Data Snapshot

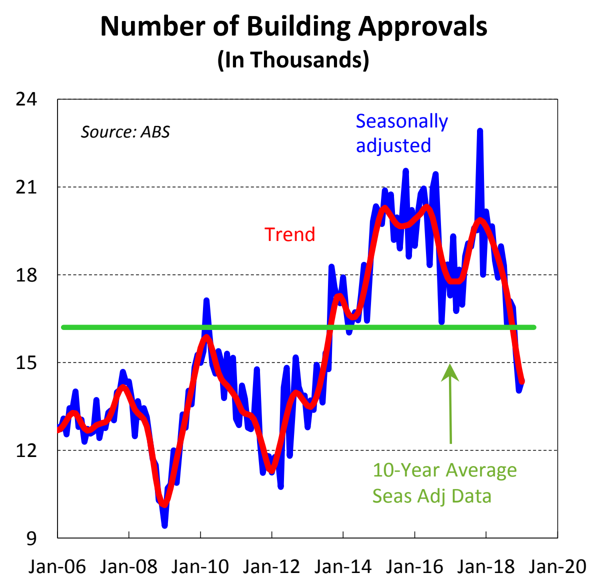
Monday, 4 March 2019

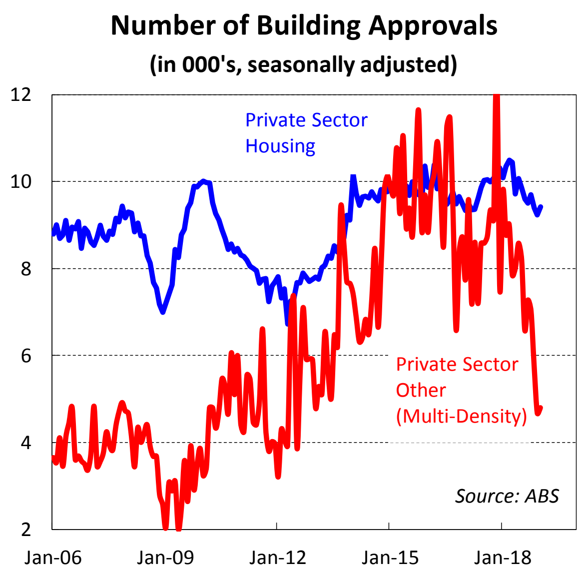
Bank of Melbourne

Building Approvals

A Deeper Downturn Lies Ahead

- **Building approvals rose by 2.5% in January, after three consecutive monthly falls and a hefty 16.8% drop in the two months to December.**
- **January's rise is more akin to a dead-cat bounce; given what other leading indicators are suggesting, a deeper downturn in dwelling investment is likely in the year ahead.**
- **Approvals are down 28.6% in the year to January and are 37.2% lower from the peak recorded in November of 2017. Approvals for multi-density dwellings are much further away from the peak than stand-alone housing (61.5% versus 10.6%).**
- **There was a broad-based lift in approvals across houses and units. But there was not a broad-based rise across the States. NSW, WA and Tasmania recorded growth in January while the other States languished.**
- **The downturn in residential building activity is set to extend and intensify. The downturn in the housing cycle is expected to be a drag on economic growth over the coming year and is a key downside risk to the domestic economy.**
- **The housing downturn and its impact on economic growth is one of the key reasons we expect the Reserve Bank to cut the cash rate in the second half of this year.**





Building approvals rose by 2.5% in January, after three consecutive monthly falls and a hefty 16.8% drop in the two months to December. Therefore, January's rise is more akin to a dead-cat bounce; given what other leading indicators are suggesting, a deeper downturn in dwelling investment is likely in the year ahead. Developers are giving large incentives to try to attract buyers, pre-auction rates remain low, pre-sales activity is low, sales volumes is low and lending numbers are also subdued. The story remains that of a housing downturn that is set to deepen further.

Compared with the same time a year ago, building approvals are 28.6% weaker and are 37.2% down from the peak recorded in November of 2017. Approvals for multi-density dwellings are much further away from the peak than stand-alone housing (61.5% versus 10.6%).

There was a broad-based lift in approvals across houses and units. Private-sector “other” dwelling approvals, which are mostly apartments, rose by 2.7% in January to 4,800. This number is well below the long-run monthly average of 6,787.

Approvals for private-sector housing grew 2.1% in January to 9,423, but unlike other dwelling approvals remains above the long-run average. In this recent cycle, much of what was built was multi-density in nature, so it is multi-density approvals that are feeling the downturn the most.

By State

The lift in January across the States was not even. NSW, WA and Tasmania recorded growth in January of 12.0%, 28.8% and 15.4%, respectively. However, Victoria, Queensland and South Australia saw a contraction in approvals in the month of 7.9%, 3.5% and 1.5%, respectively.

NSW accounts for a large share of national building approvals and whilst a lift was recorded in January in NSW, it was only the first rise in seven months.

Outlook

The downturn in residential building activity is set to extend and intensify. Moreover, falling dwelling prices suggests that the downturn has further to deepen. The downturn in the housing cycle is expected to be a drag on economic growth over the coming year and is a key downside risk to the domestic economy. Housing is one of the key reasons we expect the Reserve Bank to cut the cash rate in the second half of this year.

Besa Deda, Chief Economist
Ph: 02-8254-3251

Contact Listing

Chief Economist	Senior Economist	Senior Economist
Besa Deda	Josephine Horton	Janu Chan
dedab@bankofmelbourne.com.au	hortonj@bankofmelbourne.com.au	chanj@bankofmelbourne.com.au
(02) 8254 3251	(02) 8253 6696	(02) 8253 0898