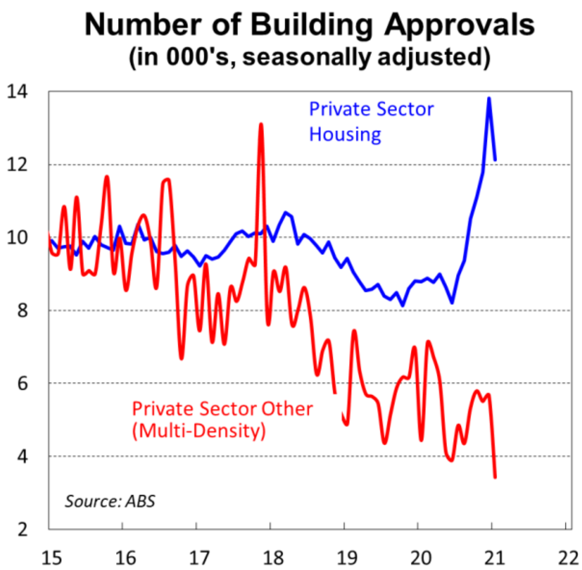
Tuesday, 2 March 2021

Building Approvals

Approvals Drop as HomeBuilder Pared

- **Building approvals fell 19.4% in January after a run of strong growth and are now slightly below their pre-COVID peak. Approvals are still up 19.0% over the year.**
- **Approvals for private houses declined by 12.2% in January, after hitting a record level in December, but remain 38.0% higher over the year.**
- **Approvals for multi-density dwellings (i.e. apartments and townhouses) fell 39.5% in January, reaching their lowest level since 2012.**
- **The decline in building approvals was broad-based across states. The overarching trend remains the outperformance of the smaller or less densely populated states. Queensland had the largest fall, with approvals declining by 33.3% in January. Approvals dropped 24.8% in Tasmania and 23.2% in New South Wales. Declines were less severe in other parts of the country.**
- **We see the decline in building approvals this month as largely transitory. It was driven by an unwinding of the bring-forward of approvals ahead of the tapering of HomeBuilder on 1 January. The conclusion of JobKeeper and other temporary income support measures may also weigh in the months ahead.**
- **Looking through these short-term factors, housing demand will be supported by historically low mortgage rates and the strengthening economic recovery. Furthermore, the upswing in the house prices could intensify when international borders reopen.**



Building approvals fell 19.4% in January after a run of strong growth and are now slightly below their pre-COVID peak. Approvals are still up 19.0% over the year.

The decline in January reflects an unwinding of the bring-forward of approvals ahead of the tapering of HomeBuilder on 1 January. There was a big rush to meet the deadline to qualify for the $25,000 grant. The scheme has now been extended through to March, with the grant pared back to $15,000.

Approvals for private houses declined by 12.2% in January, after hitting a record level in December, but remain 38.0% higher over the year.

Approvals for multi-density dwellings (ie. apartments and townhouses) fell 39.5% in January, reaching their lowest level since 2012. Much of the weakness in this segment has been driven by the slowdown in approvals for high-rise apartments.

Non-residential building approvals declined 19.5% in the month. We are not reading into this too much as these data have largely chopped around a flat trend for several years.

States

The decline in building approvals was broad-based across states. The overarching trend remains the outperformance of the smaller or less densely populated states.

Queensland had the largest fall, with approvals declining by 33.3% in January. Approvals dropped 24.8% in Tasmania and 23.2% in New South Wales. Declines were less severe in other parts of the country, with Victoria down 13.0% and Western Australia down 4.1%. Approvals were largely unchanged in South Australia.

Over the year, growth in total dwelling approvals is much stronger in the smaller or less densely populated states, consistent with the patterns in house prices. Western Australia (125.8%), South Australia (57.9%) and Tasmania (40.3%) have all recorded very solid growth. Building approvals in Western Australia and South Australia posted their strongest year-ended growth in over six years. Annual growth is muted in New South Wales (-1.0%) and Victoria (7.6%). This reflects several factors:

- COVID-related disruptions have been milder in the smaller capital cities,
- A reversal in internal migration flows (Sydney and Melbourne are now seeing a net outflow), and
- A stronger uptake of HomeBuilder in the smaller states, since a larger proportion of dwellings meet the price cap and commencement guidelines. For example, many homes in Sydney and Melbourne did not fall under the original $750,000 price cap.

Outlook

We see the decline in building approvals this month as largely transitory, reflecting bring-forward in demand due to HomeBuilder. We still expect strong growth in new dwelling construction and renovation activity in the near term. Some heat may come out of building approvals when the extended HomeBuilder scheme expires at the end of March. The unwinding of JobKeeper and other temporary income support measures may also weigh on the housing market in the months ahead. However, looking through these short-term factors, housing demand will be supported by historically low mortgage rates and the strengthening economic recovery. Furthermore, the upswing in housing prices could intensify when international borders reopen.

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