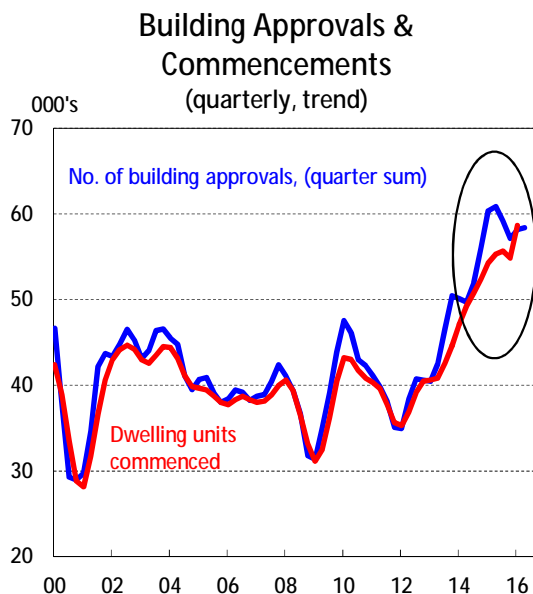
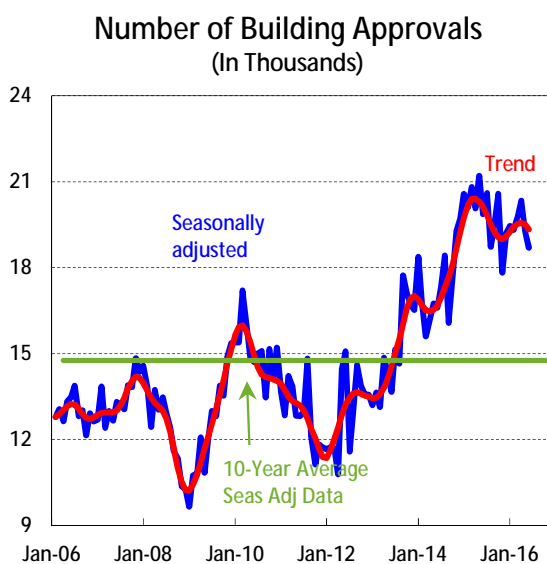


Building Approvals Losing Further Steam

- Building approvals declined 2.9% in June, following a 5.4% decrease in the previous month. Approvals are down 11.8% from its recent peak in May 2015.
- It is becoming clearer that residential construction is very close to peaking or is at its peak. However, the number of building approvals remains at a high level despite the downward trend in approvals over recent months, and continue to suggest that construction activity will plateau instead of falling sharply.
- As a trend, approvals in NSW, Queensland, Western Australia, the ACT and Tasmania were weaker over the year. An upward trend has re-emerged in Victoria which could exacerbate concerns regarding over-supply of housing in the State, while approvals in South Australia had the strongest annual growth in over two years.
- We expect that further increases in house prices and low interest rates will continue to support housing activity. However, the positive impact of housing construction on economic growth will likely weaken over the coming 6 to 18 months.



Building approvals declined 2.9% in June, following a 5.4% decrease in the previous month. Approvals are down 11.8% from its recent peak in May 2015, and it is becoming clearer that

residential construction is very close to peaking or is at its peak.

Despite the downward trend in approvals over recent months, the number of building approvals remains at a high level. While residential construction is close to peaking, building approvals continue to suggest that construction activity will plateau instead of falling sharply (see chart pg.1, right).

The weakness in June was across all categories. Approvals for private sector houses declined 2.3% in June. The annual rate slipped into negative territory, declining 5.9% in the year to June. Private sector “other dwellings” which includes apartment developments also weakened, falling 2.4% in June, and were down 4.8% in the year to June.

By State

In June, there were declines across NSW (-4.0%), Queensland (-2.1%) and Tasmania (-23.9%). There has been renewed strength in approvals in Victoria (4.1%), which has increased for two consecutive months. Approvals in South Australia (12.4%) and Western Australia (2.5%) also increased in June, but these came on the back of larger declines in the previous month.

As a trend, which looks through month-to-month volatility, approvals in NSW (-3.1%), Queensland (-2.4%), Western Australia (-34.4%), the ACT (-2.3%) and Tasmania (-28.0%) were weaker over the year. An upward trend has re-emerged in Victoria (4.2%) which could exacerbate concerns regarding over-supply of housing in the State. Approvals in South Australia saw annual growth in trend terms of 26.5%, which was the strongest among all States and the fastest in over two years. The Northern Territory saw approvals 0.7% higher in the year to June.

Outlook

Today’s data provides further evidence that residential construction is close to or at a peak. Nonetheless, building approvals remain high by historical standards, and are suggesting a plateauing rather than a sharp decline in construction activity.

We expect that further increases in house prices and low interest rates will continue to support housing activity. However, the positive impact of housing construction on economic growth will likely weaken over the coming 6 to 18 months.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Hans Kunnen

kunnenh@bankofmelbourne.com.au

(02) 8254 8322

Senior Economist

Josephine Horton

hortonj@bankofmelbourne.com.au

(02) 8253 6696

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.
