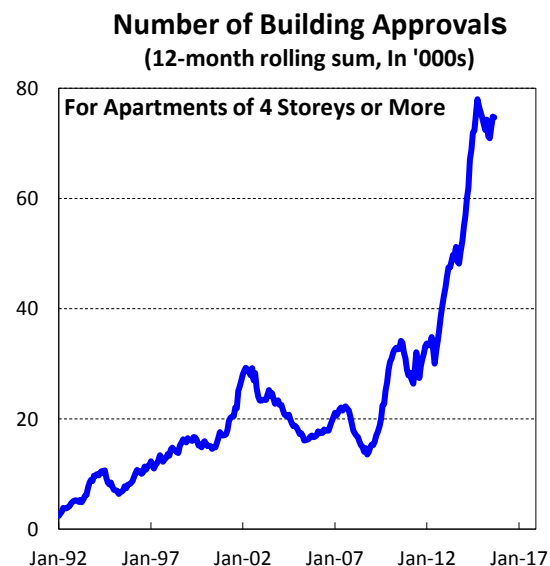
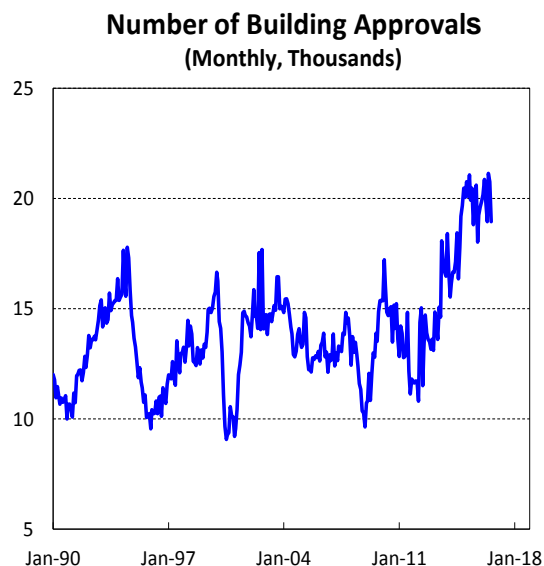


Building Approvals

Down But Not Out?

- Building approvals were weaker than expected, falling 8.7% in September. This was the largest decline since November 2015 and follows a fall of 1.8% in August.
- Building approvals are now 10.3% below the all-time high reached in July 2016. The high level of building approvals over recent months suggests that construction activity is likely to remain firm well into 2017.
- Activity varied from State to State. NSW, Victoria and the ACT showed growth in trend terms over the year but Queensland, South Australia, Western Australia, Tasmania and the Northern Territory have seen approvals contract. Variations in population growth and perceptions of oversupply or undersupply appear to sit behind the State trends.
- Over the past year, approvals of units have outpaced those of houses. Apartment approvals are also lumpy in nature, driving the volatility in building approvals. This lumpiness was evident in September, with approvals of units plummeting 17.5%.



Building approvals were weaker than expected, falling 8.7% in September. This was the largest decline since November 2015 and follows a fall of 1.8% in August. The declines of August and September fully reverse July's 11.5% increase. These moves highlight the volatility of the building approvals numbers. Building approvals are now 10.3% below the all-time high reached in July 2016.

The high level of building approvals over recent months suggests that construction activity is likely to remain firm well into 2017. The current pace of housing construction is outpacing growth in the population, therefore the current level of activity cannot continue indefinitely.

Over the past year, approvals of units have outpaced those of houses. Apartment approvals are also lumpy in nature, driving the volatility in building approvals. This lumpiness was evident in September, with approvals of units plummeting 17.5%. This was the largest decline since November 2015, but follows an increase of 24.1% in July and a fall of 2.9% in August.

Approvals for houses were more resilient, rising 1.7% in September, although this followed three consecutive months of declines. For the year to September, house approvals fell 1.9%, the fourth consecutive month of decline. Approvals of units were down 10.7% over the year.

By State

Monthly State building approvals can be volatile. This month was once again no exception. Approvals in NSW fell 13.3% in September. This follows a small decline in August (-2.3%) and a massive rise in July (27.3%). There were significant declines in Victoria (-15.6%) and Queensland (-11.7%) due to sharp falls in the approval of apartments, while approvals in Tasmania had a smaller decline (-3.6%). After two months of declines, South Australia saw a 9.4% increase in building approvals while Western Australia saw a 5.5% increase in approvals.

A better gauge of activity in the States and Territories is gleaned from annual growth in trend terms. Trend numbers look through the month-to-month volatility. Over the year to September, trend approvals in NSW rose 17.1% but were only up 3.1% in Victoria. At the other end of the scale, they were down 23.9% in Western Australia, 27.6% in Tasmania and 40.1% in the Northern Territory. South Australia (-9.8%) and Queensland (-7.7%) have also seen approvals fall over the year. In the ACT, building approvals increased 95.9% over the year. In September 2015 there were 340 approvals in the ACT, rising to 666 in September 2016.

Outlook

Building approvals were weaker than expected in September and have decreased over the past year. Despite this, approvals remain elevated on a historical comparison. The high level of building approvals over recent months suggests that construction activity is likely to remain firm well into 2017. We expect that low interest rates and solid population growth will continue to provide support to housing construction, but note that the current level of construction cannot continue indefinitely. Dwelling investment will continue to rise, but its impact on economic growth next year will be diminished.

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The Detail

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