

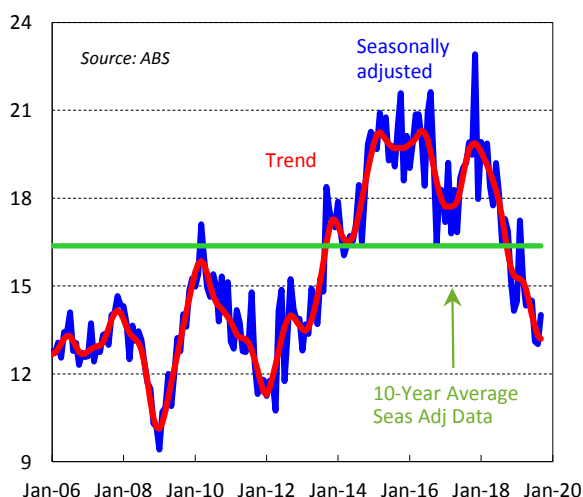
Thursday, 31 October 2019

Building Approvals

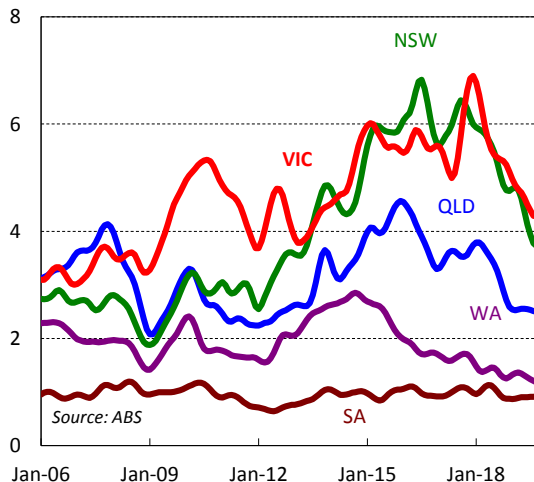
High-Rise Surge Lifts Approvals

- Building approvals rose 7.6% in September, ending three months of consecutive declines. Despite the increase in monthly terms, the level of approvals remains weak. On an annual basis, approvals were down 19.0% in September.
- By segment, multi-density building approvals outperformed, reflecting an improvement in finance approvals for construction activity in recent months. The pick-up also reflects a recovery in dwelling prices nationally, especially in Sydney and Melbourne. High-rise approvals surged 16.1% over the month. House approvals were also higher, rising by 2.7%.
- The latest increase doesn't signal the end of the prevailing weakness in residential construction. We are not at a turning point. Approvals can be volatile on a month-to-month basis and have been trending lower since last 2017. Developers have been scaling back projects in response to the slowdown in demand from its peak and uncertainty amid building-quality issues.
- There was a mixed picture by State. Following large declines in August, Queensland and South Australia drove the national result, rising 19.6% and 16.0%, respectively. Activity was more muted elsewhere; NSW registered a 2.5% fall and Victoria rose by 3.3%.
- September's monthly growth rate was the strongest since February; however, the level of approvals remains at a historically low level. The nascent recovery in house prices in Sydney and Melbourne as well as policy easing from the RBA will provide some support, but housing turnover remains low and rental vacancy rates are yet to tighten significantly, particularly in Sydney. Overall, construction activity is expected to remain weak in the near term.

Number of Building Approvals
(In Thousands)



Number of Building Approvals
(States, Trend Data)



Residential building approvals ticked up in September, ending a three month streak of declines. September's 7.6% increase was the best since February, following a 0.6% fall in August.

Despite the increase over the month, the level of approvals remains weak. On an annual basis, approvals were down 19.0% in September, after registering a 21.1% decline in August. Building approvals peaked in 2017 and since then has struggled to find momentum as falling demand and uncertainty around building quality issues have dampened activity.

By segment, multi-density building approvals outperformed, reflecting a pick-up in finance approvals for construction activity in recent months as well as a recovery in dwelling prices (especially in Sydney and Melbourne). The "other" segment of building approvals, which includes multi-density dwellings, surged 16.1% over the month.

House approvals are generally less volatile than high-rise buildings and make up a greater proportion of overall activity. House approvals grew at the fastest monthly rate since June 2018 with a 2.7% increase over the month. On an annual basis approvals were 12.0% lower than a year ago.

By State

There was a mixed picture by State. Following substantial declines in August, Queensland and South Australia saw large increases of 19.6% and 16.0%, respectively. The large increases in both of these States were driven by a surge in multi-density approvals, which are particularly volatile on a monthly basis.

Victoria recorded a modest 3.3% gain in building approvals while Tasmania rose for the third consecutive month, up 3.4% in September. New South Wales saw a decline of 2.5% over the month and approvals in Western Australia plunged 24.5% following a double-digit rise in the month before.

On an annual basis, all States except for Tasmania remained in negative territory in September. The two most populous States, Victoria and New South Wales, were the most negative on a year ago, recording declines of 27.6% and 27.2%, respectively.

Outlook

The downturn in residential construction has been a major factor behind slowing economic growth. September's uptick in approvals is a welcome sign, however, doesn't signal the end of the prevailing weakness in residential construction. Building approvals are volatile on a month-to-month basis and have been trending lower since last 2017. Developers have been scaling back projects in response to the slowdown in demand from its peak and uncertainty amid building quality issues. The lift in rental vacancy rates in Sydney suggests that the impetus for increased supply also isn't as strong. Public concerns over building quality also weigh on the outlook.

We expect the recovery in house prices in Sydney and Melbourne as well as easier monetary conditions to flow through to building approvals from their historically low level eventually, but a sustained upswing is some way off.

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