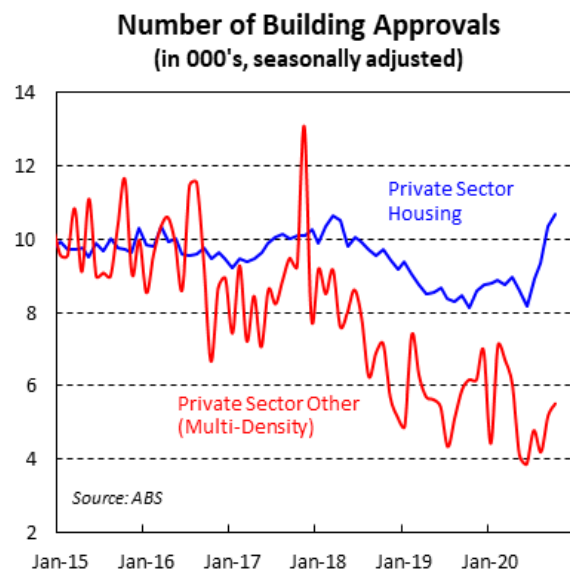
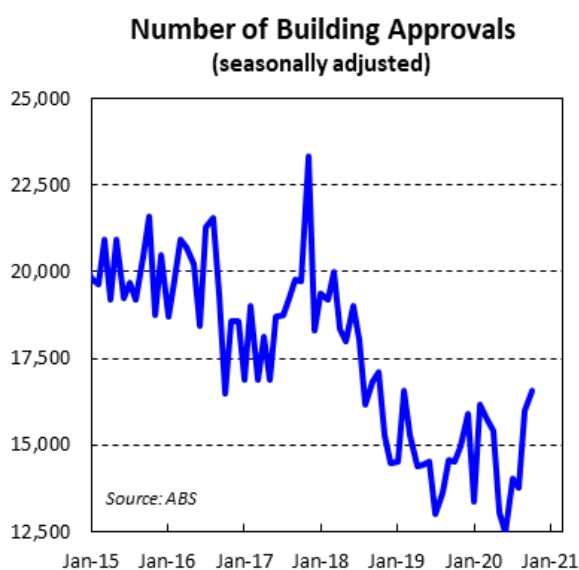


Tuesday, 01 December 2020

## Building Approvals The Trough Has Passed

- Building approvals rose 3.8% in October, following a revised climb of 16.2% in September. In annual terms, building approvals rose 14.3%, the strongest growth rate since March 2018. Over 16,500 new dwellings were approved in October, the highest level in over two years.
- Building approvals have risen for four consecutive months. Indeed, approvals are up 7.6% since the end of April, reflecting an upturn underway in dwelling prices.
- Other (or multi-density) approvals were up 6.2% in October but are still down 10.6% on October 2019. The strength came mostly from NSW, which recorded a massive 105.7% increase in October for this segment.
- Private-sector-house approvals rose 3.1% in October to be up 31.7% on a year earlier. These approvals have had four consecutive months of growth and the annual rate is the highest since February 2010.
- The lift in approvals was led by NSW. Across other States, the performance was mixed.
- There are risks facing the housing sector in the months ahead. A potential rise in unemployment coupled with slower population growth could continue to weigh on approvals. But measures announced in the Federal Budget and ultra-low interest rates should continue to support demand for housing in the months ahead. Additional stimulus measures announced in several recent State Budgets should also contribute to a further recovery in building approvals in the months ahead.



Building approvals rose 3.8% in October, following a revised climb of 16.2% in September. In annual terms, building approvals rose 14.3%, the strongest growth rate since March 2018. Over 16,500 new dwellings were approved in October, the highest level in over two years. The level of approvals also moved above the long-run average for the first time this year.

Building approvals have risen for four consecutive months. Indeed, approvals are up 7.6% since the end of April, reflecting an upturn underway in dwelling prices. The trough in building approvals has likely now passed.

The solid result could also be attributed to the stimulus measures announced in the 2020-21 Federal Budget, notably the HomeBuilder program and the extension of the First Home Loan Deposit Scheme, and the low level of interest rates on offer.

Other (or multi-density) approvals were up 6.2% in October but are still down 10.6% on October 2019. The strength came mostly from NSW, which recorded a massive 105.7% increase in approvals in this segment. Most other States recorded falls in October, notably Victoria (30.4%) and South Australia (21.8%).

Private-sector-house approvals rose 3.1% in October to be up 31.7% on a year earlier and have now seen four consecutive months of growth. The annual rate is the highest since February 2010.

The performance of the States was mixed in October. NSW and Western Australia recorded the strongest growth rates in the month at 32.1% and 29.7%, respectively. Victoria reported the weakest outcome, which was a 15.0% decline.

Approvals in other States recorded milder falls in October. Tasmania declined 3.4%, followed by South Australia (2.4%) and Queensland (0.8%).

In annual terms, State outcomes were also mixed. Western Australia recorded a 96.3% increase over the year to October, the fastest growth rate since April 2013. The strong result came from the solid monthly increases in private-housing approvals over the past three months. In October, private-housing approvals soared 37.5%, the highest rate in over 23 years.

NSW recorded the second highest annual rate across the States at 39.6% in the year to October, the fastest pace in four years. In the year to September, this rate was negative 9.7%, revealing the strength of the growth in apartments in the month of October. Private-housing approvals in NSW slid 4.2% in October.

Tasmania (1.4%) and Victoria (1.0%) recorded timid increases in annual terms, while Queensland and South Australia recorded contractions of 9.3% and 16.9%, respectively.

## **Outlook**

The recent trend in approvals is encouraging. However, there are risks facing the housing sector in the months ahead. A potential rise in unemployment, coupled with slower population growth could continue to weigh on approvals. However, measures announced by the Federal Budget and ultra-low interest rates should continue to support demand for housing in the months ahead. Additional stimulus measures announced in several recent State Budgets, notably Victoria's \$6.0 billion investment in housing over the next four years, should also contribute to stronger building approvals ahead.

We expect the recovery in building approvals to continue, but this recovery is likely to be fraught with volatility.

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