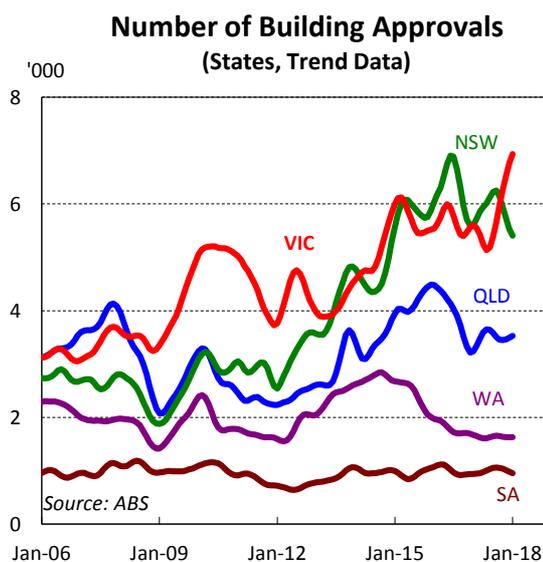
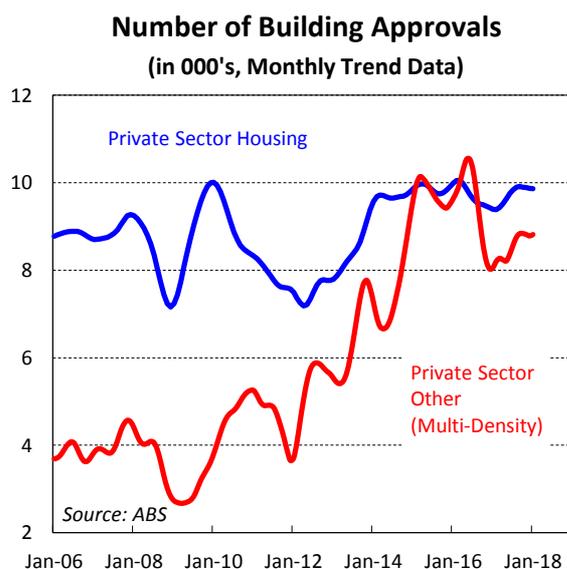


## Building Approvals

### The Party is Not Quite Over Yet

- Building approvals surged 17.1% in January, continuing the extremely volatile run over recent months. The jump followed a 20.6% decline in December and a 13.0% increase in November.
- Recent volatility has been driven by approvals in the private sector “other” dwellings category. This category tends to be volatile as it includes lumpy apartment projects. Private sector “other” dwellings jumped 42.2% in January, following a 39.7% decline in December.
- The sizeable increase in January was driven by a surge in approvals in NSW (29.7%) and Victoria (21.0%), but followed large declines in December. Higher-density building has been more prevalent in these States, driving recent volatility. Approvals in both these States continue to be well above their long-run averages.
- Building approvals are continuing to trend sideways at an elevated level, suggesting residential construction is set to remain buoyant over the next 12-18 months. However, a moderation in house price growth is expected to flow through to a broader weakening in housing conditions, including residential construction. High household debt levels and the regulatory measures impacting investors are expected to influence housing demand. Nonetheless, ongoing strong population growth and the solid labour market should mitigate the cyclical downturn in the housing market.



Building approvals surged 17.1% in January, continuing the extremely volatile run over recent months. The jump followed a 20.6% decline in December and a 13.0% increase in November.

Looking through recent volatility, approvals are pointing to residential construction staying at an elevated level. The number of approvals at 19,851 in January was 9.7% lower than the peak in August 2016, but 12.0% higher than a year ago.

As a trend, approvals were 0.1% higher in January, the first increase in four months.

Recent volatility has been driven by approvals in the private sector “other” dwellings category. This category tends to be volatile as it includes lumpy apartment projects.

Private sector “other” dwellings jumped 42.2% in January, following a 39.7% decline in December and a 32.2% increase in November.

Approvals in the less volatile private sector houses category declined 1.1% in January, but have also stabilised at a high level. On a year ago, private sector house approvals were up 6.0% in January.

### **By State**

The sizeable increase in January was driven by a surge in approvals in NSW (29.7%) and Victoria (21.0%), but followed large declines in December. Higher-density building has been more prevalent in these States, driving recent volatility. Approvals in both these States continue to be well above their long-run averages, suggesting housing activity is still buoyant in Sydney and Melbourne.

Among other States, there were modest increases in Queensland (7.0%), Western Australia (2.3%) and Tasmania (1.9%), while approvals declined in South Australia (-1.0%).

On an annual basis, there was double-digit growth in Victoria (22.5%), Queensland (24.5%) and Tasmania (34.3%). NSW rose modestly, lifting 3.3%. Meanwhile, South Australia (-2.0%) and Western Australia (-3.3%) were down in the year.

### **Outlook**

Building approvals are continuing to trend sideways at an elevated level, suggesting residential construction is set to remain buoyant over the next 12-18 months. However, a moderation in house price growth is expected to flow through to a broader weakening in housing conditions including residential construction. High household debt levels and the regulatory measures impacting investors are expected to influence housing demand. Nonetheless, ongoing strong population growth and the solid labour market will mitigate the cyclical downturn in the housing market.

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