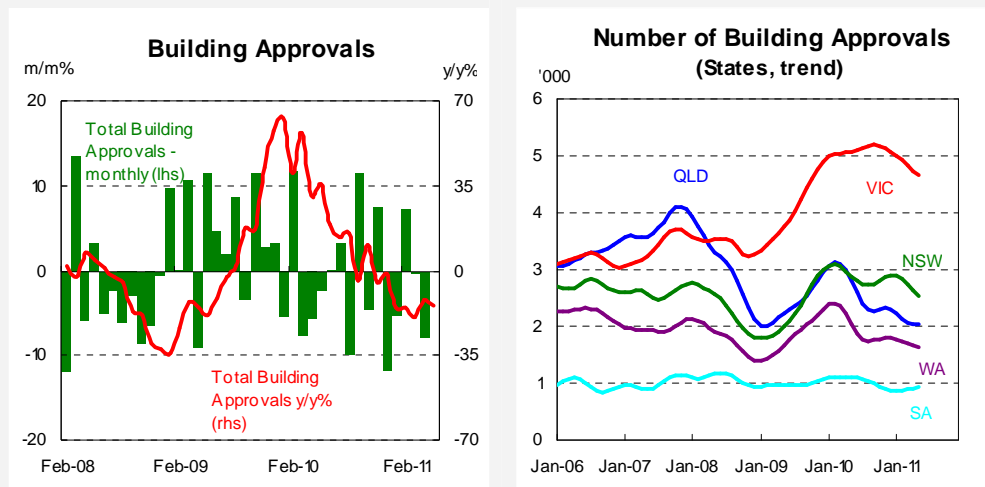


DATA SNAPSHOT

Building Approvals: Where are the Houses?

Monday, 4 July 2011

- The number of building approvals for May was the lowest in nearly two years. They fell by 7.9% in May to be down 14.4% over the year. The annual rate of decline in building approvals has now been in double-digit territory for five consecutive months.
- The lacklustre growth in building approvals reflects the weakness in the housing market. Moderating house prices and high interest rates are clearly contributing to soft construction of new housing. This lack of new supply will exacerbate the current housing shortage.
- A 20.1% drop in the more volatile private sector “other dwellings” category was behind the fall in May. On a positive note, private sector houses rose by 0.7%. Nevertheless, looking through the volatility, a weak trend remains intact.
- Today’s data adds to evidence that the housing sector along with some other sectors of the economy are showing signs of strain and adds weight to the case for the RBA to keep rates on hold in coming months. We expect that the RBA will raise rates in October or November.



Detail:

Total building approvals fell by 7.9% in May. This followed a 0.3% decline in April. Building approvals have decreased in four out of the past five months.

Over the year to May, building approvals are down 14.4%. The annual rate of decline in building approvals has now been in double-digit territory for five consecutive months.

Behind the overall decline was a 20.1% fall in private sector ‘other dwellings’, which includes apartments and townhouses, while private sector house approvals rose 0.7% in May. This is a reversal of the trend over recent months, which has seen the volatile ‘other dwellings’ component strengthen, and house approvals soften.

The breakdown of the States shows sharp falls in NSW and VIC, while SA, WA and QLD posted increases.

NSW building approvals fell 15.6% in May, the second consecutive double-digit decline, while in VIC, approvals fell 18.5% in May. In both these States, it was the volatile ‘other dwellings’ component that fell sharply, while private sector house approvals actually rose in May. SA saw

its second monthly increase (up 5.7% in May) while in WA, approvals rose 3.0%.

Approvals in Queensland rose a subdued 1.2%, after jumping 32.1% in April, following two hefty declines in the aftermath of the floods and cyclone Yasi. Approvals in QLD have now almost returned to their pre-disaster levels, although they are still down 21.9% on the year. Note that not all post-flood rebuilding will show up in the approvals data as some QLD councils are providing approval exemptions for some restorations as a result of accidental damage.

Nevertheless, today's building approvals data points to a weak trend in growth of building activity. It also provides further evidence that the housing market is faltering under the weight of higher interest rates. This has also been reflected recently in a softening of house prices. This ongoing weakness in dwelling approvals suggests the supply of new housing in Australia will be unable to keep up with demand. Population growth remains solid, sustaining underlying demand above current supply. Therefore the housing shortage in Australia is likely to continue for some time.

Reserve Bank Outlook:

The RBA has a firm tightening bias, given the mining boom and Australia's high terms of trade. However, as today's building approvals data indicates, some sectors of the economy are showing signs of strain, with interest rates already at slightly restrictive levels. Today's data will add to the evidence that some sectors of the domestic economy are not sharing in the strong growth story, and add weight to the case for the RBA to remain on hold in coming months. We expect that the RBA will raise rates in October or November.

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