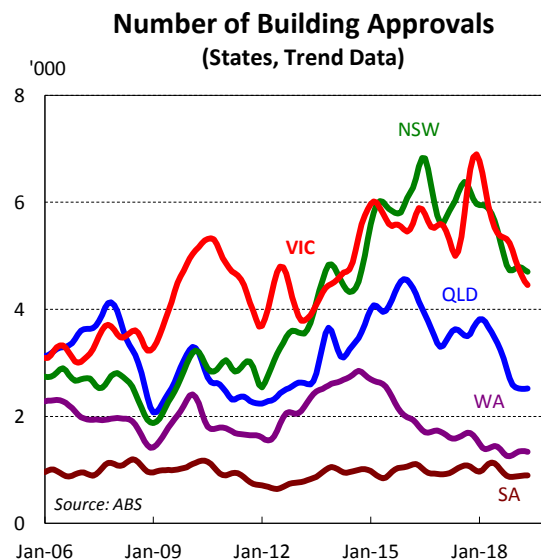
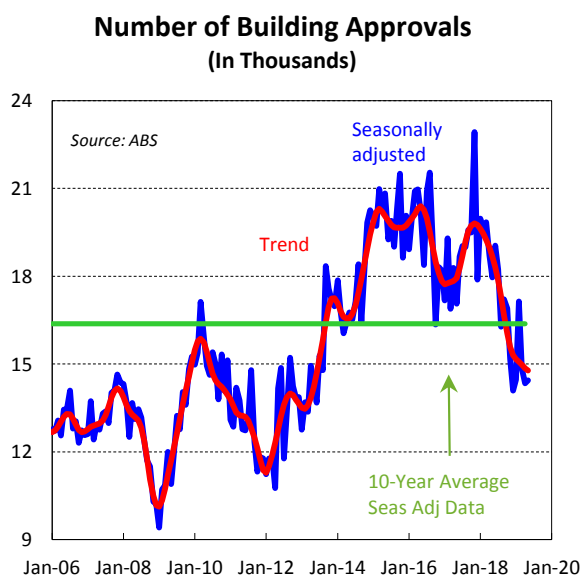


Building Approvals Cold Comfort

- Building approvals rose for the first time in three months in May, lifting 0.7%. The small increase however, was cold comfort after the sizeable declines over the previous two months of 13.4% and 3.4%, respectively. On an annual basis, approvals were down 19.6% in May.
- Despite the lift in the month, approvals continue to be on a downward trend and are pointing to ongoing weakness in residential construction. Approvals data is volatile month-to-month.
- Only Victoria recorded a lift in approvals in May, driven by a surge in approvals of private sector apartments. Approvals were flat in NSW, and there was weakness in the remaining States.
- Housing prices have appeared to stabilise in Sydney and Melbourne, and auction clearance rates in these two capital cities have lifted. Nonetheless, home lending remains weak, and while the latest two rate cuts from the RBA will provide some support, a renewed upswing in housing prices isn't expected anytime soon. This would also suggest limited scope that residential construction will turn a corner.



Building approvals rose for the first time in three months in May, lifting 0.7%. It was however, a small increase after the sizeable declines over the previous two months of 13.4% and 3.4%, respectively. On an annual basis, approvals were down 19.6% in May. Approvals are continuing to trend downwards – in trend terms, they have declined for 18 consecutive months.

Approvals in private sector houses fell 0.3% in May, which was the fourth consecutive decline. This downward momentum suggests further underlying weakness in residential construction.

The more volatile private sector “other” approvals, which includes apartments, lifted 1.2% after

declining 25.7% in March and 5.1% in April.

By State

Only Victoria recorded a lift in approvals, rising 14.4%, and driven by a 44.0% increase in approvals of private sector apartments. Approvals were flat in NSW, and there was weakness in the remaining States including Queensland (-6.3%), South Australia (-2.9%), Western Australia (-4.7%) and Tasmania (-1.2%).

On an annual basis, building approvals were in decline in all States, led by South Australia (-41.3%), followed by Victoria (-24.1%), NSW (-18.8%), Western Australia (-15.3%), Victoria (-24.1%), Queensland (-10.0%) and Tasmania (-5.1%).

Outlook

Housing prices have appeared to stabilise in Sydney and Melbourne, and auction clearance rates in these two capital cities have lifted. Nonetheless, home lending remains weak, and while the latest two rate cuts from the RBA will provide some support, a renewed upswing in housing prices isn't expected anytime soon.

In spite of the small lift in building approvals today, it is too early to say that residential construction will stabilise in spite of the more positive signs in other housing indicators. Approvals data is volatile month-to-month, and the ongoing soft trend continues to point to weakness in residential construction.

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