Data Snapshot

Tuesday, 31 May 2016

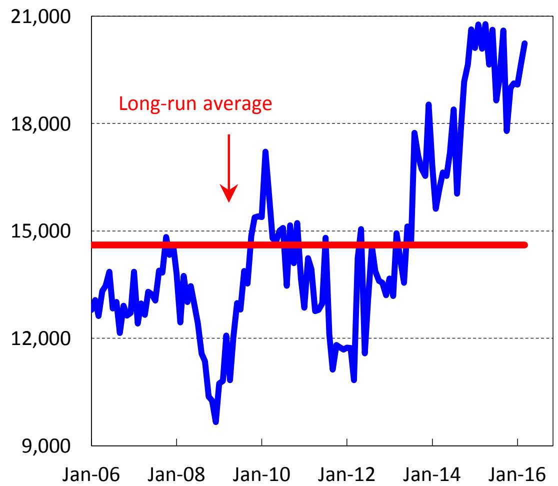
Bank of Melbourne

Building Approvals & Current Account

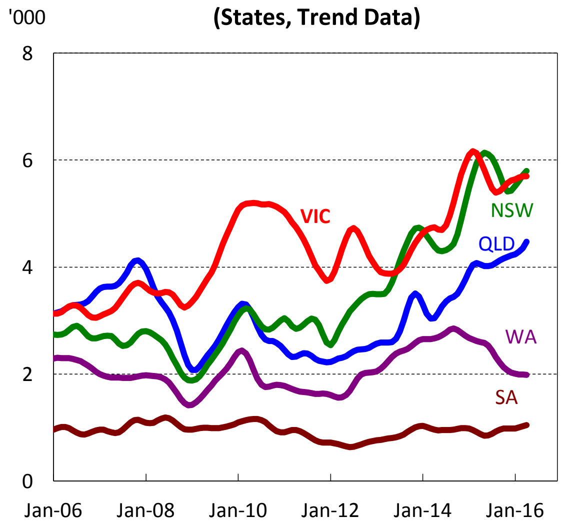
Two Key Engines of Growth

- **Today we received evidence that two key areas of strength in the domestic economy remain healthy – housing and exports.**
- **Building approvals lifted 3.0% in April, against expectations for a fall in the month. The number of approvals in April was just 2.5% shy of the record high posted in March 2015. Softer conditions in the housing market had translated to a moderation in the growth of building approvals. However, residential construction appears set to stay at a relatively high level. While approvals are down from their 2015 peaks, activity is plateauing rather than falling.**
- **In trend terms, approvals in NSW, Victoria, Western Australia, Northern Territory and Tasmania were down on a year ago. The States with positive annual growth in trend terms were Queensland, South Australia and the ACT.**
- **The current account deficit narrowed $1.8bn to $20.8bn in the March quarter. The improvement largely reflected a reduction in the deficit of the goods and services balance. Net exports are estimated to contribute 1.1 percentage points to GDP growth in the March quarter.**
- **The stronger-than-expected contribution from net exports combined with data over the past few days have led us to upgrade our GDP growth forecasts to 0.9% in the March quarter, and 3.0% for the year.**

Number of Building Approvals
(seasonally adjusted)



Number of Building Approvals
(States, Trend Data)



Building Approvals

Building approvals lifted 3.0% in April, following a 2.9% increase in March. The gain went against expectations for a fall in the month. The number of approvals in April was just 2.5% shy of the record high posted in March 2015.

The persistently high level of approvals suggests a plateauing in residential building activity, stabilising near its peak.

The lift in approvals for the month was driven by multi-unit dwellings. Private sector multi-unit dwelling rose 8.7% in the month to be 13.0% higher in the year. Meanwhile, approvals for private sector houses declined 2.3% in April and fell 8.9% in the year.

On a year ago, total building approvals were 0.7% higher.

By State

The lift in approvals was driven by NSW, where approvals rose 10.4%, the third consecutive monthly increase. An upward trend has re-emerged in NSW. South Australia (13.7%), Tasmania (13.6%) and Queensland (6.7%) were the other States to witness a strong increase in approvals. There were however, declines in Victoria (-2.7%) and Western Australia (-0.6%).

The trend series, which looks through month-to-month volatility, gives us a better idea of the underlying picture within each State. In trend terms, approvals in NSW are still 4.6% lower on a year ago, despite edging higher in recent months. Approvals in Victoria (-4.7%), Western Australia (-23.6%), Northern Territory (-41.6%) and Tasmania (-23.4%) were also down in trend terms on a year ago. The States with positive annual growth in trend terms were Queensland (10.6%), South Australia (19.7%) and the ACT (27.6%).

Outlook

Softer conditions in the housing market had translated to a moderation in the growth of building approvals. However, as today's data suggests, residential construction appears set to stay at a relatively high level. While approvals are down from their 2015 peaks, activity is plateauing rather than falling. A cut to official interest rates in May and the prospect of another later this year will give the housing market another boost and keep activity elevated. We expect that low interest rates and a rising population will continue to provide support to housing construction but dwelling investment will have less of a favourable impact on economic growth over the year ahead.

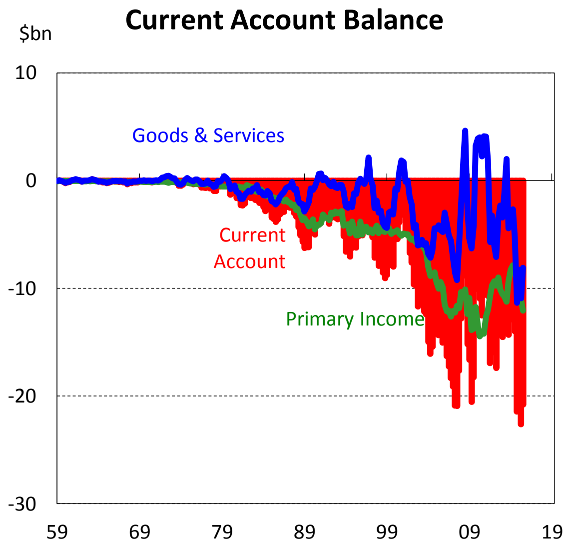
Current Account and GDP Preview

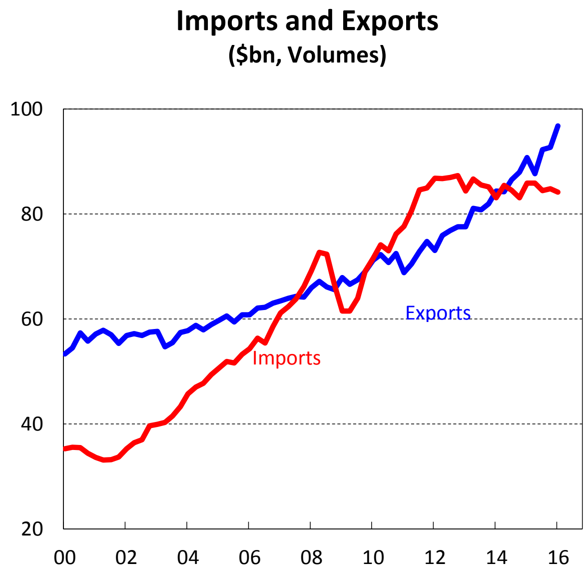
The current account deficit narrowed $1.8bn to $20.8bn in the March quarter. The improvement largely reflected a reduction in the deficit of the goods and services balance, which eased from $10.9bn to $8.1bn. However, this was partly offset by a widening of the primary income deficit from $11.1bn to $12.1bn.

Export volumes had a solid rebound in the quarter, lifting 4.4%. Meanwhile, imports declined 0.8%. Consequently, net exports are estimated to contribute 1.1 percentage points to GDP growth in the March quarter.

The stronger-than-expected contribution from net exports combined with data over the past few days have led us to upgrade our GDP growth forecasts to 0.9% in the March quarter, and 3.0% for the year.

While this would be a solid outcome, it masks some underlying weakness including soft domestic demand (which is expected to be flat). Moreover, incomes were also constrained in the quarter by falling commodity prices.





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