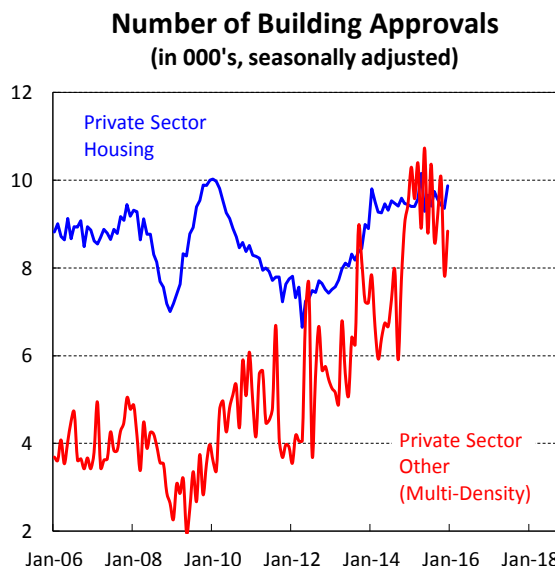
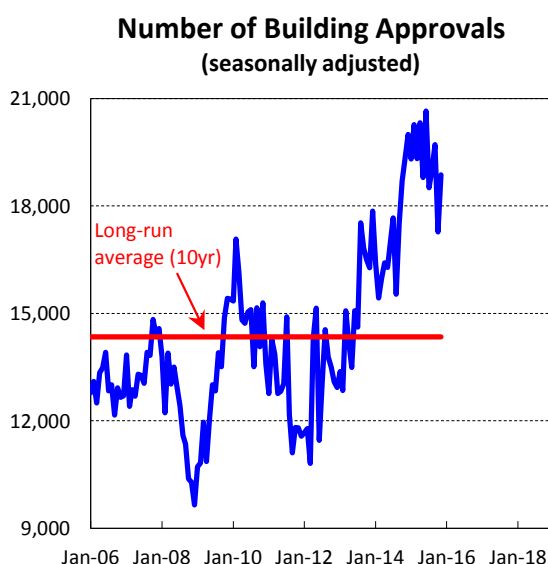


## Building Approvals

### The Rollercoaster Continues

- Building approvals rose 9.2% in December, after slumping 12.4% in November. The strength in December surpassed market and our own (higher) expectations. Despite this solid gain in December, building approvals are down 2.5% for the year to December.
- The December jump in building approvals was led by approvals of 'other' dwellings, which includes apartments and tends to be volatile, although approvals of houses also rose for the month.
- There were significant reversals in several of the States. Victoria bounced after falling in November while Queensland did the reverse. A positive feature of the data was a rise in approvals of private sector detached houses across all States in December.
- Despite ongoing month-to-month volatility, it appears that the peak in building approvals occurred in July last year. Building approvals still remain at an elevated level on a historical comparison, suggesting the pipeline of residential construction remains solid.



Building approvals partially rebounded in December, rising 9.2%, after falling 12.4% in November (previously reported as a 12.7% decline). The number of approvals rose to 18,868 in December, which remains well above the long-term average of 13,394. This reflects the ongoing construction boom, driven, in part, by low interest rates. It appears the number of building approvals reached a peak in July last year at 20,655.

For the year to December, approvals fell 2.5%, the second consecutive annual decline, following a string of 13 months of annual gains in building approvals. At its recent peak in March 2015, the annual pace of growth in approvals was running at 31.4%.

The jump in building approvals in December was led by approvals of 'other' dwellings, which includes apartments and tends to be very volatile month-to-month. Approvals for 'other' dwellings rose 13.5% in December, only partially reversing November's 23.1% slump. House approvals rose 5.7% in December, which was the strongest monthly increase since April 2015. This followed three consecutive months of declines in house approvals.

For the year to December, approvals of 'other' dwellings fell 8.3%, an improvement from the 14.0% decline in the year to November. Nonetheless, this decline over the past year suggests the pipeline of apartment construction is slowing from a very strong level. House approvals rose 3.4% in the year to December, the largest annual increase since June 2015.

### **States**

The State data displayed its usual month-to-month volatility. There were significant reversals in several of the States. Victoria saw 37.4% rise in December following a decline of 36.2% in November, while Queensland posted a 4.6% decline following a 12.1% rise in November. In Western Australia, approvals rose 8.6% in December having fallen sharply over the previous three months. South Australia reported back-to-back declines with approvals down 10.5% in November and down 8.6% in December. After a soft patch in mid-late 2015, NSW building approvals lifted with three consecutive months of increases, the latest being a 2.1% rise in December.

A positive element in today's data was that approvals for private sector detached houses rose in all States in December.

Annual trend data gives a better picture of the outlook for residential construction for the States. For the year to December, growth in building approvals was solid in Queensland (10.0%), firm in NSW (6.3%) and surprisingly strong in the Northern Territory (24.0%). After a period of strength, Tasmania is coming off the boil (-10.0%), as is the ACT (-20.2%). The annual trend is also weak in Victoria (-8.0%), Western Australia (-26.8%) and South Australia (-0.5%). The outlook for residential construction across the States and Territories in 2016 is mixed but at an Australia-wide level, the pace of growth is expected to be well down on 2015.

### **Outlook**

Despite ongoing month-to-month volatility, it appears that the peak in building approvals occurred in July last year. Building approvals still remain at an elevated level on a historical comparison, suggesting the pipeline of residential construction remains solid. We expect residential construction to peak this year, so that while it will remain at a high level, the role of residential construction as a key driver of economic growth will wane. Ongoing low interest rates and the lower Australian dollar will continue to support the economy. Following today's data we remain comfortable with our view that the RBA will leave rates on hold through 2016, before lifting rates in 2017 as the economic outlook improves further.

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