

Aus dwelling approvals up on apartments bounce but other segments stabilising

July approvals 2.3% mth (vs mkt -0.7%, WBC flat)

- Dwelling approvals rose 2.3% in July, snapping a three months decline that had seen approvals slide 19.7% since March. The rise came against consensus expectations of a 0.7% fall and Westpac's expectation of a flat month.
- The rise was mainly due to a 7.7% bounce in private sector units – a volatile segment that includes lumpy multi-unit apartment developments. Although volatility makes trends less reliable in this segment, activity has clearly recovered from last year's lows. Private sector house approvals recorded a slight 0.1% decline in line with expectations and broadly confirming the moderating downtrend shown by finance approvals. Public dwelling approvals posted a 2.1% rise in July but had a much smaller impact on total approvals than in previous months.
- The state detail continues to show a more resilient picture for NSW and Vic with Qld notably weaker.
- The value of renovation approvals rose 3.2% after a 7.0% fall in June – oscillating around a basically flat trend so far this year. Private non residential building remains slumped with the value of approvals tracking a slight downtrend at very low levels excluding the stimulus-related burst of education building activity.

Dwelling approvals rose 2.3% in July, well above market expectations of a further 0.7% decline and Westpac's forecast of a flat result (although there was a wide range on other forecasts from -5% to +3%).

As is often the case, the surprise came on the volatile private 'other' component which includes lumpy apartment approvals. This segment jumped 7.7% after a 2.9% rise in June and a 19.8% slump in May. While volatility always makes trends less reliable there is a clear story of improvement in this segment. Private 'other' approvals are up 38% on a year ago, 56% in trend terms. Activity has clearly recovered from the worst of the 'credit crunch' effects in 2009 although credit availability reportedly remains an issue for the sector. This rise probably reflects previously delayed projects going ahead, perhaps as developers meet stricter guidelines on pre-sales etc.

The picture for private sector houses and public approvals was largely as expected. Private sector house approvals were basically flat, providing more evidence of a moderating down trend as suggested by finance approvals (see second chart opposite). We continue to expect approvals in this segment to stabilise over the next few months as the impact of policy tightening wanes. A strong rebound in the 'time to buy a dwelling' component of the *Westpac Consumer Sentiment Survey* over the last few months suggests a base should start to form in coming months.

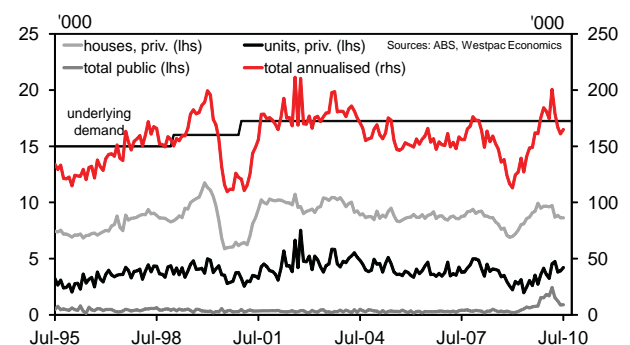
Building approvals – July 2010

Seasonally adjusted	Jul level	% chg mth		% chg yr	
		Jun	Jul	Jun	Jul
Private houses no.	8,624	-2.4	-0.1	0.6	-0.8
Private units no.	4,216	2.9	7.7	58.7	38.0
Public dwellings no.*	893	-29.5	2.1	24.3	43.1
Total dwellings no.	13,732	-3.3	2.3	14.2	11.0
Renovations trend \$bn	0.54	-0.3	0.1	13.1	9.4
Non-res. trend \$bn	1.90	-1.2	-1.9	-2.9	-3.9

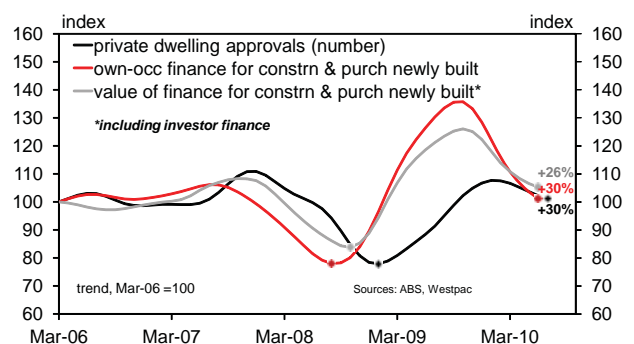
Sources: ABS, Westpac

*total, sa figs need to be treated with caution

Dwelling approvals



Private house approvals vs finance



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The state split continues to show interesting contrasts:

- Victoria remains the standout – approvals jumped 12.1% in July with a 6.9% rise in private sector houses. Activity remains at historically high levels and has been notably more resilient over the last six months than in other states.
- NSW has also held up well with total approvals up 9.7% in July although private sector house approvals fell 5.3%. The 2009 revival never achieved great heights either given that it was coming from fifty year lows.
- Qld has been much weaker with approvals slumping badly over the last three months (down 34.7%). House prices have also posted some sharp declines compared to the relatively resilient performance across the rest of the nation. That said, the July decline was entirely due to a slump in apartment approvals which basically halved month to month, with private sector house approvals actually rising by 3.2%, the first material rise since November last year. The sunshine state is also notorious for late returns to the survey with estimates often revised up significantly over time.
- WA has been a mixed bag with dwelling approvals dropping 4.9% in July but a fairly resilient profile to date. The July fall was somewhat more disconcerting though as it included a 14.4% drop in private sector house approvals.

The value of renovation approvals continues to move around a flat trend at a relatively high level. Approvals rose 3.2% in July after a 7% drop in June.

The main weak spot for the building sector is still non-residential activity. July showed no change on this front with the value of non res building approvals falling 15.8% after a 13.3% rise in June. The volatility obscures a continued downtrend of about 2%/mth. This mostly reflects the wind-down in education building activity. Approvals ex education remain slumped at levels on a par with those in 2004 in nominal terms, and 2001 after adjusting for inflation.

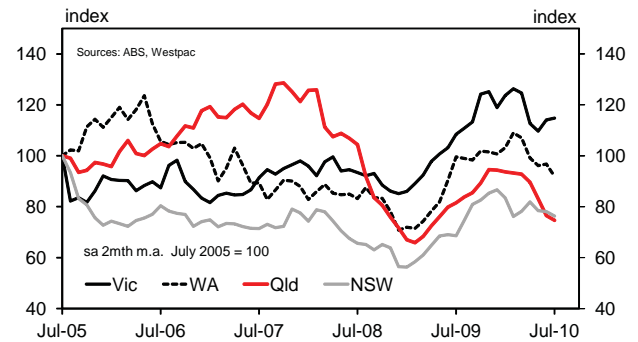
Big picture

The end to the additional first home buyers grant and the RBA's rapid series of interest rate rises since late last year has clearly taken the heat out of housing markets. This will take some time to play through to construction activity. Although approvals have fallen sharply since the start of the year, the previous surge has yet to flow through to building activity – dwelling starts and work done have risen but new dwelling investment has yet to increase. We expect the latter to surge strongly over the next four quarter, perhaps with an upward revision to already published figures for Q1. However, the fall in approvals since the start of the year already points to likely downturn on the other side of the arc with annual growth in dwelling investment growth expected to stall flat in 2011.

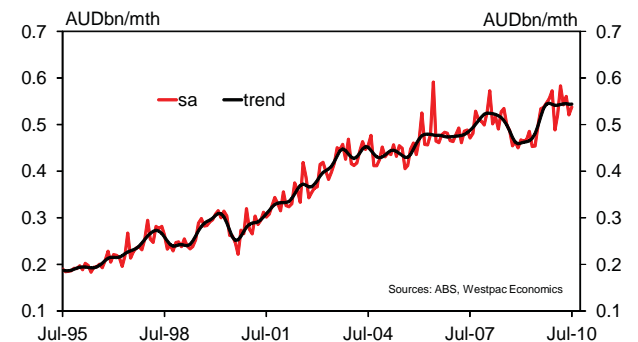
The July approvals data provides some clues to this 'post-surge-drop-off'. It suggests a fairly orderly, mild impact on dwelling construction. However, it's still too early to really confirm. We will be looking for both dwelling and housing finance approvals to stabilise in coming months in order to confirm a relatively solid base to the slowdown.

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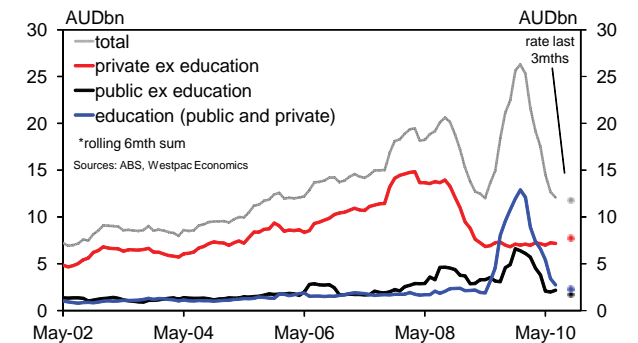
States: private house approvals



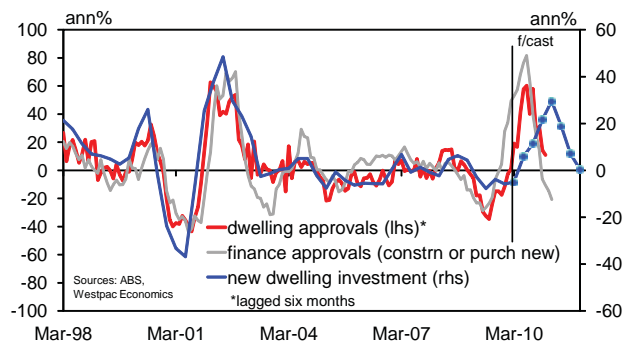
Renovation approvals flatten out



Non-res approvals weak across the board



Dwelling investment: 4qtr burst



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