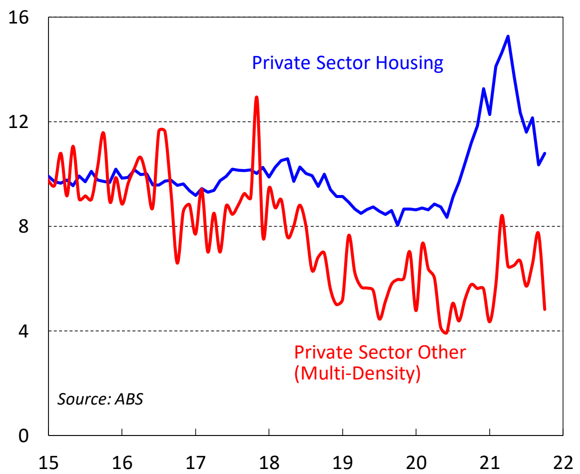
Tuesday, 30 November 2021

Building Approvals

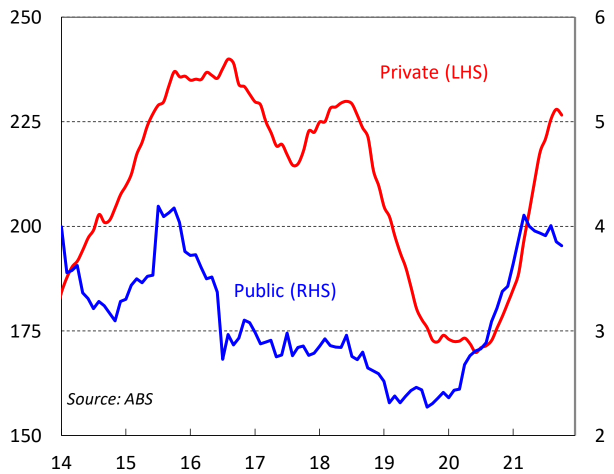
Approvals Dip But Pipeline Booming

- **Building approvals continued to decline in October, landing broadly in line with pre-pandemic levels. Approvals fell 12.9%, marking the largest monthly fall since May 2020. However, this is off a record high earlier in 2021, underpinned by government stimulus measures, such as HomeBuilder, and low interest rates.**
- **The headline number masks early signs of stabilisation in building approvals. The fall in October was driven by a 37.5% fall in multi-density dwellings approvals (apartments and townhouses), a category which is volatile month to month.**
- **In contrast, private sector house approvals actually increased 4.3% in October. This likely partly reflects a rebound from lockdown disruptions, but could also suggest that the HomeBuilder unwind has mostly run its course.**
- **Private sector house approvals remain 24.6% higher than pre-COVID levels. It is reasonable to assume private sector house approvals will settle around a higher level than before the pandemic, at least in the near term. Demand for dwellings remains very strong, supported by low lending rates.**
- **The sharp run up in approvals over the past 12 months means levels are around those reached during the construction boom between 2015 and 2018. This has created a solid pipeline of construction activity which will bolster the economic recovery from the Delta lockdowns.**
- **While new uncertainties have been thrown up by the emergence of the Omicron variant, it is too early to tell if these developments will have significant economic ramifications.**

Building Approvals
(000s, no, monthly, seasonally adjusted)



Building Approvals
(000s, no, 12-month rolling sum)

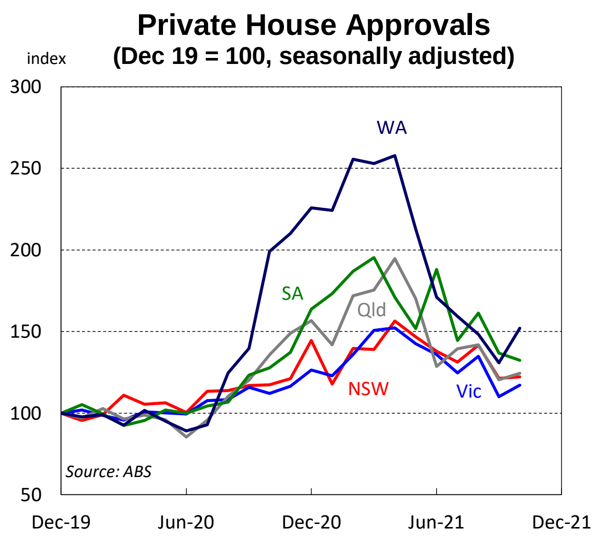


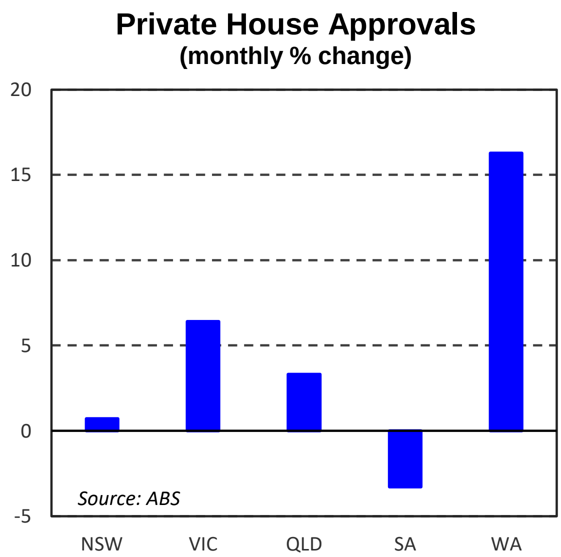
Building approvals continued to decline in October, landing broadly in line with pre-pandemic levels, as at December 2019. Approvals fell 12.9% in October and have declined in six out of the past seven months. This is the largest monthly fall since May 2020. However, this is off a record high earlier in 2021, underpinned by government stimulus measures, such as HomeBuilder, and low interest rates.

The headline number masks early signs of stabilisation in building approvals. The fall in October was driven by a 37.5% fall in multi-density dwellings (apartments and townhouses). This category is volatile month to month.

In contrast, private sector house approvals actually increased 4.3% in October. Much of the pullback in house approvals since around the middle of the year reflects the unwinding of the bring-forward in demand associated with government stimulus programs. Lockdowns in recent months have also buffeted approvals as restrictions impeded activity in the housing market.

The increase in private sector house approvals in October likely partly reflects a rebound from lockdown disruptions, but could also suggest that the Homebuilder unwind has mostly run its course. Private sector house approvals remain 24.6% higher than pre-COVID levels. This category may still be supported a little by the trailing impact from HomeBuilder. However, it is reasonable to assume private sector house approvals will settle around a higher level than before the pandemic, at least in the near-term. Demand for dwellings remains very strong, supported by low lending rates. Granted, fixed rates have started to edge higher in recent months, but lending rates are still very low relative to historical levels.





Private sector house approvals rose across all states, except SA where approvals dipped 3.3%. The largest rise was in WA (16.3%) followed by Victoria (6.4%). There were more modest gains in Queensland (3.3%) and NSW (0.7%). Private sector house approvals are now hovering around 15%–50% above their pre-COVID levels across the country. Private sector multi-density approvals fell across all states.

The run-up in approvals has created a significant pipeline of construction activity which will support the economic recovery. In fact, the sum of private sector approvals over the past 12 months is around the levels reached during the construction boom between 2015 and 2018. The rolling 12-month sum of public sector approvals have also lifted significantly, reaching their highest level since 2015, as government spending helps to boost the recovery.

The value of non-residential approvals fell 20.9% in October, although this is a volatile series.

Outlook

The unwinding of policy effects may to be coming to a conclusion but underlying demand remain robust. Notably, private sector housing approvals remain well above pre-pandemic levels. The sharp run up in approvals over the past 12 months has created a solid pipeline of construction activity which will bolster the economic recovery from the Delta lockdowns. Nevertheless, new uncertainties have been thrown up by the emergence of the Omicron variant. However, it is too early to tell if these developments will have significant economic ramifications.

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