



# New Housing Conditions

January 2012

## Key Points:

- **The Summer edition of HIA's quarterly National Outlook was released on December 19<sup>th</sup> 2011.**
- **A summary of the outlook for new home building contained within this report is provided below.**
- **New housing starts are forecast to decline further in 2011/12, with some risk that the GFC-induced trough of 2008/09 is revisited.**
- **With or without the deteriorating outlook for Europe, there is a compelling case for short term stimulus coupled with a re-invigorated policy reform process for the new home building sector in Australia.**

## *Setting the Scene*

Since the release of the Spring edition of HIA's National Outlook at the end of September 2011 and the Summer edition released on December 19 2011, residential land sales appeared to have bottomed at a woefully low level, as did new home sales volumes, while local government building approvals experienced accelerated weakness which took them back toward GFC levels. New housing finance had, encouragingly, tracked sideways for some months, but remained 2.5 per cent down on the equivalent levels in 2010.

This is not an auspicious start for the new home building sector amidst the heightened weakness and uncertainty that the European debacle has assumed since mid-2011. The case for short-term stimulus of new home building within a re-invigorated housing supply reform process was compelling long before European politicians succeeded in plumbing fresh depths of ineptitude. HIA is on the record as repeatedly noting the need for stimulus and renewed reform.

The latest building approvals update, for October 2011, was particularly concerning. It was an atrocious update on the state of Australia's new home building sector. Over the three months to October 2011, total seasonally adjusted building approvals implied an annual level of housing starts (using the long term conversion ratio of 0.961) of around 138,000. That's 700 fewer starts than in the GFC-affected calendar year 2009, and uncomfortably close to the GFC-induced trough of 131,870 starts hit in financial year 2008/09.

## *The Outlook for Housing Starts*

The most recent update for Housing Starts (Dwelling Commencements), for the September 2011 quarter, highlights further weakening into the 2011/12 financial year. Seasonally adjusted housing starts fell by 6.8 per cent to 35,672, the lowest level in two years. In the September 2011 quarter housing starts were running at an annualised level of just under 142,690, a level only 4,000 above the 138,690 dwellings we started



in 2009. That's before we consider the latest profile for local government building approvals which suggests that starts will fall even further in the quarters ahead.

HIA's view is that housing starts will decline by 10.4 per cent in FY2011/12 to a level of 141,159, before recovering by 5.6 per cent to a level of 149,007 in 2012/13. Detached house starts are forecast to fall by 6.6 per cent to 90,488 in 2011/12 before growing by 5.6 per cent in 2012/13 to a level of 95,535. Starts for 'other dwellings' are forecast to drop by 16.4 per cent in 2011/12 to 50,671 before increasing by 5.5 per cent to a level of 53,472 in 2012/13. A full set of HIA's housing forecasts can be found at: <http://economics.hia.com.au/media/December%202011%20%20Forecasts.pdf>.

### ***The Downside Risk to New Home Building***

Based on the uncertainty surrounding the situation in Europe the risk is for a weaker result. There are a multitude of outcomes that could unfold in terms of the saga in Europe and its implications for the Australian economy. Consequently the risks to the Australian economy and the extent to which they might eventuate as real economic weakness are many and varied in timing, but particularly in magnitude.

The main implication of this situation for Australia's housing sector (and the wider economy) is that nobody knows how much further the RBA will cut rates and nobody knows whether the Federal government will step in to stimulate the domestic economy, and if they do, to what extent, with what policies, after what period of deliberation.

If the world according to Europe, which is the current theatre playing out, muddles through to mixed reviews but with the audience refraining from wanting a refund, then our forecast trough in housing starts in Australia of around 141,000 is a reasonable expectation. This of course would be a very weak outcome which betrayed yet again the urgency in reforming the supply side delivery of new housing. No one denies that soft demand conditions are having a significant impact on how many homes are being built in Australia, but this factor on its own gets you nowhere near a trough approaching 140,000 starts. That trough is the result of intractable supply side constraints which make the cost base of new housing extremely high.

A further meltdown in Europe could see a result for housing starts not much weaker than our core forecast if the domestic policy response was rapid, aggressive, and effective (three factors that are obviously not mutually exclusive). However, less than rapid and effective policy stimulus could fail to prevent housing starts reaching or falling below their GFC-induced low of 131,420 reached in 2008/09.

### ***The Need for Policy Action***

Some recent interest rate relief is helpful and commendable. The RBA will rapidly act more aggressively if they deem it necessary. Protestations that interest rate action taken in November, and particularly December 2011 was unwarranted are dated, tired, and worn. Since when has the RBA shied away from taking interest rate relief back in rapid fashion if it (rightly or wrongly) deems that to be the correct course to navigate? We've only had 50 basis points of cuts for goodness sake as Europe stands on the brink of catastrophic economic outcomes which would reverberate through the entire Australian economy. One would hope the Federal government stands ready to act quickly to stimulate activity in a complementary role to the RBA. The case for this already happening on the new housing front is compelling and has been for a considerable time.

What should be happening now is direct, short term stimulus to new home building within an over-arching, renewed focus on structural reform to reduce the disproportionately high, inefficient and inequitable cost base of new homes throughout Australia. Housing is shelter, it is a necessity of life. Australia doesn't provide enough of it, in an affordable fashion, for renters or owners.

So, kill three birds with one stone. Stimulate the new home sector to ensure the short term provision of a larger amount of a necessity good. Create a positive multiplier impact to the wider domestic economy

during a time of fragility and uncertainty. Engender a medium/long term level of new home building more commensurate with the requirements of Australia's population which will create efficiency gains and inter-generational equity improvements in the Australian economy. It seems so simple.

Nothing is simple, of course, but neither should the housing policies Australia so desperately needs be as difficult to enact as recent inertia implies they are.

New Housing Forecast, by Type, AUS Dwelling Starts

Source: HIA Economics Group

