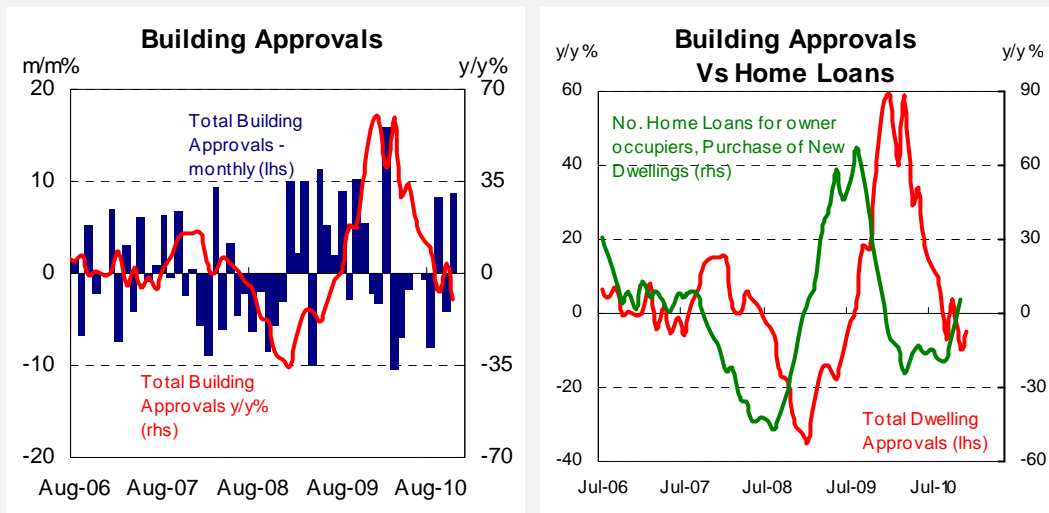


DATA SNAPSHOT

Building Approvals

Thursday, 3 February 2011

- The number of dwelling units approved jumped 8.7% in December after a 3.9% fall in November. This series has been quite volatile of late. Looking through the volatility, the trend has been a weak one, with approvals down 5.0% from a year ago amid higher interest rates and building costs.
- Indeed, in this month it was the more volatile 'other dwellings' component (+21.3% m/m), which consists of mostly apartments that pushed the overall series higher. Nonetheless, on a trend basis, this segment has picked up over the last four months and could continue to strengthen given that undersupply is likely to be an issue for quite some time in most major cities.
- The more stable 'houses' component was unchanged in the month. On a trend basis, this segment has been weak throughout the year. Private housing approvals have been constrained by the lack of new land releases in Sydney and other capital cities as well as more difficult planning processes.



There was disparity among the States. Building approvals were very strong in NSW (+16.7% m/m) and VIC (+11.4%). On a trend basis, it has been especially strong in VIC with gains posted for most of the year. VIC has attracted higher levels of net interstate migration and housing has also been more affordable. But migration into VIC is expected to ease. And the strong run of building approvals in VIC supports concerns that the supply of dwellings could start to outstrip demand and that Melbourne's prior strong gains in house prices are unlikely to be sustained. In Sydney, however, undersupply continues to be a major problem and indeed, it is only in the last few months that approvals have been picking up in NSW.

Elsewhere, in December, approvals were up sharply in Tasmania (+9.9%) and a gain was also posted in SA (+1.1%) although for both these States, the trend over 2010 has been weak. The mining states, QLD (-5.7% m/m) and WA (-4.2% m/m) were the only ones to post a fall in approvals in December. QLD has been hit by a spell of bad weather and developers could be cautious as demand for housing in this historically flood-prone state weakens in the medium-term. But in WA, the trend has been somewhat better with approvals mostly improving in the last four months of 2010. WA is also still to benefit from the mining boom and this could provide support to its housing sector.

We've seen a string of robust gains in new home loans for much of the second half of 2010. Even if interest rates were rising, house prices had begun stabilising, encouraging some potential buyers of new/established homes or that were looking to construct a home to enter

the market. So, in the near term, this should show up in the building approvals figures.

However, there are challenges in the medium term. House prices are flattening out but at an exceptionally high level. This will be a strain on household budgets, which are already facing high mortgage rates and the potential for further rate hikes. So potential homeowners could become increasingly reluctant to enter the housing market and it will eventually translate through the building approvals numbers.

Non-residential

The value of non-residential building approvals (in seasonally adjusted terms) jumped 13.1% after a 1.1% rise in November. However, for the year, this series is down 41.2%.

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