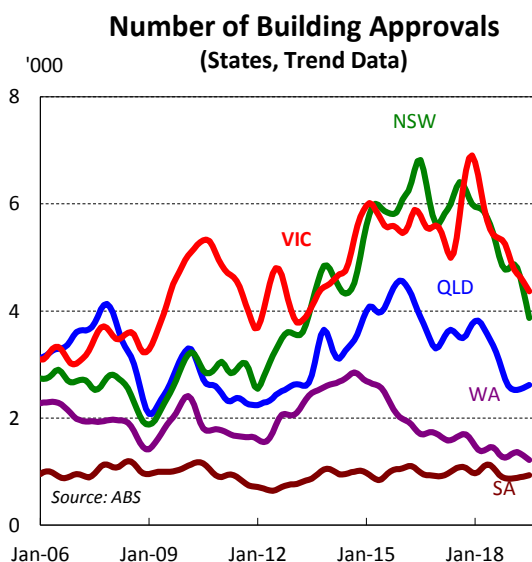
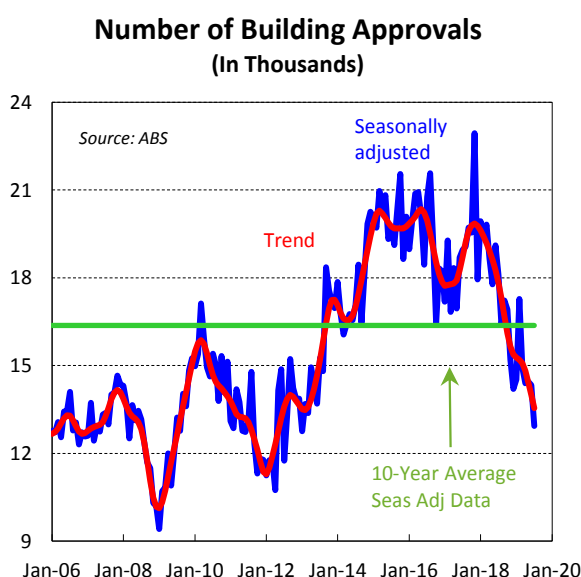


Friday, 30 August 2019

Building Approvals

High Rise Approvals Fall to 7-Year Low

- Building approvals plunged in July, suggesting a worsening construction downturn. Total dwelling approvals registered a 9.7% drop from June's low base which was down 0.8%.
- Both houses and apartments contributed to the fall in the overall result, however the decline in apartments was pronounced. Approvals of private sector apartments registered an 18.4% fall on the month to their lowest level since 2012. Private detached dwelling approvals were down a more modest 3.3%.
- Although building approvals can be volatile month-to-month, the latest result confirms the challenges faced by the residential construction sector.
- By state, the weakness was centred on NSW and Victoria, which both recorded sizeable monthly declines of 17.5% and 24.3%, respectively. Approvals gained elsewhere, with South Australia the standout, registering a 34.8% increase.
- Despite further signs of stabilisation in house prices in Sydney and Melbourne, residential construction clearly remains weak. Policy easing from the RBA will provide some support, however an improvement in residential construction isn't expected any time soon.



Building approvals plunged in July, suggesting a worsening construction downturn. Total dwelling approvals registered a 9.7% drop from June's low base which was down 0.8%.

On an annual basis, the pace of contraction quickened, with approvals down 28.5%. Since peaking in 2017, building approvals have fallen in trend terms for 20 consecutive months.

The detail highlight the specific weakness in the volatile “other” building category, which includes apartments. Private other building approvals registered an 18.4% fall on the month and were down 44.2% in the year to July to the lowest level since July 2012. Approvals of private detached dwellings saw a 3.3% decline, which although less pronounced than the fall in apartment approvals, was at the lowest level since June 2013.

By State

The two most populous states of NSW and Victoria lead the national decline (-17.5% and -24.3%, respectively). Apartment building in NSW was particularly weak, down 47.1%, while private houses recorded a 10% increase.

There was more to cheer elsewhere, with approvals growth up by double digits in South Australia (34.8%), Tasmania (21.5%) and Queensland (10.9%). Western Australia saw a 5.8% increase on the month with a 14.5% drag from house approvals offset by a 174% jump in apartment approvals, the first monthly increase since March.

Outlook

Further weakness in the construction sector remains a significant risk to the economic outlook. Although there are signs of life in the housing markets of Sydney and Melbourne, home lending remains soft and evidence of a meaningful pickup in residential construction activity following the RBA’s rate cuts is yet to emerge. We expect easier monetary and fiscal conditions to flow through to the housing market eventually, but a sustained upswing in house prices and subsequent recovery in residential construction is some way off yet.

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The Detail

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