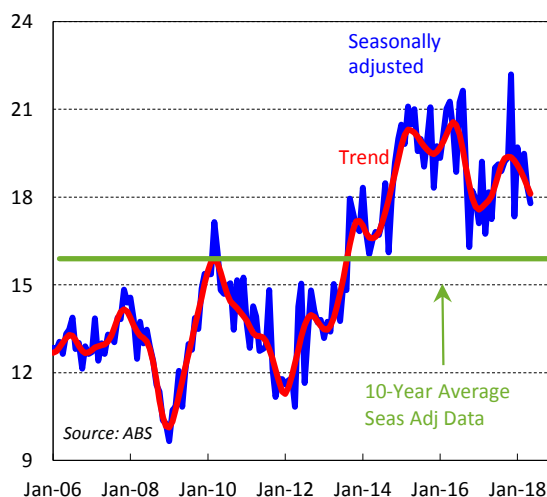


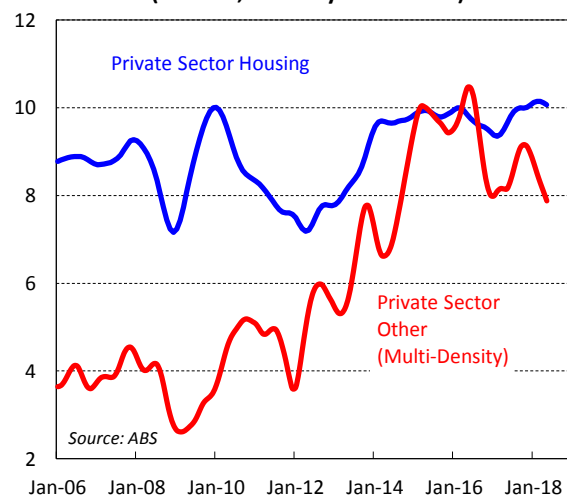
## Building Approvals Extending a Downward Trend

- Building approvals fell 3.2% in May, the second consecutive monthly fall after a 5.6% drop in April. The fall over May was worse than markets had anticipated. However, further weakness in building approvals is not too surprising given the slowdown in house prices and lending. It was only a matter of time before weaker housing conditions extended to building activity.
- Approvals are now 17.7% down from their August 2016 peak, although they are 3.1% higher than a year ago. Approvals have remained at above average levels, but are likely to weaken further as housing conditions continue to soften.
- Unusually, it was approvals of private sector houses drove the decline. In May, private sector house approvals fell 8.6% in May. Private sector “other” dwellings, which includes apartments and tends to be the more volatile category, rose 4.3% in May.
- Queensland led the decline in approvals in May (-26.7%). Among other States and territories, there was weakness in NSW (-1.2%) and Western Australia (-0.6%). Approvals increased modestly in Victoria (0.3%) and Tasmania (1.8%). Meanwhile, South Australian building approvals jumped 35.9%.
- A downward trend in approvals is extending. A number of indicators on housing, including house prices, auction clearance rates and lending are pointing to further weakness in housing conditions, and suggest weakness in approvals and residential construction over coming months.

Number of Building Approvals  
(In Thousands)



Number of Building Approvals  
(in 000's, Monthly Trend Data)



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Unusually, it was approvals of private sector houses drove the decline. In May, private sector house approvals fell 8.6% in May. In annual terms, approvals of private sector houses fell 1.2% in the year, the first annual decline in a year. Private sector “other” dwellings which includes apartments and would normally tend to be the more volatile category, rose 4.3% in May and was 9.1% higher in the year.

### **By State**

Queensland led the decline in approvals in May (-26.7%). Among other States and territories, there was weakness in NSW (-1.2%) and Western Australia (-0.6%). Approvals increased modestly in Victoria (0.3%) and Tasmania (1.8%). Meanwhile, South Australian building approvals jumped 35.9%.

Building approvals were higher over the year to May in NSW (11.6%), Victoria (18.6%) and to a lesser extent in South Australia (5.5%) and Tasmania (4.1%). In Queensland (-26.3%), and Western Australia (-6.3%) approvals declined in annual terms.

In trend terms, approvals in the ACT were 9.5% higher in the year to May, while approvals in the Northern Territory fell 4.8% over the same period.

### **Outlook**

Approvals remain at above average levels suggesting that residential construction will remain elevated over the coming 12 to 18 months. Nonetheless, a downward trend in approvals is extending. A number of indicators on housing, including house prices, auction clearance rates and lending are pointing to further weakness in housing conditions, and suggests further weakness in approvals and residential construction over coming months.

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