

New Home Sales Drop in May

A big drop in new home sales in May serves as a timely reminder that a sustained recovery in home building cannot rely solely on first home buyer activity claimed the Housing Industry Association (HIA) on the release of its latest survey of the nation's largest builders.

New home sales in May decreased by 5.7 per cent, still 15 per cent above the low point in December of last year. Some of the reduction in new home sales could have been linked to negative speculation about the federal budget, which was brought down in May.

"The combination of low interest rates and the \$21,000 First Home Boost have lifted prospects for the housing industry, which is expected to convert to a recovery in home building activity from the June quarter of 2009," said HIA Senior Economist, Mr Ben Phillips.

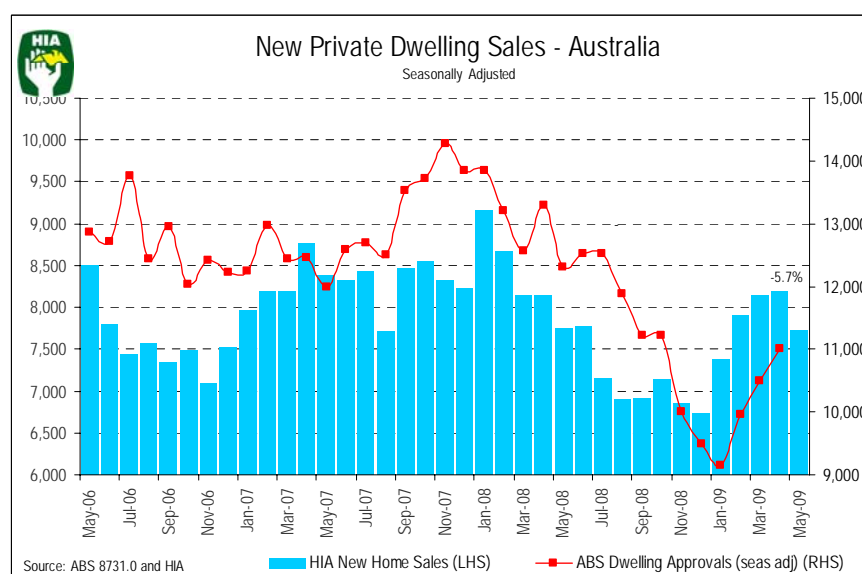
"The vast majority of the housing recovery has been at the first home buyer end of the market. As that segment inevitably slows over the remainder of 2009 it's vitally important that the much larger trade-up and investor segments return to health," said Mr Phillips.

"The on-going Henry Taxation review has seen some tax economists return to the tired argument that negative gearing be removed from housing investment. Speculation about the withdrawal of negative gearing risks a retreat of rental investors precisely at the time we need to be encouraging additional investment in rental housing," said Mr Phillips.

"Negative gearing for rental properties was removed in 1985 and was quickly re-implemented as rents exploded. The rental market is already suffering from record low vacancy rates and any policy change that removes incentives to invest would have dire consequences for the 1 in 4 Australian households in the private rental market," added Mr Phillips.

Sales of apartments and units grew on the back of a very weak early 2009 with 6.1 per cent growth during May.

For the month of May, detached New Home Sales decreased by 9.9 per cent in New South Wales, 8.7 per cent in Victoria, and 13.5 per cent in Western Australia. Sales grew by 2 per cent in Queensland and by 3.6 per cent in South Australia.



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