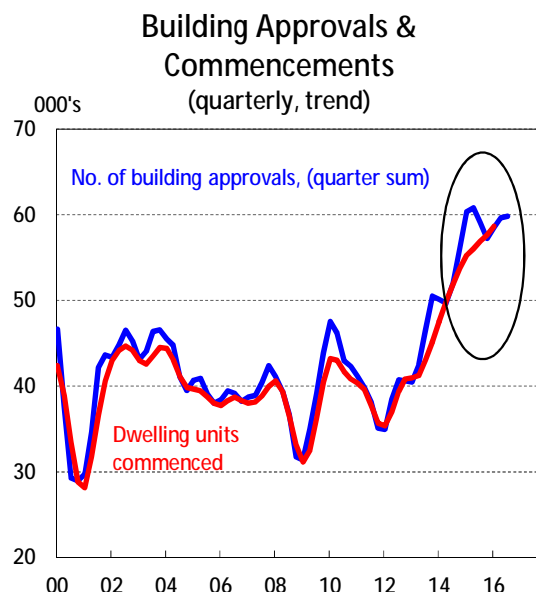
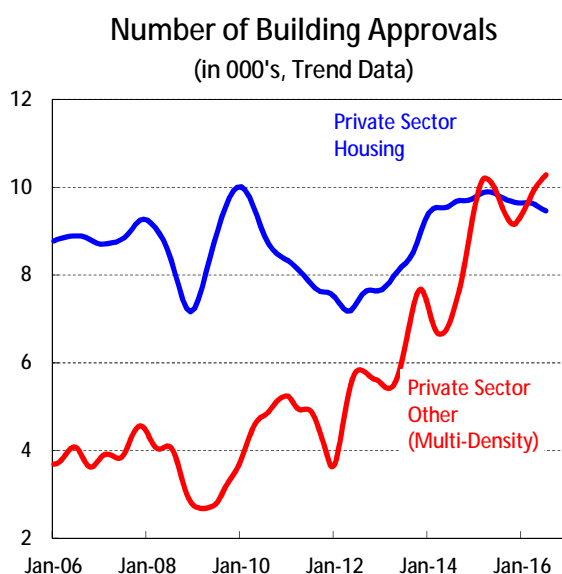


## Building Approvals

### Surging Again?

- Building approvals surged 11.3% in July, well above market and our expectations. The number of approvals in July is now just 0.7% below the all-time peak set in May 2015.
- There is a chance that approvals will not sustain at such lofty levels over the coming year particularly given the July's jump was not broad-based. However, today's data and the recent reductions to the RBA cash rate gives us less confidence that a peak in residential construction is near. It appears that home building activity will plateau for a while longer.
- July's increase was entirely due to approvals in apartments, and the bulk of which occurred in NSW. Total approvals in NSW rose to its second highest on record.
- In trend terms, which look through month-to-month volatility, approvals strengthened in NSW, Victoria, and South Australia over the year to July. Approvals in Western Australia and the Northern Territory have declined over the year, while the annual pace of approvals in Queensland and the ACT have slipped into negative territory in July.
- Construction activity is set to be elevated in coming months and that the positive impact of housing construction on economic growth might be a bit stronger than previously thought.



Building approvals surged 11.3% in July, well above market and our expectations (1.0%). The

number of approvals in July is now just 0.7% below the all-time peak set in May 2015, and approvals are 3.2% higher than a year ago. The jump in approvals in the month now casts some doubt over when residential construction activity will peak. Approvals continue to point to a very elevated level of activity. Moreover, the rate cuts from the RBA in May and August suggest that activity will stay elevated over the next 6 to 18 months.

The ongoing strength in building activity may exacerbate concerns of oversupply in some capital cities, although the bulk of today's increase in approvals occurred in NSW where these concerns are less pronounced (see below for more details).

July's increase was driven by approvals for the private sector "other dwellings" category. Approvals for private sector other dwellings lifted 23.0%. July saw the highest number of multi-unit approvals in 14 months.

In contrast, approvals for private sector houses continued to soften, declining 0.5% in the month of July and 3.0% in the year.

#### By State

The jump in July was driven by approvals in NSW which grew 27.8% to 7389, the second highest on record. There was a strong increase in Western Australian and Queensland approvals of 17.5% and 12.8%, respectively. Approvals in Tasmania lifted 7.8% in July, while they declined in Victoria (-5.5%) and South Australia (-15.6%).

In trend terms, which look through month-to-month volatility, approvals strengthened in NSW (9.5%), Victoria (7.0%) and South Australia (13.5%) over the year to July. Approvals in Western Australia (-29.1%) and the Northern Territory (-21.4%) have declined over the year, while the annual pace of approvals in Queensland (-1.9%) and the ACT (-3.6%) have slipped into negative territory in July.

#### Outlook

Building approvals data can be extremely volatile month-to-month. There is a chance that approvals will not sustain at such lofty levels over the coming year, particularly given the July's jump was not broad-based – it was entirely driven by apartments and mostly in NSW. We will be assessing upcoming data carefully to gauge the extent of the current housing upswing.

However, today's data and the recent reductions to the RBA cash rate gives us less confidence that a peak is near, and it appears that residential construction activity will plateau for a while longer.

Further increases in house prices and low interest rates will continue to support housing. Construction activity is set to be elevated in coming months and that the positive impact of housing construction on economic growth might be a bit stronger than previously thought.

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### The Detail

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