Sun setting on new houses

Clancy Yeates, Tuesday 3rd April 2012 Sydney Morning Herald-

Building approvals have dropped to their lowest level in almost three years.

A PLUNGE in building approvals has sparked warnings that activity in the high-employing home-building industry could fall below the levels of the global financial crisis.

In more evidence of the two-speed economy before today's Reserve Bank board meeting, the Bureau of Statistics yesterday said building approvals dropped 7.8 per cent in February to their lowest level in almost three years.

News message for NSW Construction industry

> *'While the housing industry has been in the doldrums for months, yesterday's surprise fall in building approvals was heavily influenced by **New South Wales where approvals dropped by 41 per cent to 1962, the lowest since May 2009**.'*

Because separate figures showed Melbourne house prices fell 0.8 per cent in the quarter, analysts said, there was a growing case for a cut in official interest rates.

Building approvals, a key guide to future activity in the industry, have now fallen by almost 8 per cent in the past three months.

Chief economist of the Housing Industry Association, Harley Dale, said the "woeful" figures pointed to continuing falls in the number of new home starts, which dropped 13 per cent last year.

"The level of approvals over the three months to February implies annual housing starts hitting a level lower than the GFC trough of 2008-09," Dr Dale said.

Conditions in the industry are closely watched by economists because building is a key driver of growth. The industry employs almost 9 per cent of the workforce.

The chief economist at Citi, Paul Brennan, said the drop in approvals, alongside feeble job growth and consumer gloom, would pressure the Reserve to cut interest rates "soon".

Markets are betting there is a 40 per cent chance the Reserve will cut official interest rates by 0.25 percentage points today, but most economists think it will wait until next month.

Separately, figures from RP Data-Rismark showed national house prices were flat during the March quarter, after rising by 0.2 per cent last month.

The value of a typical Melbourne home fell 0.8 per cent in the quarter, to $465,000, and has fallen 5.4 per cent in the past year.

While RP Data-Rismark said house prices appeared to be stabilising, market economists said there could be more problems ahead for the property market.

ANZ economists Paul Braddick and David Cannington said weak confidence among buyers could result in more falls in the first half of this year.

"Ongoing economic uncertainty and heightened concerns over job security will continue to weigh on market sentiment and home prices may still drift lower," the economists said.

While the housing industry has been in the doldrums for months, yesterday's surprise fall in building approvals was heavily influenced by **New South Wales where approvals dropped by 41 per cent to 1962, the lowest since May 2009**.

Even though NSW drove most of the fall, Dr Dale said:

- Other parts of the economy, such as manufacturing, were already suffering due to weak construction.
- If the decline in approvals went unchecked, he said, it could **worsen the nation's housing shortage.**

"Australia's interest rate settings are clearly too high and there needs to be immediate federal and state government focus on policy reform to boost flagging levels of new housing supply, a key driver of domestic economic activity and employment," Dr Dale said.

Rounding off yesterday's batch of figures, the TD Securities inflation gauge showed the prices of consumer goods rose by just 1.8 per cent in the year to March.

Read more: http://www.smh.com.au/business/sun-setting-on-new-houses-20120402-1w8rk.html#ixzz1qvSwdsRr