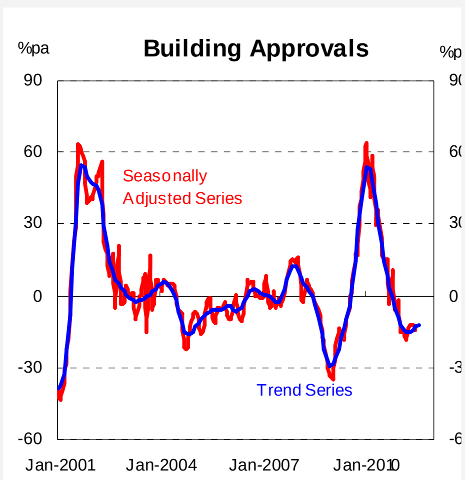
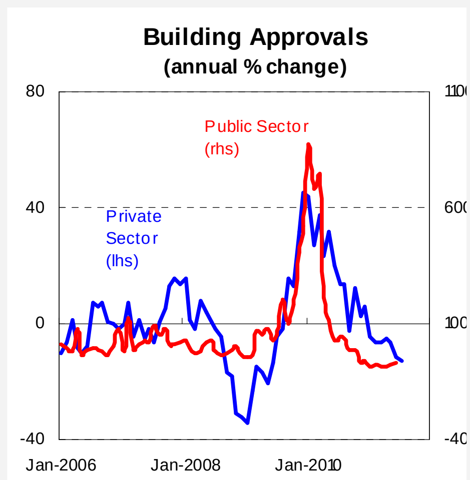
DATA SNAPSHOT

Building Approvals – Appearances Can Be Deceptive

30 August 2011

- **The 1% rise in the building approvals for July is deceptive. Despite the rise, the trend in building approvals remains a weak one. The number of approvals is still anchored near a two-year low and the annual rate of contraction deteriorated further to 15%.**
- **A breakdown of the data also shows a less encouraging picture. A big spike of 77.3% in public-sector approvals drove the total higher. But this category is a small segment and notoriously volatile. In contrast, private-sector approvals fell by 0.6%, marking the third consecutive monthly fall.**
- **Across States, the picture was also a weak one. Only NSW managed to record growth in the month. All other States posted declines, led by South Australia.**
- **Today's approval numbers indicate that the national shortage of housing is set to persist because the weak trend in dwelling construction is likely to continue. House prices have eased since the turn of this year and we expect further softness over the coming year. However, the housing shortage is likely to limit the weakness in housing values.**





Building approvals rose by 1% in July. It is only the first rise in four months and the number of building approvals is still anchored near two-year lows. Further, the annual rate of contraction deteriorated to 15%, the biggest annual percentage decline in four months. So the trend in approvals remains a weak one, despite the gain recorded in July.

The breakdown of the data was also not encouraging. The overall rise of 1% in July was driven by a 77.3% increase in approvals in the small and notoriously volatile public-sector segment. Private-sector approvals fell by 0.6% in July and by 12.8% on a year ago.

The fall in private-sector approvals was steeper in the other category, which includes units and townhouses; this category fell by 1.4% whereas private-sector housing approvals were down 0.2%.

States

The picture was also discouraging when examining approvals on a State-by-State basis. Only NSW recorded growth in the month, of 5.4%. It is the second straight month of gains for NSW but it followed a hefty decline of nearly 26% over the two months to May. Further, on a year ago, approvals are down 15.8% in NSW.

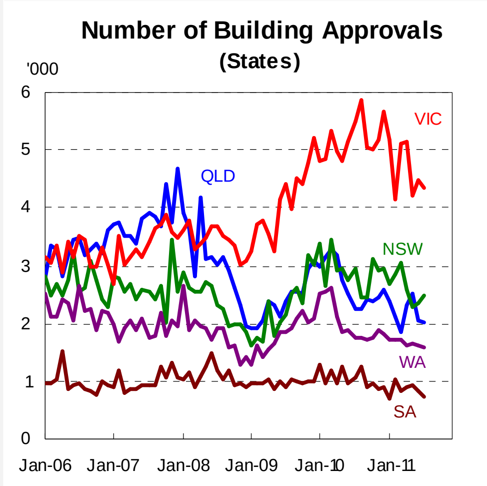
The biggest decline in the month was in SA, where approvals were down 8.8% and down 29.2% on a year ago. The number of approvals is at the lowest in SA in around ten years.

Victoria, Queensland and Western Australia also recorded declines.

In VIC, the outcome was mixed with a strong rebound in private sector housing but another significant drop in private sector units. For the month, approvals were down 3.1% in the month and were off 21.1% on a year ago.

In QLD, there appear few signs of recovery. While some approvals that relate to post-flood replacement activity bypass the official numbers, the underlying trend still appears to be a weak one in the Sunshine State. Approvals are down 10.6% on a year ago.

In WA, approvals were down 1.4% in the month and by 10.2% on a year ago.



Outlook

Nationally there remains a shortage of residential housing. Today's approval numbers indicate that the housing shortage will persist because dwelling construction is likely to remain soft. House prices have generally been softer since the turn of this year and we expect the softness to persist over the coming year. However, the housing shortage is likely to limit the weakness in housing values.

The housing shortage also means that the rental market is likely to tighten further and eventually the tighter rental market will lay the groundwork for a recovery in house prices.

The weak trend in building approvals and in the residential housing market more generally supports our view that the Reserve Bank will be keeping rates on hold in coming months.

Besa Deda, Chief Economist
Ph: (02) 9320-5854

Contact Listing

Chief Economist	**Besa Deda**	**dedab@stgeorge.com.au**	**(02) 9320 5854**
Senior Economist	**Josephine Heffernan**	**heffernanj@stgeorge.com.au**	**(02) 9320 5751**
Economist	**Janu Chan**	**chanj@stgeorge.com.au**	**(02) 9320 5892**
State Manager SA	**Mark Goldsmith**	**goldsmithm@banksa.com.au**	**(08) 8424 5597**