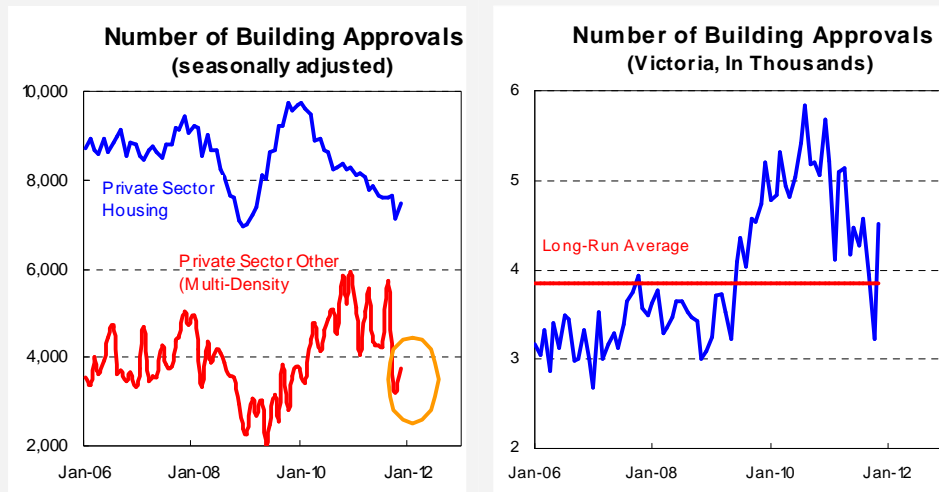


DATA SNAPSHOT

Building Approvals – The Big Victorian Bounce

Tuesday, 10 January 2012

- Building approvals jumped 8.4% in November, after a hefty drop of 23.3% over the previous two months. The volatility in building approvals has been due to the vagaries of the other dwellings component (i.e. multi-housing developments). In November, other dwellings in the private sector surged 17.1% after a fall of nearly 44% over the previous two-month period.
- A big bounce in other dwellings in the private sector of Victoria – of 120.1% in the month – drove the jump in overall other dwellings. Total dwelling approvals in Victoria rose by 39.9% - the biggest gain in nearly nine years.
- Indeed, Victoria is the only State where building approvals are running above the long-run average. The release of land in the State is a factor supporting dwelling construction in Victoria, as might be Melbourne’s status as the most liveable city in the world, according to the EIU’s Liveability Survey.
- Building approvals in all other States are running below the long-run average and nationally the trend in building approvals remains a weak one. Building approvals are off more than 30% from the most recent peak in March 2010.
- The recent RBA rate cuts, the recovery in housing loans and the burgeoning national shortage of housing should lead to the beginnings of a recovery in building approvals later this year.



Residential Building Approvals

Building approvals jumped 8.4% in November, partially recovering from a massive back-to-back decline over October and November of 23.3%. Driving the surge was the volatile “other dwellings” (multi-density dwellings such as townhouses, flats, etc) category, which jumped 17.1%. However, private sector houses also had an encouraging 4.8% increase.

Building approvals has been very volatile of late, largely led by large swings in the “other dwelling” category. Looking through the volatility, growth in building approvals remains very weak. The annual rate of growth stood at -18.9%, improving from -29.8% in October, but remains in double-digit negative territory. In trend terms, building approvals have fallen for 13 months straight.

Among other sectors, public sector building approvals (both for housing and multi-unit

developments) were very weak and fell by 3.5% in November, the fourth consecutive monthly fall. The annual rate of growth is down 68.4%, and has been in decline for 15 consecutive months. Although it is a relatively small component, growth has been extremely weak.

Residential Building Approvals – States

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Queensland and NSW also recorded increases in the approvals for buildings in November. The bounce in Queensland of 6.6% in November was not enough to recoup the slump of 29.1% recorded over the September-to-October period. The rise in NSW of 1.9% was also small and also not enough to out-do the slump of 33.9% over the previous two months.

All other States recorded declines in the month. WA led the declines with a drop of 16.9% recorded in the month, the biggest drop since April 2010. However, we do not expect the drop in WA to mark the start of a renewed weakening trend because WA economic activity and population growth is accelerating and housing supply is tightening.

Meanwhile, Tasmania recorded a 7.8% decline and SA a 2.0% decline in building approvals in the month.

Non-Residential Building Approvals

Growth in non-residential approvals has continued to be lacklustre, pointing to subdued growth in commercial construction. Commercial construction has yet to recover after winding down from the Building the Education Revolution (BER) in 2010.

The weakness in non-residential approvals has been across all States, however, there are tentative signs of a pick up in VIC, QLD and WA in recent months, albeit from a very low base. In QLD and WA, the mining boom is supporting economic activity and likely boosting demand for commercial, industrial and social building construction.

Outlook

Weak growth in residential building approvals indicates that residential construction will remain subdued, and suggests that the housing shortage, which exists nationally and particularly in NSW, is set to persist.

There is evidence to suggest that the housing market is beginning to stabilise. RP-Data Rismark house prices rose in November for the first time in 11 months. However, a more sustained increase in house prices will be necessary before a recovery in housing construction takes place. We expect that in time, construction activity must eventually recover to meet underlying demand later this year, provided there is no significant fall out from Europe.

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