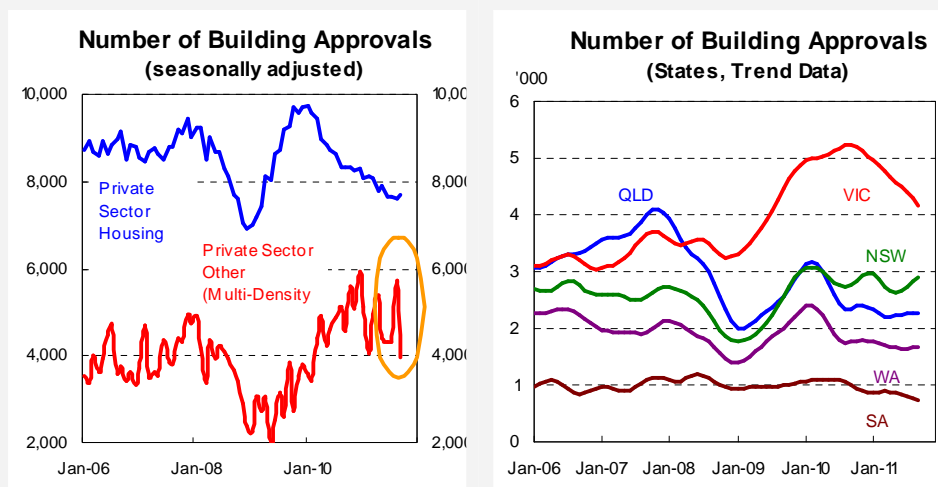


DATA SNAPSHOT

Building Approvals – Building Blues

Wednesday, 2 November 2011

- Building approvals slumped 13.6% in September, taking the total number of approvals for the month to just under 11,900 the lowest in more than two years. The weak result predominantly reflects volatility in the data - the sharp drop more than reversed a 10.7% surge in the previous month.
- A large 30.7% fall in approvals for private-sector “other dwellings” was predominantly behind the sharp drop in September. This category includes multi-density dwellings (for example, townhouses, flats, etc), and is usually quite volatile month to month. The fall follows a sharp 32.8% gain in August.
- Today’s data confirms that the underlying momentum in residential construction remains fragile and suggests the national housing shortage is likely to persist. However, a rate cut from the RBA last week and potentially another could bring forward a turnaround in housing.



Building approvals slumped 13.6% in September, taking the total number of approvals for the month to just under 11,900 the lowest in more than two years. The weak result predominantly reflects volatility in the data - the sharp drop more than reversed a 10.7% surge in the previous month. The recent volatility has been due to large swings in private sector “other dwellings” component. However, in trend terms, which smooths out the volatility, growth in building approvals remains weak and has been in decline for 11 consecutive months. On an annual basis, total approvals were down 12.0% over the year to September.

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On a more positive note, approvals for private-sector houses rose by 1.1% in September, the first increase in four months. The underlying trend however, remains a weak one, and on an annual basis, private-sector house approvals are down 7.6% over the year to September.

Public-sector dwelling approvals (both for housing and multi-unit developments) also fell sharply and were down 46.3% in September. Although a relatively small component, growth in this component is very weak, and is down nearly 63.1% on a year ago.

States

The biggest decline in approvals across the States was in NSW, where approvals slumped 32.2% in September, after jumping 41.7% in August. Approvals in Victoria (which had the largest number of approvals, making up around one third of the total) fell 13.6%, more than reversing the 7.4% increase seen in August. Private sector house approvals rose in both Victoria and NSW, retracing the decline in house approvals in August. However, the overall decline in building approvals in these two States were driven by declines in the volatile private sector 'other approvals'. In NSW the number of private sector multi-density approvals more than halved from August to September, falling 53.1% for the month, back to a similar level seen in June, while in Victoria this segment of the market fell 28.9% in September, indicating a sharp decline in large unit developments for the month.

Queensland also saw a decline in building approvals (-12.7%) in September, in what was largely a reversal of the previous months increase (of 18.7%), given builders in Queensland had held off approvals until after August 1st, when the State government introduced a \$10,000 grant for those buying or building new homes.

Western Australia saw a small decline in building approvals (-1.5%), while South Australia bucked the trend with an 11.3% increase in building approvals in September, which was led by a huge 58.8% increase in multi-density approvals.

Outlook

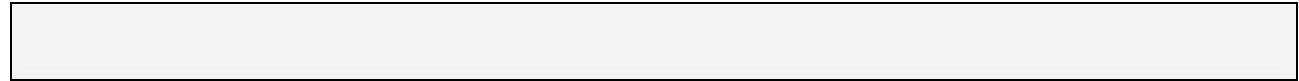
Today's building approvals data confirms that the boost in building approvals in August, which was entirely due to multi-density approvals, was a one-off and that the underlying momentum in residential construction remains fragile. Nationally, there remains a shortage of residential housing, particularly in NSW and this looks set to persist.

House prices have softened since the start of this year and data earlier this week indicated the trend continued in September. A recovery in house prices will be necessary before residential construction picks up. However, a rate cut from the RBA last week and potentially another could bring forward a turnaround in housing.

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