

10 January 2012

Australian dwelling approvals: partial rebound Nov approvals +8.4%*mth*, -18.9%*yr* (vs mkt +6%*mth*, WBC +3%*mth*)

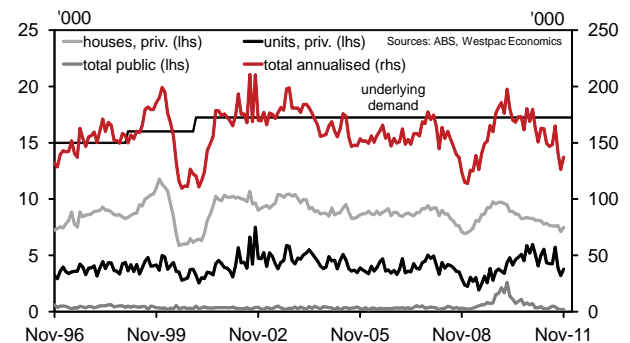
- Dwelling approvals bounced 8.4%*mth* in Nov reversing about half of their Jul-Oct decline. While the result was better than expected, approvals are still down 18.9%*yr* and continue to trend lower at a 20%+ annualised pace.
- The rebound was evenly spread. Private sector house approvals rose 4.8%*mth* reversing much of the 6.7% fall in Oct – both moves are large for this segment which tends to be more stable and thus a better guide to trends. Private sector unit approvals jumped 17.1%*mth* but remain extremely volatile. The mix continues to show a particularly sharp downturn in approvals for multi-unit high-rise buildings.
- The state breakdown was positive with solid rebounds in what had been concerning weak spots. Most notably, dwelling approvals soared 40%*mth* in Vic after a disconcerting 30% slump over the previous two months. Approvals showed a less convincing bounce in Qld which had seen similar weakness through Sep-Oct. Private house approvals rose in all the eastern states but fell in WA.
- The value of renovation and non res building approvals were both marginally lower in the month but non-res is showing more pronounced weakness in trend terms.
- The Nov report removes much of the downside risk from the very weak Oct numbers. However, dwelling construction is still set to decline by around 5% in 2012. The RBA's move to cut rates in Nov-Dec and further moves expected in Feb and May should see approvals start to firm again by mid-year. That said, the weakness in high-rise units and longer lags on these projects suggest some of the construction decline may come later in 2012.

Building approvals – November 2011

Seasonally adjusted	% chg mth		% chg yr		
	Nov level	Oct	Nov	Oct	Nov
Private houses no.	7,469	-6.7	4.8	-14.9	-9.6
Private units no.	3,762	-16.5	17.1	-45.3	-27.8
Public dwellings no.	193	-12.3	-3.5	-74.2	-68.4
Total dwellings no.	11,424	-10.0	8.4	-29.8	-18.9
Renovations trend \$bn	0.541	-0.1	0.1	-4.5	-4.0
Non-res. trend \$bn	1.928	-2.2	-2.4	-16.1	-18.8

Sources: ABS, Westpac

Dwelling approvals



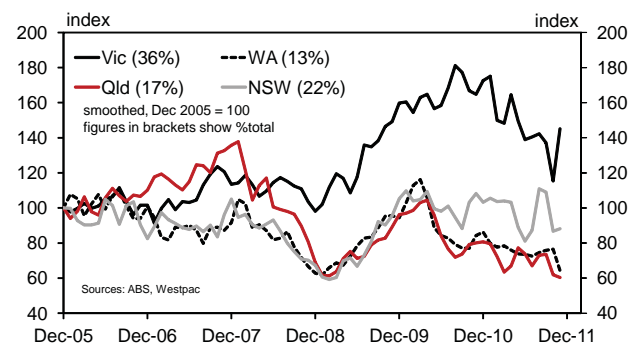
After posting a shocker last month (a 10% fall extending Sep's 14.8% drop), approvals registered a better than expected, though still only partial, rebound in November.

Total approvals rose 8.4%, retracing about half of the decline over the previous three months (Sep's large drop was partly due to the reversal of an apartment-driven approvals spike in August).

A bounce was widely expected but the rise was considerably better than the consensus forecast of a 6% gain.

The previous month's approvals were not only very weak but had very poor detail that pointed to potential for the 'second leg' downturn in dwelling construction to become more disorderly. Although still only a partial rebound, the Nov data significantly reduces this downside risk.

States: total dwelling approvals



Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141. Information current as at date above. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. Westpac's financial services guide can be obtained by calling 132 032, visiting www.westpac.com.au or visiting any Westpac Branch. The information may contain material provided directly by third parties, and while such material is published with permission, Westpac accepts no responsibility for the accuracy or completeness of any such material. Except where contrary to law, Westpac intends by this notice to exclude liability for the information. The information is subject to change without notice and Westpac is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Westpac Banking Corporation is registered in England as a branch (branch number BR000106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. If you wish to be removed from our e-mail, fax or mailing list please send an e-mail to economics@westpac.com.au or fax us on +61 2 8254 6934 or write to Westpac Economics at Level 2, 275 Kent Street, Sydney NSW 2000. Please state your full name, telephone/fax number and company details on all correspondence. © 2012 Westpac Banking Corporation. Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

But despite the Nov bounce, the picture of a material weakening in near term prospects that became apparent with the Sep and Oct data remains largely intact. Total dwelling approvals continue to track a strong trend decline running at -2.2%*mth*, a 23% annualised pace.

That detail shows solid rebounds in key areas that were of concern last month.

Private sector house approvals rose 4.8%, retracing two thirds of the previous month's 6.7% decline. This segment accounts for about two thirds of all approvals and tends to be more stable, making it a good guide to underlying trends. As such, the Oct fall was particularly disconcerting. The Nov bounce reinstates a more moderate trend decline with other measures such as finance approvals and new home sales also pointing to firmer conditions.

Private sector unit approvals remain a weak spot. Despite a 17.1% jump in Nov, approvals in this segment are still down 11.4% on their Jul level (Aug-Sep was dominated by a spike due to a handful of large projects). The detail shows a particularly large and sustained drop-off in multi-unit 'high rise' dwelling approvals.

The state breakdown was of concern through Sep-Oct as well with both Victoria and Qld registering sharp 30% drop-offs in approvals. Nov showed a staggering 40%*mth* turnaround for Vic, reversing all of the slump over the previous two months. The bounce in Qld was less convincing though with just a 6.6%*mth*.

NSW posted a 1.9%*mth* rise but had been much more resilient in previous months. All of the major eastern states registered rises in both total dwelling approvals and private sector house approvals.

It was a different story out west with WA recording a sharp 16.9% drop in approvals that included sharp falls in both private houses (-9.2% in 2mths) and private units (down by nearly half in the month alone). However this looks unlikely to mark the start of renewed weakness. Approvals in WA are already at relatively low levels. Meanwhile, housing market conditions are becoming more supportive with previous moderate over-supply now largely absorbed, significantly improved affordability, renewed population inflows and a state economy that is re-accelerating quickly due to surging mining investment.

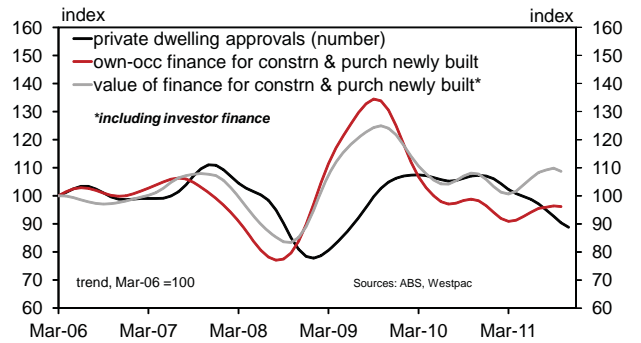
Renovation activity remains fairly flat with a 2.7% fall in the value of approvals in Nov reversing the 3.1% rise in October. Non-residential building approvals are considerably weaker though with the value of approvals down 2.5%*mth* and 19.6%*yr*.

Big picture

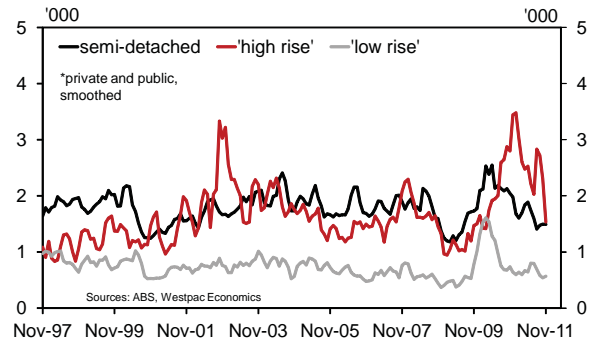
The Nov building approvals report is comforting insofar as it removes much of the downside risk from the very weak Oct report. However, dwelling construction is still set to decline in 2012, we expect by around 5% over the year. With the sector accounting for just under 6% of GDP and strong downstream impacts on jobs and demand locally that will take about 0.3-0.5ppts off growth. Rate cuts – both the 50bps in Nov-Dec 2011 and an expected further 50bps in the first half of 2012 – should see conditions firm again by mid-year. However, the weakness in high-rise units and longer lags on these projects suggests some of the construction decline may come through in the latter part of 2012. Indeed, a simple projection based on historical lags for different types of building in each of the states points to a more pronounced drop-off in the second half of the year.

Matthew Hassan, Senior Economist, ph (61-2) 8254 2100

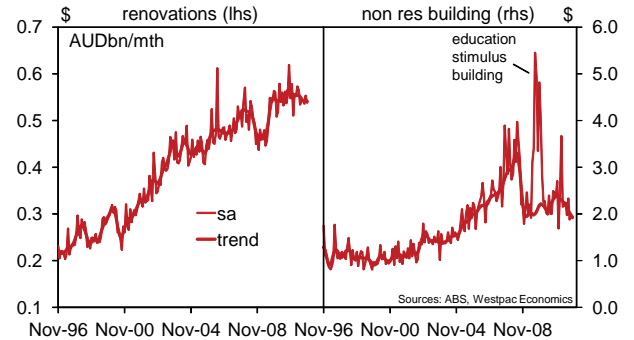
Private house approvals vs finance



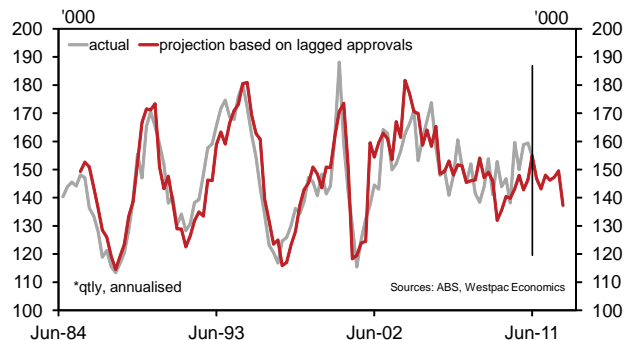
Private 'units': high-rise driving declines



Value of renovation & non res approvals



Dwelling completions



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.