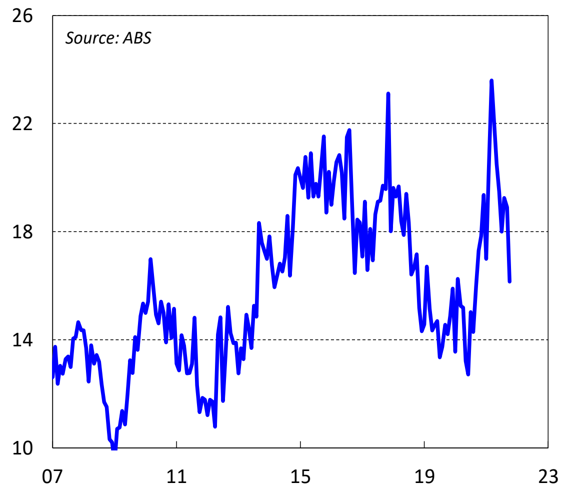
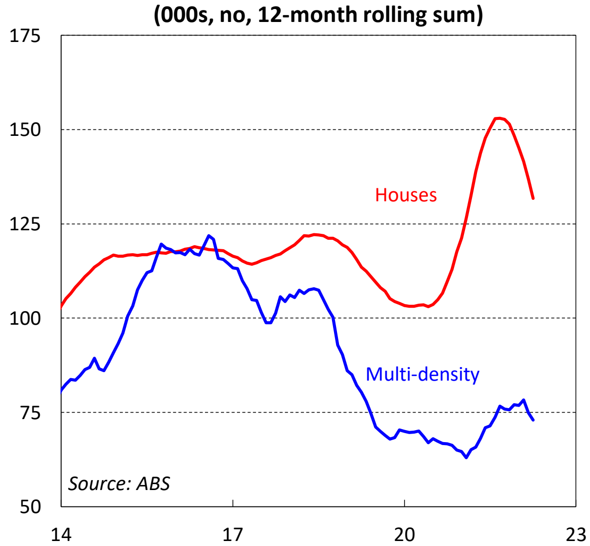
Building Approvals
Cycle Turns As Sugar Hit Wanes

- **Building approvals declined 2.4% in April. Approvals are now 36.8% below the peak from March 2021. Demand has been supercharged by low rates and government support. But demand is softening as government stimulus unwinds and the cash rate begins to move higher.**
- **Private building approvals declined by 1.7% in April, driven by a 6.1% fall in multi-density approvals. Private house approvals edged up 0.5% but have declined in 8 of the past 12 months. Note private house approvals are coming off a high level and remain elevated relative to history.**
- **The pullback in private sector house approvals has been broad-based across the country following the peak in early 2021. In April, the results were mixed across the states. Sizeable gains in Queensland and South Australia were tempered by falls in NSW and Victoria.**
- **Builders are facing significant supply headwinds – labour and material shortages are major impediments. Reserve Bank liaison indicates that construction delays are common. A detached home typically takes about 6 months to build but is currently averaging around 9 months.**
- **These developments have flowed through to cost pressures which are squeezing the already thin margins of builders. This has led to the collapse of a number of high-profile developers, and put other industry-players under strain.**
- **Demand for private residential construction will inevitably soften further as interest rates rise. However, the strength of the labour market, growing wages pressures, and the gradual recovery in population growth will limit the fall in demand.**

Number of Building Approvals
(in 000s, seasonally adjusted)



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



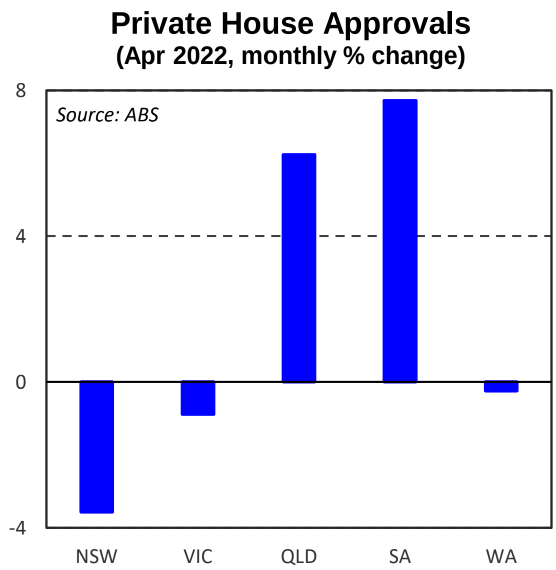
Building approvals declined 2.4% in April, following a rollercoaster few months as approvals were buffeted by the Omicron outbreak. Approvals declined to their lowest level since January and are now 36.8% below the peak from March 2021.

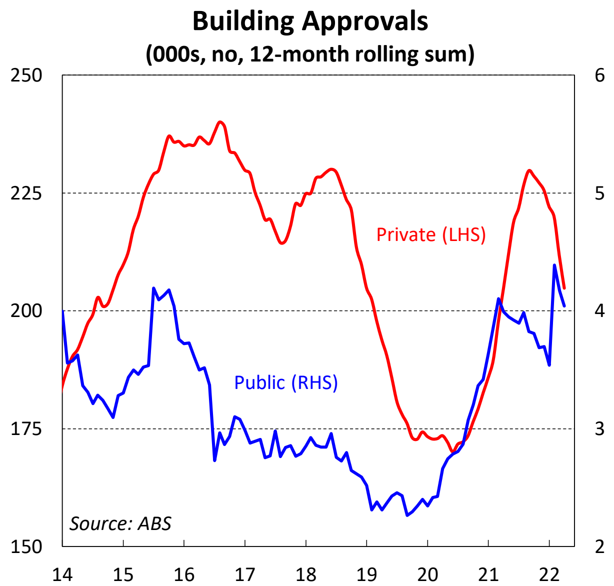
The surge in demand during the pandemic, bolstered by low interest rates and government policies, including HomeBuilder, has underpinned a large pipeline of construction. Demand is now turning as the Reserve Bank has kicked off its hiking cycle and the sugar hit from government support programs wears off.

This cycle has been characterised by an uplift in the construction of detached houses, contrasting the pick up in building around 2015, which was underpinned by multi-density developments (ie. apartments and units).

Demand for houses has been boosted by temporary government subsidies, such as HomeBuilder, and low mortgage rates. But a shift in living preferences has also played a key role, driven by changes in the way we live and work. Lockdowns and the normalisation of remote working has increased demand for living space. Many people were eager to live in houses rather than apartments.

In April, private sector building approvals declined by 1.7%, driven by a 6.1% fall in multi-density building approvals (a series which tends to be volatile). Private sector house approvals edged up 0.5%, although have declined in 8 of the past 12 months. The 12-month rolling sum of private sector house approvals is now down 13.9% from its peak in September 2021. Clearly the flow of new approvals for house building is slowing. However, private sector house approvals are coming off a very high level. In fact, in April house approvals were still more than 4% above their 10-year average.





While there is still clearly plenty of demand for construction, builders are facing significant headwinds. There is now an unusually large pipeline of detached houses that have started construction but are yet to be completed. Reserve Bank (RBA) liaison indicates that delays are common. Indeed, the RBA notes a detached home usually takes about six months to build. Currently, liaison suggests it is averaging around nine months.

Labour and material shortages are major impediments for the construction sector. Supply disruptions around the world have impacted the availability of building materials, while the very low unemployment rate is making it difficult for businesses to source labour. Extreme weather in

NSW and Queensland has also put some projects on pause in recent months.

These developments have flowed through to cost pressures which are squeezing the already thin margins of builders. This has led to the collapse of a number of high-profile developers, and put other industry-players under strain.

The pullback in private sector house approvals has been broad-based across the country following a peak in early 2021. In April, the results were mixed across the states. Sizeable gains in Queensland (6.2%) and South Australia (7.7%) were tempered by falls in NSW (-3.6%), Victoria (-0.9%) and WA (-0.2%).

Public sector approvals fell 47.4% in April, although this series is lumpy. The public sector accounts for a small share of the total number of building approvals and the approval of large public works can lead to heightened volatility.

Outlook

There is a large construction pipeline to work through, which will continue to support the economy over the coming period. Demand for private residential construction will inevitably soften as the Reserve Bank continues to hike the cash rate. However, the ongoing strength of the labour market, growing wages pressures, and the gradual recovery in population growth as migration picks up, will limit the pullback in housing demand.

Supply-side issues are front-of-mind for the construction industry. Labour and material shortages won't disappear overnight. And while there are opportunities for the sector, there are certainly challenges to navigate over the period ahead.

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