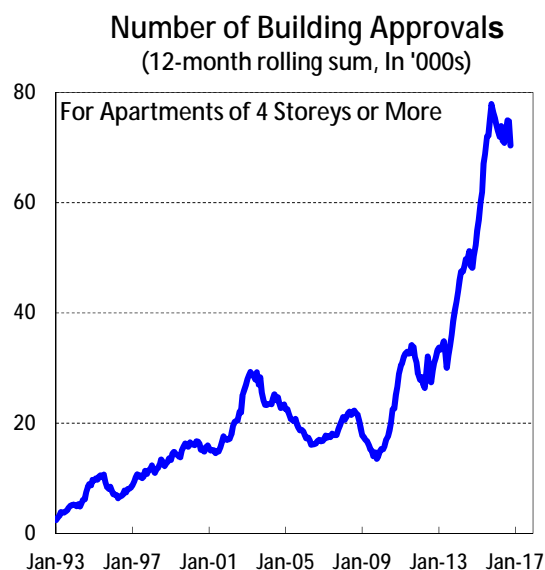
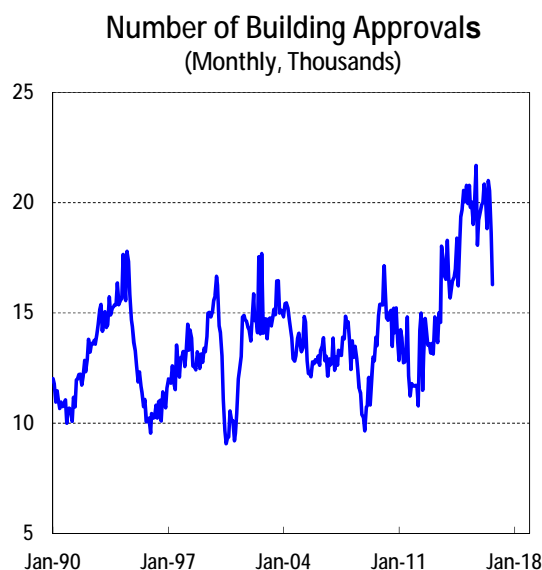


Building Approvals Over The Edge

- Building approvals were much weaker than expected, falling 12.6% in October, compared to expectations for a small rebound, following a decline of 9.3% in September. This was the largest back-to-back decline since October 2011.
- Building approvals have declined in five out of the past six months and are now down 24.9% over the year to October. The all-time high in building approvals was in October 2015.
- Elevated levels of building approvals over the last couple of years suggest a high level of activity in residential construction well into 2017. However, weakness in building approvals in recent months suggests the cycle has turned. A downturn in residential construction appears likely in 12 to 18 months.
- Activity varied from State to State. NSW and the ACT showed growth in trend terms over the year but Victoria, Queensland, South Australia, Western Australia, Tasmania and the Northern Territory have seen approvals contract.
- By sector, approvals for both apartments and houses have declined over the past year. Apartment approvals are also lumpy in nature, driving the volatility in building approvals. This lumpiness was evident in October, with approvals of units plummeting 23.5%, while approvals of houses fell by a more subdued 2.5%.



Building approvals were much weaker than expected, falling 12.6% in October. This was well

below our own and consensus forecasts for an increase of 2.0%. It was the largest decline since November 2015 and follows a downwardly revised fall of 9.3% in September (previously reported as a decline of 8.7%). While building approvals are volatile month-to-month, they have now fallen in five out of the past six months.

Over the year to October, building approvals have dropped 24.9%. Building approvals reached an all-time high in October 2015.

The volatility in building approvals is driven by approvals for units, which are lumpy in nature. Approvals for apartments fell 23.5% in October, after declining 18.1% in September. Approvals of houses have been less volatile. House approvals fell 2.5% in October, after rising by 0.9% in September. For the year to October, approvals of houses are down 4.5%, the fifth consecutive decline. Approvals of apartments have plunged 41.8% in the year to October, the sharpest decline since January 2009.

The high level of building approvals over recent years suggests that construction activity is likely to remain firm well into 2017. Weakness in recent months, however, highlights that residential construction cannot remain elevated indefinitely.

By State

Monthly State building approvals can be volatile. This month was once again no exception, with all States recording a fall in residential building approvals. Approvals in NSW fell 15.7% in October, following a decline of 14.4% in September. The slump in NSW residential building approvals over the past two months was driven by large declines in approvals for apartments, although approvals for houses also weakened. After NSW, the largest fall was in WA (-14.3%), followed by Queensland (-9.8%), South Australia (-8.4%), Tasmania (-3.2%) and Victoria (-2.7%).

A better gauge of activity in the States and Territories is gleaned from annual growth in trend terms. Trend numbers look through the month-to-month volatility. Over the year to October, trend approvals in NSW increased by 5.4%. Trend approvals in the ACT rose from 301 in October 2015 to 594 in October 2016, an increase of 97.3%. All other States and territories registered declines in building approvals in trend terms for the year to October. The largest decline was in the Northern Territory (-31.6%), followed by Tasmania (-30.6%), Western Australia (-28.4%), SA (-17.7%), Queensland (-16.4%) and Victoria (-7.0%).

Outlook

For several years now, building approvals have held at elevated levels, supported by low interest rates and rising house prices. The long lead time between approvals and construction suggests that construction activity is likely to remain firm well into 2017.

Building approvals were much weaker than expected in October. Taken with weakness in prior months it suggests that the cycle has turned. This recent data suggests after a period of solid activity in residential construction over the next year, a downturn appears likely in 12 to 18 months.

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