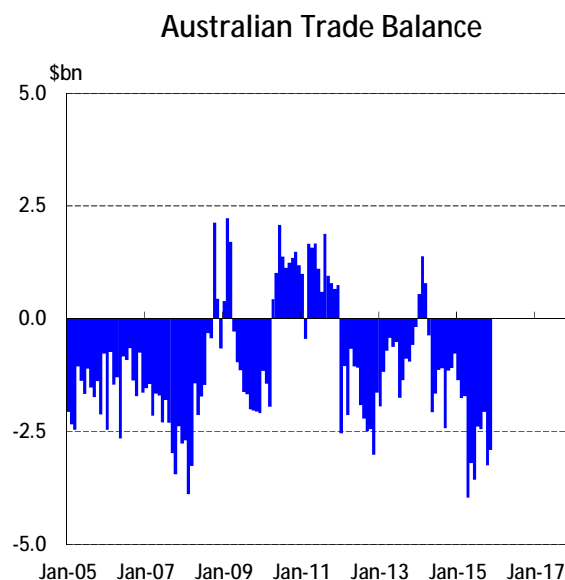
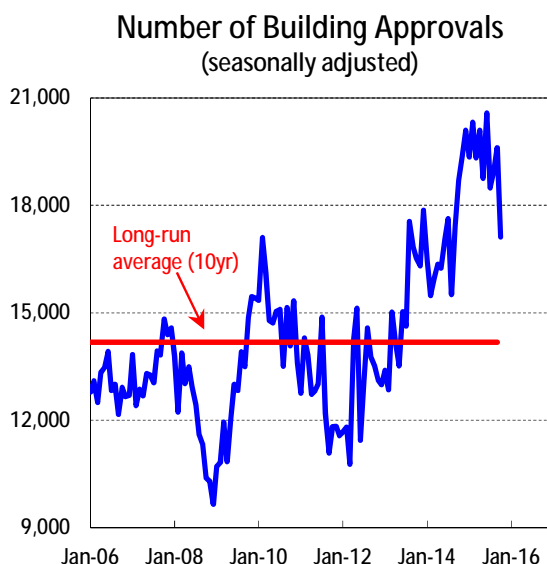


Building Approvals & Trade

Approvals down. Trade Balance Better

- Building approvals fell 12.7% in November, after a 3.3% increase in October. The number of new approvals fell to just over 17,000 the lowest level since September 2014.
- The weakness in building approvals in November was driven entirely by approvals of 'other' dwellings which includes apartments and tends to be very volatile month-to-month.
- There were significant reversals in several of the States. Victoria, Western Australia and South Australia all saw declines while NSW, Queensland and Tasmania saw approvals rise.
- Further transport infrastructure developments, land rezoning, population growth, foreign demand and low interest rates suggest that demand for housing and housing construction will remain solid but the pace of housing construction will abate during 2016-17.
- Australia's trade position is improving it fits and starts. Weaker commodity prices are working against a rise in volumes.



Building approvals fell 12.7% in November, after a 3.3% increase in October. The number of new approvals fell to just over 17,000 the lowest level since September 2014. While this is disappointing, approvals remain well above the ten year average and have come off record high levels. The record of 20,576 approvals was set in July 2015. For the year to November, building approvals are down 8.4%, the first annualised decline since a hiccup in September 2014. At its recent peak in March 2015, the annual pace of growth in approvals was running at 31.2%.

The weakness in building approvals in November was driven entirely by approvals of 'other' dwellings which includes apartments and tends to be very volatile month-to-month. Approvals for 'other dwellings' fell 24.0% in November after rising 8.9% in October and 8.3% in September. House approvals were down just 0.6% in November but it was the third consecutive month of decline. For the year to November, private house approvals are down 1.8%, whereas approvals of 'other' dwellings have fallen 14.1%. There is still a solid pipeline of apartment construction for the months ahead but that pipeline is narrowing.

States

The State data displayed its usual month-to-month volatility. There were significant reversals in several of the States. Victoria saw a decline of 35.5% in November following a 20.6% increase in October while approvals in Western Australia fell 16.3%, its third consecutive month of declines. South Australia (-10.4%) also experienced a decline but this came after a 24.5% rise in October. NSW reported a 1.0% increase following a rise of 20.3% in October. Queensland posted a 9.4% rise coming after a 28.6% fall in October.

Annual trend data gives a better picture of the residential construction outlook for the States. For the year to November, growth in building approvals was solid in NSW (11.6%), firm in Queensland (11.0%) and the Northern Territory (7.0%) and modest in South Australia (4.8%). The outlook for the ACT (-2.0%), Victoria (-11.7%) and Western Australia (-26.3%) is not so bright. Although the outcomes over the year for NSW, Queensland are still positive, they represent significantly slower growth than at the same time last year. For South Australia and the Northern Territory the results for the year to November represent a pick-up in activity.

Outlook

At the national level, construction work on residential housing is set to remain firm during 2016 but not at the levels as in 2015. At the State and Territory level, activity is likely to be muted in Victoria, Western Australia unless there is an upward reversal in approvals in the months ahead. In these regions, the supply and demand for housing is closer to balance. In NSW, this is not the case with a relative shortage still apparent. South Australia appears to be in a mild upswing while the ACT continues to upgrade its housing stock and rebuild following its asbestos issues.

Further transport infrastructure developments, land rezoning, population growth, foreign demand and low interest rates suggest that demand for housing and housing construction will remain solid but the pace of housing construction will abate during 2016-17.

International Trade

The trade deficit narrowed to \$2.9bn in November, down from a revised deficit of \$3.2bn in October. The improvement reflected a rise in exports of 0.6%, while imports fell by 0.6%.

The value of exports was prevented from rising further by commodity prices which were 4.7% weaker in US dollar terms during November with the spot price of iron ore down 13.7%. The export value of metal ores & minerals (-0.3%) and coal (-1.5%) fell but this was offset by a sharp 35.7% increase in the value of 'other rural' exports which includes dairy products.

Imports of consumption goods (0.8%) and capital goods (1.2%) rose in November but imports of intermediate goods fell 1.7%.

Outlook

Australia's trade position is improving it fits and starts. Weaker commodity prices are working against a rise in volumes. LNG exports are set to jump as the new major LNG plants off Gladstone ramp up their output. The decline in the AUD over the past few years is aiding exports of manufactured goods by providing a boost to competitiveness but it also lifts the price of imported capital equipment.

A stabilization or improvement in commodity prices would be welcome but cannot be taken for granted.

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