WHERE TO NEXT FOR HOUSING STARTS?

Forward indicators
17th November 2015

Good news last week – assuming that the Australian Bureau of Statistics (ABS) employment figures are correct – that almost 60,000 new jobs were created in September alone. Two-thirds were full-time positions.

According to the ABS, close to 320,000 new jobs have now been created over the past 12 months, most of which have been in dwelling growth states of NSW, Vic, Qld and WA.

And not surprising, much of this economic momentum has been underpinned by strong residential building. New dwelling approvals are at record highs, with close to 230,000 new starts for the year ending September.

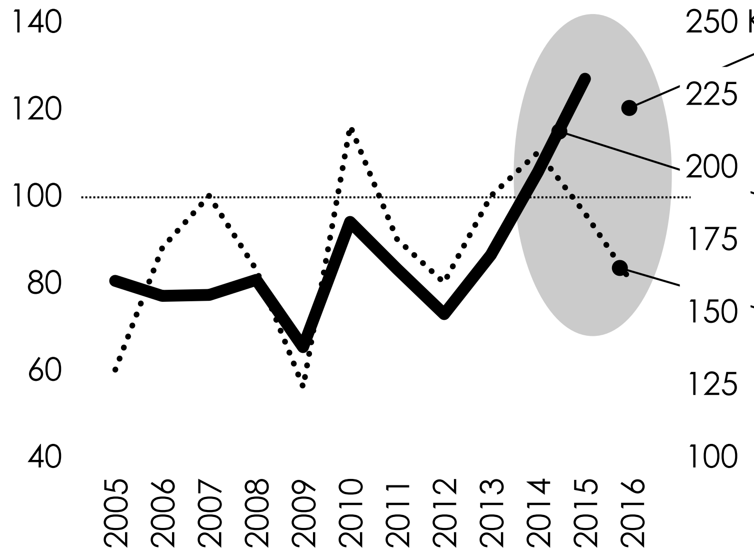
Our chart this week suggests that new housing construction should fall, and maybe significantly, in coming years.

A very reliable indicator of future housing demand is the Westpac-Melbourne Institute's 'Time to buy a dwelling' index. It is another bellwether worth watching, and we have advanced it by one year in our chart.

There is a strong correlation between new dwelling approvals and the advanced good time to buy a dwelling index. The growing gap between the current level of housing starts and sentiment is a worrying contrast; and if history repeats – it usually does – then housing starts should fall from next year.

This may result in more lacklustre job numbers. Until the national unemployment rate drops to, and stays within, the mid-5% range, then further interest rate drops are on the cards. We still think official interest rates will fall – twice and each by 0.25% - during 2016.

Housing confidence v. new dwelling approvals
Australia



The widening gap between 'time to buy a dwelling' sentiment and record building approvals suggests that new housing starts should fall next year.

Number of new dwelling approvals per annum. (RHS)

'Time to buy a dwelling' index (LHS). **Advanced one year.** An index reading of 100 means a balanced outlook. Over 100 means a positive outlook and below 100 suggests the opposite.

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IMPORTANT NOTES

RISKS OF INVESTING IN PROPERTY

Direct investment in residential property, like all investments, involves a number of risks. If these eventuate, your income might be lower than expected. There may even be none. In addition, the capital value of your investment could fall.

The key risks of investing in property are outlined below:

- The property purchased may not provide the income or capital gains the asset was expected to produce.
- There is a risk that your property may, for periods of time, lie vacant and hence not generate income. Maintenance and repair costs are the investor's responsibility and can vary, and at times be significant. Such costs are sometimes recoverable from rental bonds or under insurance policies.
- There are a number of factors that affect the general property market including increases in supply and falls in demand; the cyclical nature of property values; increases in taxes and operating expenses; overall economic conditions; demographic changes; changes in town planning laws; casualty and condemnation losses; environmental risks; regulation on rents; detrimental new developments in the area; increases in interest rates; similarly, inflation and changes to bank funding policies.
- Gearing increases the volatility in the value of your investment. In the early stages of residential investment, a significant fall in the property's value may see balances fall to less than the total amount of borrowings.
- Increases in interest rates often increase the cost of borrowings.
- Changes in laws or their interpretations including taxation, superannuation and corporate regulatory laws, practice and policy could have an impact on your investment. You should seek professional tax advice before investing in residential property.

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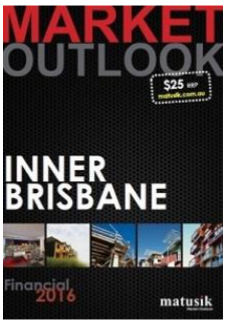

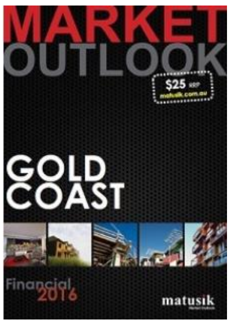

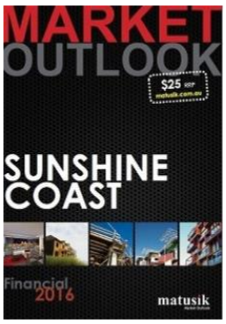

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TYPICAL DATA SOURCES

MPI; Qld Government; Qld RTA; REIA; REIQ; SQM Research; BCI Australia: ABS; realestate.com and RPData.