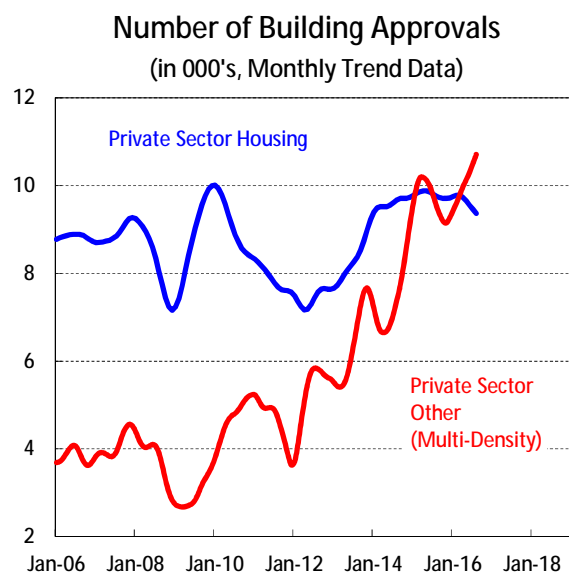
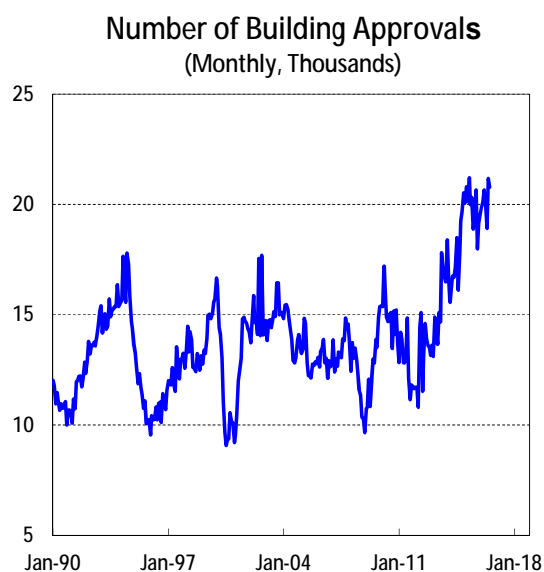


Building Approvals

Hardly Stopping For Breath

- Building approvals fell 1.8% in August but this followed a 12.0% surge in July. Approvals remain close to record levels and are up 10.1% over the year.
- The ongoing strength in approvals suggests that construction activity is likely to remain firm well into 2017.
- While activity varies from State to State, demand for housing remains strong. Interest rates are low, the population is growing, job growth is reasonable, the unemployment rate is stable and there is demand from offshore. That said, with the current pace of housing construction outpacing growth in the population, the current level of activity cannot continue indefinitely and has already turned down in some States and Territories.
- Unit developments remain at the epicentre of the boom in approvals and construction. Although approvals of 'other dwellings' or unit developments were down 2.5% in August, this followed a 24.5% increase in July. Approvals for houses have now fallen for three consecutive months with a 0.9% decline in August.
- Over the year to August approvals of units were up 28.3% while approvals for houses are down 5.8%.



Building approvals took a small step backwards in August. They fell 1.8% but this followed an upwardly revised 12.0% increase in July. Building approvals in Australia are just 1.9% below their all-time high set in May 2015 and are up 10.1% on a year earlier.

The ongoing strength in approvals suggests that construction activity is likely to remain firm well into 2017. While activity varies from State to State (see below) demand for housing remains strong. Interest rates are low, the population is growing, job growth is reasonable, the unemployment rate is stable and there is demand from offshore. That said, with the current pace of housing construction outpacing growth in the population, the current level of activity cannot continue indefinitely.

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By State

Monthly State building approvals can be volatile. This month was no exception. Following a rise of 28.0% in July, NSW reported a 2.3% decline in August. In Queensland, approvals rose 0.6% after a 12.8% lift a month earlier. South Australia backed up a 16.2% decline in July with a further 10.6% fall while Western Australia saw a 16.2% rise in July and a 14.3% decline in August. In recent months Victoria's approvals have been relatively stable. Approvals in Victoria rose 1.8% in August after declining 3.2% in July.

A better gauge of activity in the States and Territories is gleaned from examination of annual growth in trend terms. Trend numbers look through the month-to-month volatility. Over the year to August, trend approvals in NSW rose 17.5% and were up 11.9% in Victoria. At the other end of the scale, they were down 28% in Western Australia, 29% in Tasmania and 42.7% in the Northern Territory. South Australia (-2.8%) and Queensland (-0.8%) have also seen approvals fall over the year. In the ACT building approvals picked up 9.4%.

Outlook

Despite the minor pull-back in August, approvals remain close to record highs. The data shows that demand for property in NSW, Victoria and the ACT is high. But this is not the case in the other States and Territories. At some point the overall cycle will turn – but not yet. Low interest rates, population growth, ongoing job creation and foreign demand suggests that activity will remain firm in the nation's two largest cities (and Canberra) well into 2017. In Western Australia and the Northern Territory the cycle of approvals has already turned.

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The Detail

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