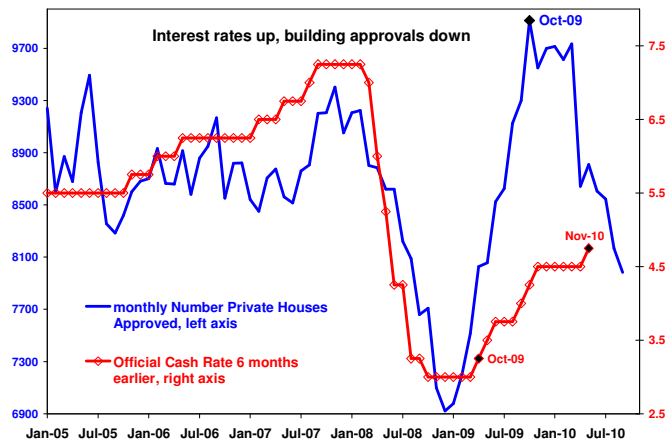


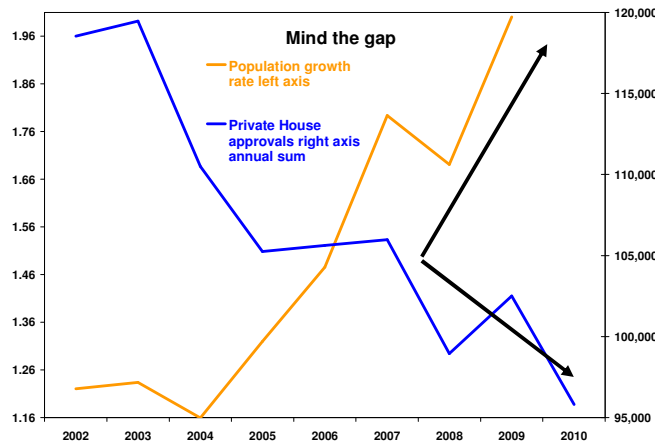
Bashing bubble heads

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Today's ninth successive fall in private sector house approvals is another ominous warning for investors in growth assets. Today's ABS Building Approvals show that the total number of dwellings approved fell 6.6% in September 2010 and are now showing falls for six months, in seasonally adjusted terms. More importantly the trend estimate for private sector houses approved fell 1.8% in September and has fallen for nine months. Critically, the peak level of private sector house approvals was in October last year and the most recent level of approvals is now almost 20% lower than that peak. October last year was also when the RBA began the first of seven-so-far rate rises. That tumble also reflects the ending of the boost to the first home buyers' scheme. However with likely more rate rises to come, the future for new building activity which has many important spillover effects for the rest of the economy looks dire; see first chart below:



The importance of this data is twofold: Firstly it confirms that yesterday's rate rise was unnecessary and is likely to imperil the domestic economy. Secondly falling approvals is likely to worsen the supply of housing which when combined with ultra-high population growth (see Monday's Update), largely made up of immigrant adults, boosting demand makes a mockery of claims about a house price bubble in Australia.



As the second chart shows rising population and falling approvals supports my claim that house prices are likely not frothy or inflating but just reflect the market mechanism working as it should: when a good is in shortage its price should rise. When the market mechanism doesn't work it is called inflation; Australia doesn't have inflation and doesn't need any more rate hikes.

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