**Aus dwelling approvals: sharp drop unwinds March spike but with some perplexing detail**

April approvals: –14.8%mth, 21.3%yr;

- Dwelling approvals fell 14.8% in April, a much bigger decline than the –5% consensus view and larger than Westpac’s –8% forecast. The fall followed a 16.8% jump in March that was driven by a big spike in apartment approvals. Abstracting from this volatility, trend approvals have been flat.

- The detail in the release was equal parts concerning and confusing. Although the March spike was in ‘units’ the April unwind was concentrated in private sector houses which dropped a startling 13.5%mth. Ordinarily this larger more stable component is a better guide to underlying trends. However, we think the April result needs to be treated with extreme caution. The drop is very large – the only bigger declines recorded since 1983 were during the GST introduction when private sector house approvals collapsed 44% in four months. Although there are clear signs of a slowdown in finance approvals and some other housing market indicators have softened there has been nothing to date to suggest such an abrupt drop-off in building.

- The state detail also suggests April is out of whack. In particular, private sector house approvals dropped 23.8% in Vic. Other states also recorded falls but these were milder and in the case of NSW and SA were reversing March gains.

- The value of renovation approvals dropped 8.4% in April but this also only partially unwound a March spike (+12.6%) with trend approvals still rising 0.4%mth. The value of non residential building approvals were much bleaker with a 28.5% slump in April accelerating the trend decline and suggesting a deterioration in ‘underlying’ conditions (i.e. ex the public stimulus related activity).

The surge in dwelling approvals since early 2009 showed more convincing signs of ‘topping out’ in April albeit with some significant and somewhat perplexing volatility.

- Approvals dropped 14.8% in April, mostly reversing the 16.8% jump in March (revised up from +15.3%). The monthly fall was bigger than expected (consensus expected a 5% pull-back, Westpac expected an 8% drop) although it still left the monthly trend in approvals flat rather than in decline.

- Double-digit monthly swings in approvals wouldn’t normally be of too much concern. They’re a regular feature of the series which has a standard deviation ±6% – roughly one in every dozen or so observations is a move of over 10%.

- However the April drop warrants more attention as the decline was heavily concentrated in private sector house approvals. This is the largest segment and is usually more stable and a better guide

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**Building approvals – April 2010**

<table>
<thead>
<tr>
<th>Seasonally adjusted</th>
<th>Apr level</th>
<th>% chg mth</th>
<th>% chg yr</th>
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<tbody>
<tr>
<td>Apr</td>
<td>8,404</td>
<td>1.3</td>
<td>29.4</td>
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<tr>
<td>Mar</td>
<td>8,434</td>
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<td>24.7</td>
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<tr>
<td>Apr</td>
<td>8,434</td>
<td>–14.8</td>
<td>21.3</td>
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<tr>
<td>Mar</td>
<td>8,861</td>
<td>–5.4</td>
<td>63.9</td>
</tr>
<tr>
<td>Apr</td>
<td>8,861</td>
<td>–5.4</td>
<td>63.9</td>
</tr>
</tbody>
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**Source:** ABS, Westpac

**Dwelling approvals**

- Public dwellings no. – 1,216 – 7.5% – 533.6 – 42.3
- Total dwellings no. – 14,144 – 16.8% – 54.4 – 21.3
- Renovations trend $bn 0.54 0.4 0.4 16.1 16.0
- Non-res. trend $bn 1.90 – 3.2 – 4.5 – 6.6

**States: private house approvals**

- Vic: Apr read
- SA
- WA
- Qld
- NSW

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to underlying trends. As such, the startling 13.5% drop in private sector house approvals in April is a big deal.

The question for us is whether it should be believed. The drop is very large. The only bigger declines in private sector house approvals since the series began in 1983 occurred during the GST introduction when a massive pull-forward in activity to beat an imminent price rise saw private sector house approvals collapse 44% in four months. Outside of that period there have only been two occasions when the series has recorded 10%+ monthly falls and both of these were reversals of similarly sized gains in the previous month.

Needless to say the result looks suspicious to us especially given that the spike in the previous month was concentrated in the ‘units’ segment which only fell back 5.4% in April.

So the detail needs to be treated with more caution than usual. There are clear signs of a slowdown in finance approvals and some other housing market indicators have softened there has been nothing to date to suggest such an abrupt drop-off in building.

It should be noted more generally that dwelling approvals are prone to upward revision. The estimates are based on a complete census of local authorities rather than just a sample survey (like that used to estimate retail sales). There are invariably late returns that lead to subsequent upward revisions to preliminary estimates.

Setting these issues aside, the overall trend in private approvals has flattened right out. It continues to suggest there has been support from a backlog carried over from last year’s surge and that used to estimate retail sales). There are invariably late returns that lead to subsequent upward revisions to preliminary estimates.

Looking at the state detail:

- NSW registered the biggest monthly decline (~26.3%) but this only partially reversed a 43% jump in March – total approvals are still rising in trend terms.
- Victoria saw a hefty 18.3% fall and notable weakness in private sector house approvals which slumped 23.8% the month (units were down ‘just’ 9.6% despite a 70.7% spike in March). Moreover, whereas NSW and SA also recorded sharp falls in private sector house approvals, there were reversing strong gains in the previous month – Vic registered a 2.8% fall in March. That said, the state has been operating at much higher levels than elsewhere – approvals over the last twelve months have been 25% above Victoria’s average over the last decade.
- Qld recorded a much smaller 2.1% dip in approvals in April but is still seeing a trend decline similar to NSW.
- WA posted a sharp 15.5% fall in approvals but saw a 20% rise over the previous two months with overall activity still on a rising trend.

The value of renovation approvals has also continued recent volatility, falling 8.4% in April after a 12.6% rise in March. Looking through the choppiness, activity looks to be on a slight upward trend but has clearly moderated after a strong rebound over the second half of last year.

The value of non-res building approvals looks less promising. A sharp 28.5% decline in April has reasserted a solid down-trend in approvals. The trend estimate largely excludes the booster effects of the Government’s fiscal stimulus programmes (including the $14bn Building the Education Revolution) and suggests underlying private sector activity may be seeing a renewed weakening.

Big picture

Evidence of a significant softening in housing markets is gathering steadily. We think the April data on private house approvals is exaggerating the speed at which activity is turning down. The timing and magnitude of shifts is also being complicated by presence of significant backlogs – not only between finance and dwelling approvals but also between approvals, dwelling starts and new dwelling construction (quarterly real work done has yet to even register a rise). Indeed, it’s entirely likely that further weakness in finance and dwelling approvals in the months ahead will be accompanied by a long overdue rise in actual construction as the pulse from last year’s surge finally comes through.

However the approvals signal will be key. It is already clear construction will be turning down by the second half of 2011. How hard the landing is will mainly depend on the RBA.

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