Building Approvals

In a Holding Pattern For Now

- Building approvals have stabilised in recent months. They edged 0.4% higher in August, following a 1.2% fall in July. On a year ago, approvals are down 15.4% from the peak struck in August last year.

- The data continues to suggest that the construction cycle has passed a peak. However, with approvals at around 18,500 per month over the last three months, they still suggest that residential construction will maintain at relatively high levels.

- On an annual basis, approvals were down in most States. NSW (-30.6%) had the largest percentage decline, reflecting the significant amount of approvals last year. Approvals were also in decline on an annual basis in Western Australia (-12.3%), and Victoria (-10.1%). South Australia (22.6%) and Tasmania (39.5%) were the only States to see approvals increase in the year.

- In time, the tighter conditions on home lending which is impacting negatively on demand will flow on to weaker residential construction. Moreover, the impact of residential construction on economic growth will continue to be less favourable than in recent years. Today’s data however, points to an ongoing high level of residential construction and suggesting that the risk of a large drag on the economy over the near-term has lessened.
Building approvals have stabilised in recent months. They edged 0.4% higher in August, following a 1.2% fall in July. On a year ago, approvals are down 15.4% from the peak struck in August last year. However, with approvals at around 18,500 per month over the last three months, they still suggest that residential construction will maintain at relatively high levels.

The decline in approvals over the past year has largely reflected a pullback in unit approvals. In the year to August, private sector “other” dwellings, which includes units and apartments, declined 29.2%. Meanwhile, private sector houses were 3.1% higher in the year to August.

In the month of August, approvals of private sector houses 0.6% declined and the usually volatile private sector “other” dwellings lifted 4.8%, following a 6.6% decline in July.

By State

Approvals were varied cross the States. In NSW (-9.5%) and Western Australia (-7.3%), approvals declined sharply and fell modestly in Victoria (-0.5%). Approvals rose in Queensland (13.2%), South Australia (3.7%) and Tasmania (27.0%).

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Outlook

The recent stabilising in approvals point to residential construction staying elevated in the near-term. However, in time the tighter conditions on home lending which is impacting negatively on demand will flow on to weaker residential construction.

Moreover, given the peak has likely passed the impact of residential construction on economic growth will continue to be less favourable than in recent years. Today’s data however, points to an ongoing high level of residential construction and suggesting that the risk of a large drag on the economy over the near-term has lessened.

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