

2 February 2012

Aus dwelling approvals dip but more signs trend decline may be moderating

Dec approvals **-1.0%^{mth}, -24.5%^{yr}** (vs mkt **+2%^{mth}, WBC **+2%^{mth}**)**

- Dwelling approvals dipped 1%^{mth} in Dec to be down nearly a quarter on Dec 2010. That was marginally below expectations of a 2% gain although prior estimates were marked up 1.2%. The detail continues to give tentative indications that the pace of the underlying trend decline in approvals is moderating.
- Private sector house approvals edged 0.2%^{mth} higher, and are tracking basically flat in trend terms. Private sector unit approvals, which have driven much of the recent volatility and sharp drop since mid-2011, were comparatively stable with a 2%^{mth} fall in Dec.
- Volatility remains problematic for the state data, particularly Vic where approvals have seen 13 to 40% deviations in each of the last four months. However, private sector house approvals suggest flat activity in NSW, a moderating decline in Vic, and a pick-up in Qld.
- Renovation activity is showing signs of turning up with the value of renovation approvals rising at a 5% annual pace in trend terms. The trend decline in non-res building also moderated slightly although.
- Dec is too early for interest rate moves to take effect. Unfortunately the Jan low season means we will really need to wait until the release of Feb data (due April 2) to get a read on how rate moves are impacting. Westpac expects recent moves and additional rate cuts in Feb and May will be enough to stabilise approvals and drive a modest recovery over the course of 2012. That said, dwelling construction is still expected to decline by around 5% over the year as last year's drop-off in approvals flows through to activity.

Headline approvals were a touch weaker than expected with a 1% fall vs market and Westpac forecasts of a 2% rise. But the gap is small for what is often a very volatile monthly series and less significant given upward revisions to history. Indeed the overall tone of the report was more or less in line with our expectations, including more tentative signs in the survey detail that the pace of trend decline is starting to moderate.

The context is important. The Dec dip followed a 10.1% bounce in Nov (revised up from 8.4%) after a very volatile few months that saw sharp falls in Sep (-18.7%^{mth}) and Oct (-10.1%^{mth}). Despite the big Nov gain, Dec approvals are still down nearly a quarter on December 2010.

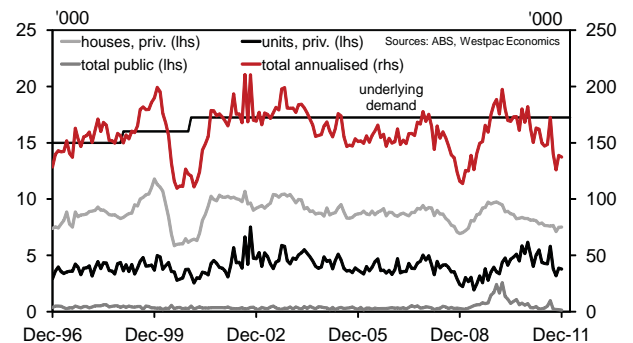
However there are signs of improvement amid the noise. The monthly trend estimate has gone from tracking at -2.4%^{mth} in

Building approvals – November 2011

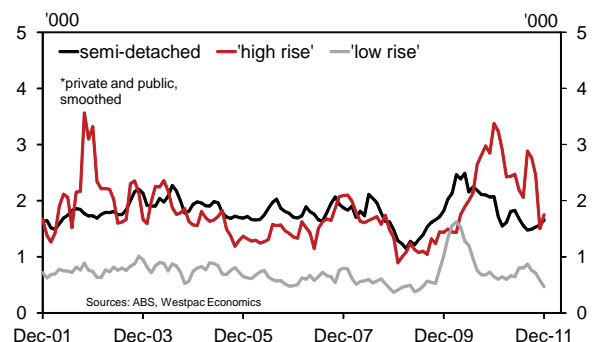
| Seasonally adjusted | % chg mth | | % chg yr | |
|----------------------------|---------------|-------------|-------------|--------------|
| | Dec level | Nov | Dec | Nov |
| Private houses no. | 7,513 | 5.4 | 0.2 | -9.4 |
| Private units no. | 3,791 | 21.5 | -2.0 | -25.0 |
| Public dwellings no. | 139 | -4.5 | -26.5 | -67.4 |
| Total dwellings no. | 11,443 | 10.1 | -1.0 | -17.5 |
| Renovations trend \$bn | 0.547 | 0.2 | 0.4 | -3.4 |
| Non-res. trend \$bn | 2.074 | -1.0 | -0.8 | -11.8 |

Sources: ABS, Westpac

Dwelling approvals



Private 'units': high-rise driving declines



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Sep to -1.8%mt in Dec, though that is still a strong downtrend (a 19.6% annual pace).

Private sector house approvals – usually a reasonable guide to momentum – suggest a more substantive improvement. This segment saw a 0.2%mt gain and has now retraced three quarters of the previous month's decline. In trend terms it is basically stable.

Private sector unit approvals are harder to assess. This segment includes multi-unit high rise developments, which have driven much of the extreme volatility through Aug-Oct. It saw a 2% fall in Dec to be down 38.5%yr. However, the detail suggests the big declines associated with sharp falls in 'high rise' approvals from relatively high level in 2010 may be largely over. After halving between Dec 2010 and Dec 2011 the number of approvals in this category is now a touch below its 10yr average. There may be further declines ahead but they are unlikely to be as large.

Looking at the state mix:

Approvals were down 5.1% in NSW, although the trend in private sector house approvals remains about flat. The state has seen the most resilient house price performance through 2011.

Vic has been buffeted by extreme volatility with a 16.7%mt drop in Dec after a 40.4% spike in Nov and a 29% slump over the previous two months. Needless to say, underlying trends are difficult to discern, so much so that we should probably reserve judgement. There are positives though in that the volatility has mainly related to high rise activity, which as mentioned is less likely to throw up big negatives going forward, and private sector house approvals have seen a clear moderation in their trend decline in Vic (-0.6%mt vs -2.1%mt in Sep).

Qld had the nation's weakest housing market in 2011 but showed clear signs of a pickup (in dwelling approvals at least) late in the year. Approvals surged 40.9% over Nov-Dec, led by apartments but with a solid 20% gain in private sector houses as well. Trend approvals are tracking higher at +3.1%mt (vs -0.5%mt in Aug). Activity is coming from a very low starting point however with Qld approvals for the year below previous lows during the GFC.

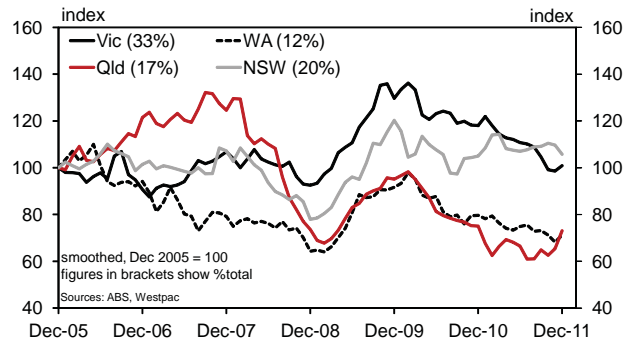
WA also posted a rise in Dec with a 6% gain in approvals reversing some of the 16% drop in Nov. The state continues to register a mild trend decline in approvals although market fundamentals appear to be becoming much more supportive.

The value of renovation approvals rose 1.4%mt and is showing signs of turning up in trend terms despite still being 5.3% lower over the year. The value of non res building also rose 3.3% in Dec after a 2.2% gain in Nov. The rises are small though with a strong trend decline remaining in place (-0.8%mt, a 9% annual pace).

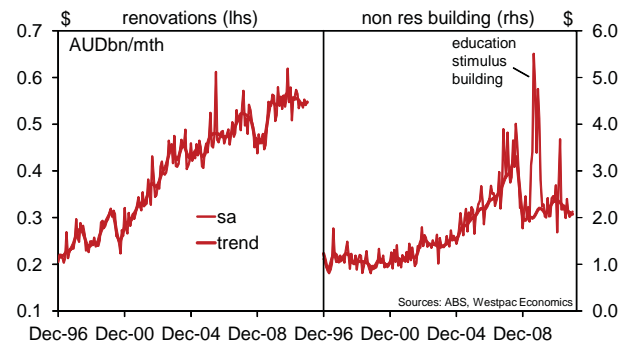
Big picture

December is too early for interest rate moves to take effect. Previous rate cut cycles have usually taken three months or more for a clear uplift in approvals to take hold. It took much longer in 2008-09 and 1990-91 but that was partly due to the higher starting points for interest rates, and partly due to the additional headwinds from the global financial crisis and deep recession respectively. The degree of stimulus will be much milder this time around (50bps to date and another 50bps expected by May). However, the starting point for rates is also lower. Assuming no GFC-style disturbances, that should allow for a stabilisation in housing markets and modest firming by the second half of 2012.

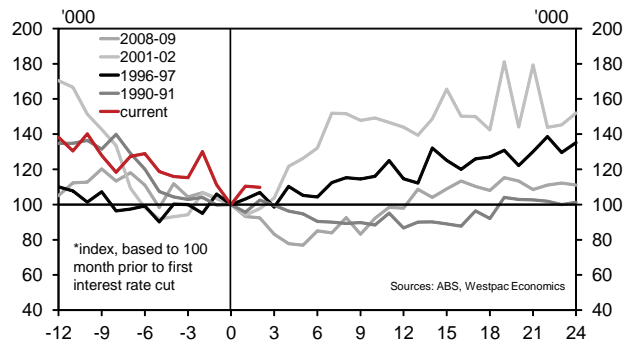
States: private house approvals



Value of renovation & non res approvals



Private dwelling approvals & interest rate cuts



Unfortunately the Jan low season means it will take some time yet to confirm the degree to which rate moves are impacting. For approvals, the January data is basically unreliable (the raw figures are marked 35% higher to adjust for the seasonal low). That means we will have to wait until the release of Feb data (due April 2) to get a firm read on how activity is responding to rate moves.

In the interim, auction activity is likely to provide the best gauge of post-rate-cut conditions. With the major Sydney and Melbourne markets due to start the new year in coming weeks, their performance will be of particular interest.

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