

Data Alert: House building

A new equilibrium?

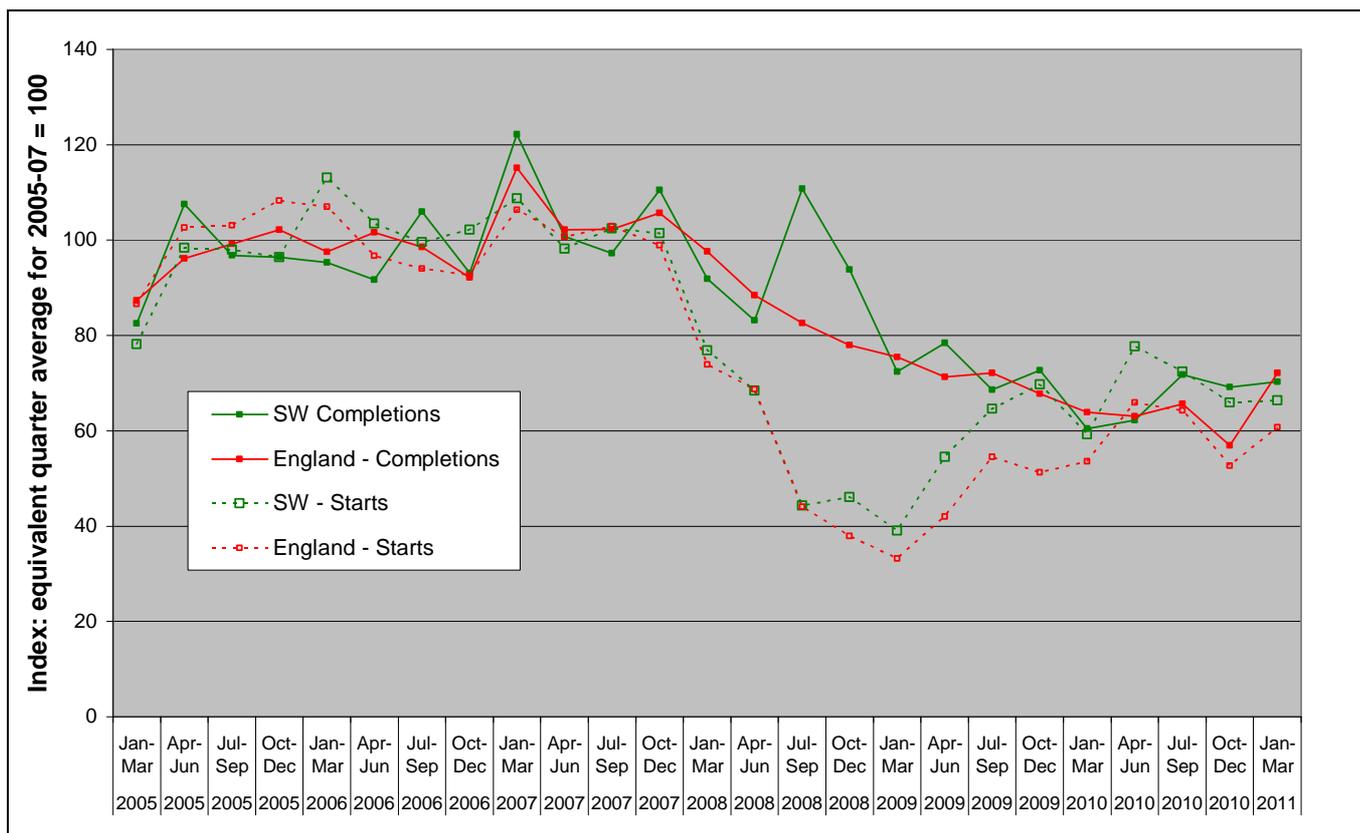
Q1 2011

House-building statistics for the 1st quarter of 2011

New house building plummeted in the first quarter of 2008 and, three years on, it appears to have reached a new equilibrium. This data alert looks briefly at the emerging picture.

The role of construction in the national economy has been much in the news as the sector with the greatest, but least predictable, influence on the quarterly GDP numbers. Part of this has been the kind of volatility associated with unseasonable weather, but there is also a large element of uncertainty related to the state of the housing market and flows of public sector investment. Within the sector house building is an important part and, unlike the GDP data, can be monitored at the regional level.

The [latest data release from DCLG](#) shows 3,620 dwellings were started the first three months of 2011 in the South West and 3,290 completed. The figures are about fifteen percent better than the same period in 2010 but around forty percent below where they were in 2007. These extreme movements make it hard to get a feel for how the activity levels compare with the longer run trends.



The chart above takes out much of the seasonal volatility by comparing each quarter with the average for the same quarter between 2005 and 2007, a period of relatively stable high output. The story revealed is that a huge gap between the level of housing starts and completions developed in 2008 and persisted through to the end of 2009. While this gap exists it is a sign of contracting activity in house building. Conversely when the level of starts exceeds completions

this would be a sign of expansion, but this has not appeared to date indicating that a new equilibrium has been established at the lower level, somewhere around seventy percent of the pre-recession level. As with other economic data for the region, there is some suggestion in these numbers that a relatively strong performance early in 2010, compared England as a whole, was not sustained.

Within the totals there have been marked movements between private enterprise, registered social landlord (RSL) and local authority activity. RSL completions have been running at around double the pre recession level in the last two quarters, accounting for over a quarter of the total. By contrast RSL starts fell to only seventy percent of the long run level in the second half of 2010 although they did pick up again in early 2011.

Looking back over the period since the trough at the end of 2008, it is clear that although private sector activity did pick up a little, much of the recovery was due to a far greater increase in the rate of RSL house building. There must be some concern that this will not be sustained as we enter the first year of substantive spending cuts.

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