

Building approvals hit 7-year low, more rate cuts to come

Posted by [LC Team](#), Thursday, November 6, 2008

A fall in monthly building approvals to a seven year low reflects a faltering economy and increases the pressure for more interest rate cuts, economists say.

Building approvals fell by a greater than expected 7.2 per cent to 11,167 units, seasonally adjusted, in September, the Australian Bureau of Statistics (ABS) said.

It was the lowest level since April 2001 and the third consecutive monthly fall in the data.

The market had forecast a fall of 1.2 per cent.

In the year to September, building approvals were down 21.6 per cent from the previous 12 months.

Approvals for private sector houses fell by 4.7 per cent while approvals for private sector "other dwellings" such as flats declined 15.2 per cent.

Commonwealth Bank senior economist Michael Workman said the data reflected the large fall in detached dwelling approvals and the flow-on effects.

"That, of course, has the biggest impact on commencement data later on and GDP (gross domestic product) figures for the next few quarters," he said.

However, Mr Workman said he expected building approvals to lift for November and December as interest rate cuts by the Reserve Bank of Australia (RBA) since September and an increase in the federal government first home owner's grant flow through.

The RBA has slashed its key overnight cash rate by two percentage points to 5.25 per cent since September in a bid to prop up a flagging domestic economy.

"We will see a recovery in the approvals data," he said.

"The \$21,000 grant for first home buyers to build or buy a newly built home has technically had a very short impact on the market over the year or two."

CommSec chief economist Craig James said the data indicated the NSW economy was in a dire state.

"NSW continues to remain the basket case for the Australian economy, with approvals at a staggering 43-year low," he said.

NabCapital senior markets economist David de Garis said the data added to the weak economic outlook and the case for lower interest rates.

“We look for at least another 50 basis points in December from the RBA with the likelihood of more next year,” he said.

Citigroup co-head economic and market analysis Paul Brennan said the data backed up recent signs of an economic slowdown.

“The level of starts is now close to previous cyclical lows even though there is a significant undersupply of housing,” Mr Brennan said.

Housing Industry Association (HIA) chief economist Harley Dale said the release of more land for building, better planning laws and less red tape was necessary to boost residential building activity.

“Trying to kick-start housing activity with interest rate cuts and first home buyer stimulus needs to be matched by greater efficiency in planning administration and an associated reduction in charges and levies applied to new developments,” Mr Dale said.

AAP