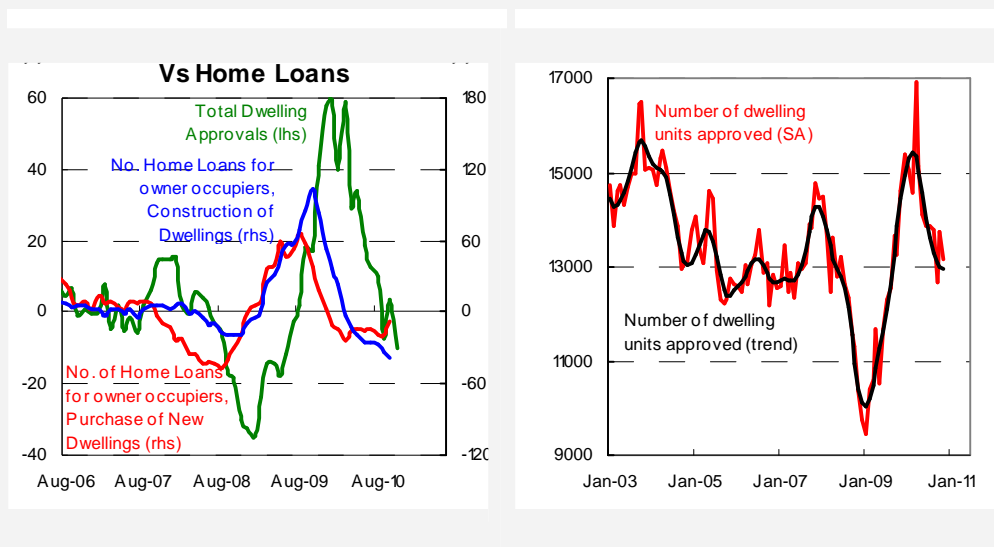


# DATA SNAPSHOT

## Building Approvals

Thursday, 6 January 2011

- The weak recovery in building approvals stumbled in November. Total approvals declined 4.2% after a strong jump of 8.3% in October.
- Overall, today's figures suggest the upward trend in housing activity so far has been a fickle one. Developers and potential homeowners are being challenged by higher interest rates and building costs.
- Moving forward, we expect building approvals to pick up in coming months due to the growing shortage of housing. However, higher interest rates last year and the prospect of further rate hikes later this year may dampen the size of the recovery.



### Residential Approvals

Much of the weakness in the month in building approvals can be found in "other dwellings", mostly apartments, which fell 7.7%. A decline was expected following a very large 22.2% increase in the previous month. On a trend basis this segment is positive and in time we would expect it to strengthen further with demand in the major capital cities outstripping supply. Over the last six months there has been a noticeable pick-up in the development of buildings with four or more storeys (which makes up the greater proportion of apartments).

Private housing also fell 1.7% after expanding 0.8% in October. The slowdown in private housing is continuing but it is not as deep as it was earlier in the year when a large part of the government's first-home buyer's scheme was removed. Private housing approvals is being constrained due to the lack of new land releases in Sydney and other capital cities as well as more difficult planning processes.

There is disparity among the States. Total building approvals fell in NSW (-13.4%), Tasmania (-15.6%) and South Australia (-2.7%). Meanwhile, Western Australia (+7.1%), Queensland (+3.3%) and Victoria (+3.1%) registered gains in approvals.

In the past year, approvals have eased sharply in all states except for Victoria, where they are 4.9% higher (QLD -24.6%, NSW -19.4%, TAS -18.5%, SA -11.6%, WA -4.9%).

Overall, today's figures suggest the upward trend in housing activity so far has been a fickle one. Developers and potential homeowners are being challenged by higher interest rates and building costs. This is limiting supply and putting upward pressure on house prices. The ratio

of new people to new dwellings continues to be stretched in most capital cities, particularly Sydney.

The housing market represents a risk to growth going forward. While house prices have flattened out in recent months they are still exceptionally high, representing a strain on many existing or potential household budgets. The muted supply response will probably support high prices while also risking greater upward pressure on rents. As the economy becomes increasingly dependent on the commodity cycle via the record lift in the terms of trade any external shock to the economy also potentially makes the housing market vulnerable to correction.

#### Non-residential

The value of non-residential building approvals (in seasonally adjusted terms) rose 1.4% in November after flat outcomes in the prior two months. Much of this was due to increases in WA, SA and VIC while there were losses in NSW and QLD. Non-residential approvals have suffered a downtrend since mid 2009.

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