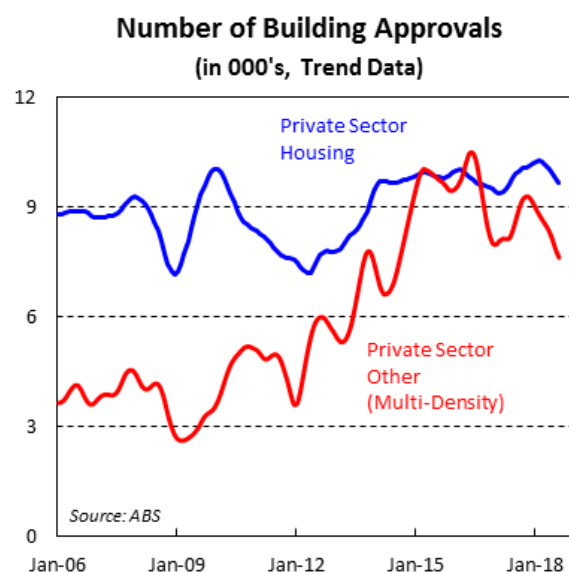
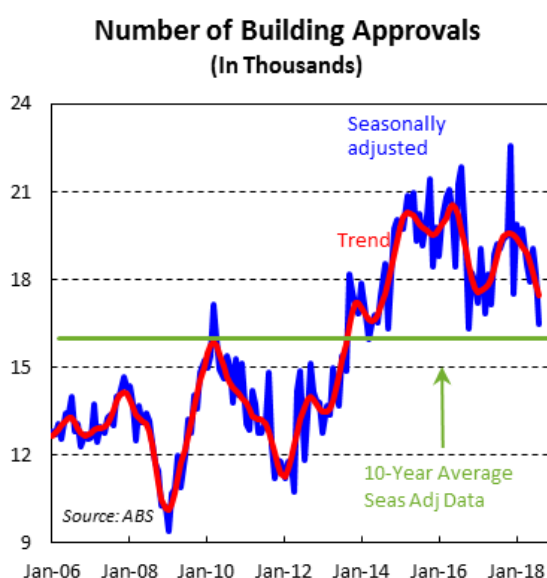


Building Approvals Downturn Deepens

- Building approvals slumped 9.4% in August, coming off the back of a 4.6% drop in July. Approvals have now fallen in six out of the last nine months. A downward trend has clearly been established and has intensified in recent months. Weaker housing demand and falling house prices are increasingly weighing on residential construction activity.
- In trend terms on an annual basis, a downturn is becoming increasingly evident in NSW and Victoria, where a correction in housing prices is continuing. There was also weakness in all other States, with the exception of ACT and Tasmania.
- While much of the weakness over the past year has been in approvals of “other” dwellings (which includes apartments and townhouses etc.), a downward trend in approvals of houses has become apparent in recent months. Approvals in both private sector houses and “other” dwellings have declined for two consecutive months.
- Approvals are approaching a level closer to the longer-run average. With housing prices continuing to correct and the risk that home lending will soften further, a larger slowdown in residential construction appears inevitable. The recent modest gains in dwelling investment over the first half of this year is likely to give way to further weakness in coming months. The current downturn in housing however, will be mitigated by strong population growth and a firm labour market.



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The number of approvals in August is sitting just above the 10-year average.

While much of the weakness over the past year has been in approvals of “other” dwellings (which includes apartments and townhouses etc.), a downward trend in approvals of houses has become apparent in recent months. In August, private sector “other” dwellings fell 17.2%, following a 5.8% decline in July. Approvals of private sector houses have also fallen for two consecutive months, dropping 1.9% in August after a 2.7% fall in July.

By State

There was broad weakness across States. Approvals declined in NSW (-2.7%), Victoria (-12.0%), Queensland (-8.4%) and Tasmania (-18.6%). In South Australia (9.6%) and Western Australia (14.7%), approvals lifted in August, but followed sharp declines over July.

On an annual basis in trend terms, which looks through month-to-month volatility, a downturn is becoming increasingly evident in NSW (-14.9%) and Victoria (-16.2%), where a correction in housing prices is continuing. There was weakness in Queensland (-1.8%), South Australia (-3.4%), Western Australia (-6.8%) and the Northern Territory (-5.6%), where annual trend rates were lower. Only in the ACT (64.9%) and Tasmania (16.8%) were approvals higher on an annual basis.

Outlook

Approvals are approaching a level closer to the longer-run average. With housing prices continuing to correct and the risk that home lending will soften further, a larger slowdown in residential construction appears inevitable. The recent gains in dwelling investment over the first half of this year are likely to give way to further weakness in coming months. The current downturn in housing however, will be mitigated by strong population growth and a firm labour market.

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The Detail

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