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International housing market analysis based on housing commencements

Additions to the aggregate housing stock are a broad measure of the state of an economy and overall level of confidence in a particular region over a designated period. This is due to the direct and indirect effect (e.g. employment in the housing construction industry) upon the local economy and is linked to the confidence of local households in the future direction of housing investment, the level of housing affordability by households as related to employment levels and the relationship between supply and demand in each region. Another consideration is the ability of the government to monitor and successfully intervene in the operation of the household market (e.g. mortgage interest rates) with the intent of restricting an over-supply situation which may take years to fully recover. The analysis in this section examines new housing commencements for Scotland, Australia, USA and Canada over an extended time period with the specific focus placed on the periods before, during and after the high profile global financial crisis in 2007-2008. The graph in Figure 1 was adapted from data sourced from The Scottish Government (2013) and covers the 15-year period between 1998 and 2012. With the exception of 1999 there were been relatively few years with substantial additions to the housing market. However, the effect of the GFC can clearly be observed post 2007 although by 2012 there was relatively change from the previous year.

![Figure 1 Percentage change from previous year with new dwelling starts – Scotland](image)

The trend associated with new housing additions in the Australian housing market can be observed in Figure 2. Besides the sharp decrease in 2000, over the five years since 1998 there was positive growth in the form of residential building approvals in the housing market. Thereafter the market fluctuated until 2012 and the GFC did not appear to adversely affect the housing market, especially in 2009 and 2010 when positive growth was observed. Over the last decade there are been relatively little volatility in the number of additions in the housing market according this graph adapted from data sourced from the Australian Bureau of Statistics (2013).
The graph in Figure 3 was adapted from data sourced from the US Census Bureau (2013) and clearly highlights a high level of volatility which appeared to be adversely affected by the GFC. The initial period (1998-2006) can be argued as displaying typical cyclical behaviour due to supply and demand interactions. However, during the GFC (2007-2008) there was a substantial decrease in new residential commencements from the previous year. A period of stabilisation was observed in 2010-2011 following by recovery with the largest increase over the entire 15-year period.

The graph in Figure 4 was based on data sourced from the Canadian Mortgage and Housing Corporation (2013) and covered a 10-year period from 2003 to 2012. The first half of this period shows very little change to the number of new housing additions, however the effect of the GFC was observed for 2009. However, the market rebounded well the next year and was positive in subsequent years.
This comparative analysis highlighted the effect of the GFC on international housing markets, notably with varying results although there were clear links with the GFC for all four countries. The country most adversely affected by the GFC was the USA (Figure 3) with less observed influence on the other countries. Although the Scottish (Figure 1) and Australian (Figure 2) housing markets showed relatively little volatility in the post-GFC period, it is clear both markets did not recover fully. The exception in the Canadian market (Figure 4) which was very robust post-GFC and showed positive growth every year after the GFC. This analysis was limited to western countries only and whilst there are other factors (e.g. government decisions) affecting the operation of each housing market, an international comparison based on common metrics is very useful with the benefit of hindsight.

References


