



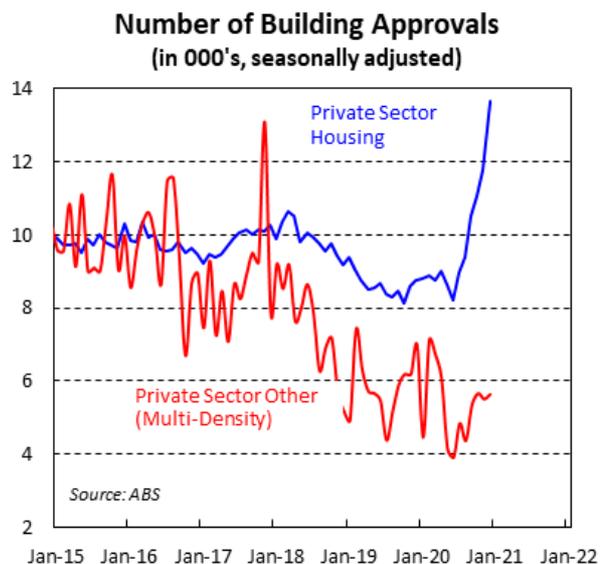
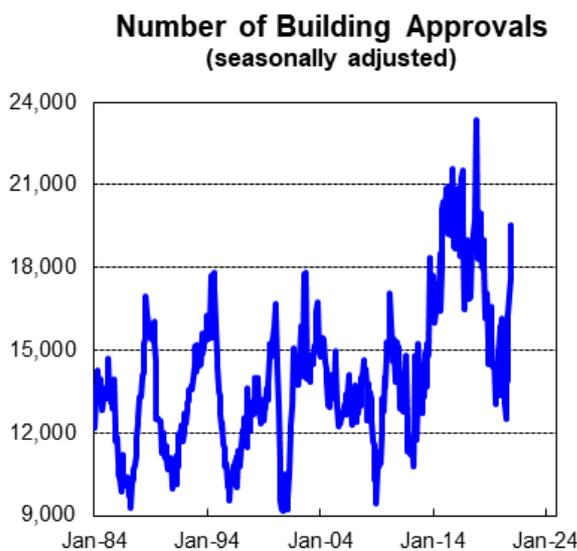
Wednesday, 3 February 2021



Building Approvals

Private House Approvals at Record High

- Building approvals rose 10.9% in December. This comes on top of a surge in activity in the previous three months. Approvals are up 22.8% on a year earlier. By any measure, this is a boom.
- Approvals of private houses rose 15.8% in December to be up 55.6% over the year. Monthly private sector house approvals are at an all-time high of 13.6k. The series began in July 1983.
- Cycles are normal in the housing industry. However, the current explosion of activity comes without the usual flow of immigrants. Population growth is muted.
- The demand for apartments is not dead. Approvals for multi-density or apartment dwellings rose 2.3% in December to 5.6k, up from a low of 3.9k in June 2020.
- Building approvals rose in all States in December 2020 and most States have seen growth on December 2019.
- Today's result points towards ongoing construction work in 2021. It should boost employment numbers, lift government tax revenue and possibly result in a rise in wages.
- Underpinning that demand will be historically low interest rates. If international borders reopen for migrants and tourists, sentiment towards housing could rise still further.



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The strong rise in activity comes courtesy of historically low interest rates, government-assistance packages and a shift towards houses rather than apartments. The latter is being driven by the fallout of COVID-19, which includes the move to working from home more.

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The demand for apartments is not dead. Approvals for multi-density or apartment dwellings rose 2.3% in December to 5.6k, up from a low of 3.9k in June 2020. Whilst we may all like to own or rent stand-alone houses, price pressures dictate that apartments will remain in demand. Over the year to December, approvals for apartment developments are down 19.3%.

States

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Victoria, which reported an 8.6% rise in approvals in December is still 18.9% down compared to December 2019. We believe this is simply a lag due to their extended lockdown. Victoria regularly approves the most homes in Australia and growth, on an annual basis, is expected to resume in coming months.

In December, approvals rose 66.5% in Tasmania, 24.0% in Queensland, 16.7% in South Australia, 7.8% in Western Australia and 1.8% in NSW.

Growth on the same month in 2019 is outstanding (with Victoria an exception). Approvals in Western Australia were up 111.2%. They were up 95.4% in Tasmania and up 83.3% in Queensland. In South Australia, approvals were up 39.1% and in NSW they were up 30.9%.

Outlook

The very strong growth in building approvals is encouraging. One risk factor, however, is the end of the JobKeeper program in March. If the expiry of this program were to lead to business failures and rising unemployment, the current strong sentiment could be dented.

With borders opening and vaccines planned for roll-out, economic growth and demand for housing should remain firm. Underpinning that demand will be historically low interest rates. The RBA has indicated that it does not expect its cash rate target to increase until at least 2024. That is adding to consumer confidence, especially around housing purchases.

If international borders reopen for migrants and tourists, sentiment towards housing could rise still further.

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