

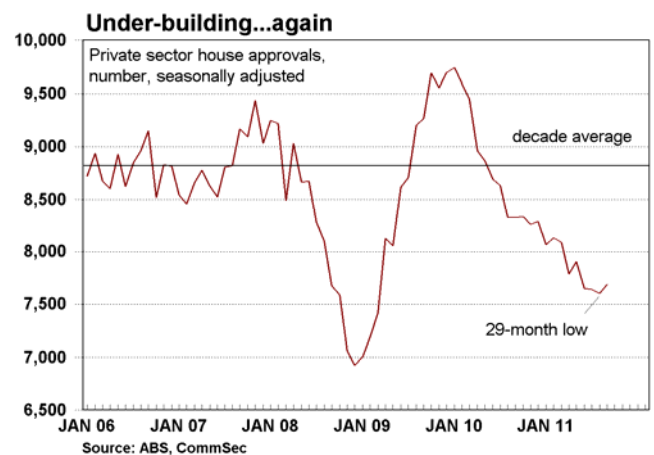
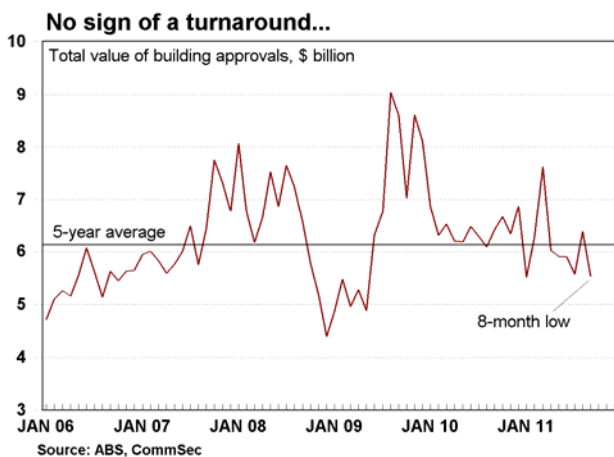
Weak building activity vindicates rates decision

Building approvals

- **Building approvals slump.** Approvals to build new dwellings fell by 13.6 per cent in September, courtesy of a 32.0 per cent slide in approvals to build apartments. The result effectively erased the 10.6 per cent rise in building approvals in the prior month.
- The all-important **private sector new house** segment rose by 1.1 per cent in September, rising from the 29-month lows reached in August.
- **Dwelling approvals fell in five of the six states** in September, with , with NSW leading the declines (down 32.2 per cent) followed by Victoria (down 13.6 per cent), and Queensland (down 12.7 per cent). Approvals rose in just South Australia (up 11.3 per cent).

What does it all mean?

- Well, the surge in approvals recorded in August was certainly short lived. Building approvals have fallen by almost 14 per cent, giving back the prior month's gains and more. Clearly this adds further weight to our view that the housing sector is going backwards. Coupled with the fact that house prices have now fallen for nine months and new home sales are holding at 11-year lows and it provides further justification as to why interest rates needed to be cut yesterday.
- It could be argued that the building approvals numbers tend to be more volatile, but the rest of the industry data on housing activity provides a picture of a housing sector that has lost momentum.
- Importantly building approval is a leading indicator for the housing sector. As any pick up in approvals will translate to new building down the line. The latest result effectively ensures that activity levels over the next six months are likely to be weak.
- In addition the changes to the stamp duty provisions in NSW will take place in January. And until then the demand for housing in NSW is likely to be for existing homes. In fact the value of building approvals in NSW fell to a 19-month low. Of more concern is that the all-important private sector house approvals segment is only bouncing off a 29-month low. The lack of activity in the housing sector will have longer term repercussions for the broader economy. Clearly the result is not great news for tradesman and retailers.
- While homes sales are weak, it is not all bad news as the fundamentals for the housing sector are still strong.



Savanth Sebastian – Economist (Author)
(612) 9118 1805 (work)

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Unemployment is still low, wages are rising, the rental market is still tight and population growth is healthy. In addition the rate cut delivered yesterday will provide a degree of support for the sector. And the potential for further rate cuts cannot be ruled out. If the global economy – particularly Europe – continues along the same vein the policymakers make look at supporting domestic growth by easing policy further in the next couple of months.

What do the figures show?

Building Approvals:

- **New dwelling approvals** fell by 13.6 per cent in September, courtesy of a 32.0 per cent slide in approvals to build new apartments (private sector down 30.7 per cent). Since the start of the year approvals have now slumped by 20 per cent. Approvals to build houses rose by 0.7 per cent (private sector houses up 1.1 per cent). Dwelling approvals are down 12.3 per cent on a year ago.
- Dwelling approvals rose in just one of the six states in September, with NSW leading the declines (down 32.2 per cent) followed by Victoria (down 13.6 per cent), Queensland (down 12.7 per cent), Tasmania (down 4.8 per cent), and Western Australia (down 1.5 per cent). Approvals rose in just South Australia (up 11.3 per cent).
- The value of building approvals fell by 13.3 per cent in September – the biggest monthly fall in five months. The value of approvals was down 13.8 per cent on a year earlier.

What is the importance of the economic data?

- The Bureau of Statistics' monthly **Building Approvals** release contains figures on local council approvals to build residential structures such as homes and units as well as commercial premises such as offices and shops. Approval is one of the first stages of the construction 'pipeline' and is thus a key leading indicator of future activity. An increase in approvals would point to stronger future activity for construction-related companies.

What are the implications for interest rates and investors?

- The 20 per cent slump in building approvals since the start of the year certainly doesn't bode well for the housing sector over the near term.
- It is important to realise that the strength of the housing sector plays a vital role in the supporting activity across an array of sectors. And the lack of building coupled with the dearth in consumer spending has resulted in the domestic economy coming to a standstill. Interestingly all this weakness has taken place in an environment where interest rates have remained on hold for the past year.
- While the recent rate cut will support confidence it is unlikely to provide a significant degree of stimulus. Especially given that the average variable mortgage rate is still marginally above neutral. In fact it is likely if the current market volatility continues over the next few weeks the Reserve Bank will look to cut interest rates again.

Savanth Sebastian; Economist, CommSec
 Work: (612) 9118 1805

