



Thursday, 3 March 2022

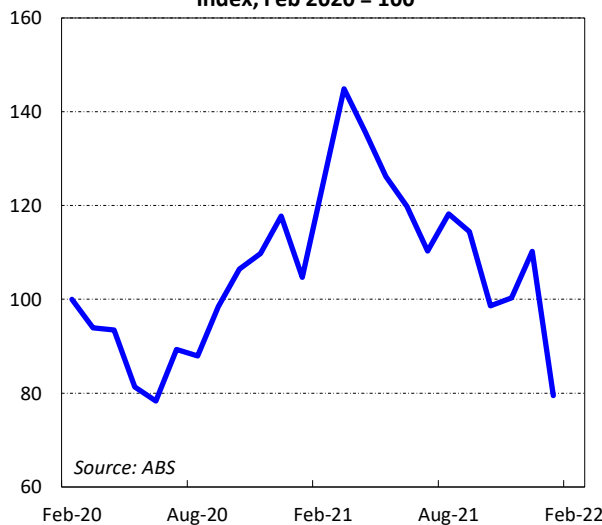


Building Approvals

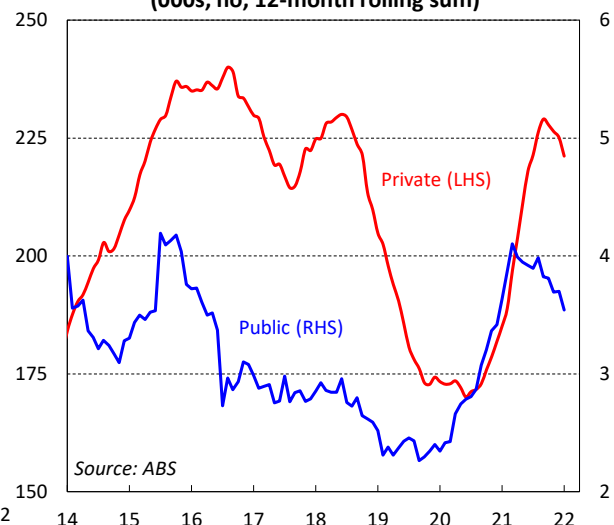
Biggest Drop in Approvals Since the '80s

- Building approvals dropped to their lowest level since June 2020, stopping just 1.5% shy of the pandemic-era trough. Approvals plunged a whopping 27.9% in January – the largest monthly fall in the history of the series going back to 1983.
- Building approvals have now shed 45.1% from their peak in March 2021, following a spectacular run up in approvals underpinned by unprecedented fiscal and monetary stimulus.
- The rapid rise in Omicron infections in January is the likely catalyst for the sharp decline. Millions of Aussies were forced into isolation, causing major disruptions across the economy. And it appears the construction industry was not immune.
- The decline in approvals was broad-based across the public and private sectors. Private-sector houses fell 17.5% in the month, the second largest fall on record. Other dwellings within the private sector (includes apartments) also plummeted in the month, falling 43.6%.
- All states reported double-digit declines in the month, apart from Queensland which bucked the trend.
- Looking beyond the implications of Omicron, dwelling demand is strong and there remains a large pipeline of residential construction work to be done. However, headwinds are growing, including affordability constraints and shortages of land, labour and building materials. In addition, we expect dwelling prices to turn lower later this year, as the Reserve Bank starts hiking rates.

Residential Dwelling Approvals
Index, Feb 2020 = 100



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



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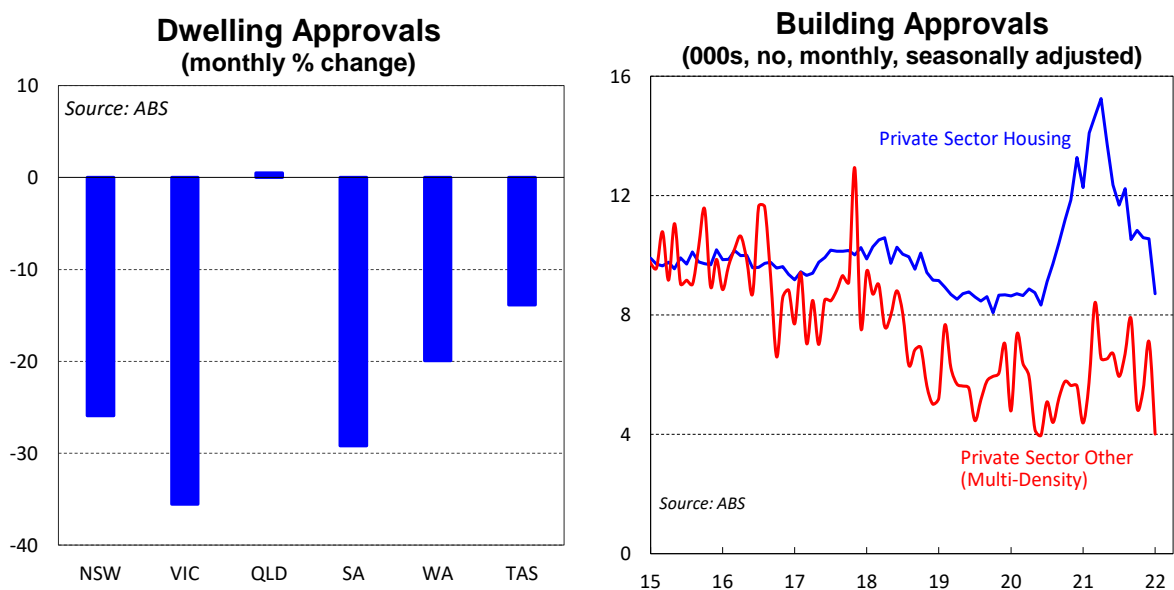
The result smashed consensus expectations of a 3.0% monthly decline and more than unwound a cumulative increase of 11.7% over November and December. Building approvals have now shed 45.1% from their peak in March 2021, following a spectacular run up in approvals underpinned by unprecedented fiscal and monetary stimulus, including the governments HomeBuilder program. The record monthly fall also takes the number of approvals more than 20% below pre-pandemic levels, as of February 2020 and extends the annual fall in approvals to 24.1%.

The rapid rise in Omicron infections across the country in January is the likely catalyst for the spectacular decline. Millions of Aussies were forced to isolate due to infection or as a ‘close contact’ in January, causing major disruptions across the economy. And it appears the construction industry was not immune.

The decline in approvals was broad-based across the public and private sectors. Private-sector houses fell 17.5% in the month, the second largest fall on record and the largest monthly fall in more than 21 years, since before the introduction of GST. The result is the third consecutive monthly fall in private-sector-house approvals, taking the number of approvals below pre-pandemic levels for the first time since June 2020. Private-sector-house approvals are 29.0% lower over the year to January and have plunged almost 43% from April’s peak.

Approvals for other dwellings within the private sector also plummeted in the month, falling 43.6%, following a 29.6% rise in December. Other dwelling approvals, which include higher density dwellings such as units and apartments, are generally more volatile month to month. However, January’s move was the second largest on record, highlighting the magnitude of the move notwithstanding the series volatility.

Public-sector houses were down 8.0% in the month, while approvals for other dwellings in the public sector almost halved – falling 47.9%. Similarly, non-residential approvals fell sharply in January, dropping 33.5%. Both public and non-residential approvals are prone to higher month to month volatility, but the direction of the move illuminates the breadth of the Omicron impact.



There was little upside in approvals across the states in January. All states reported double-digit declines in the month, apart from Queensland. QLD bucked the trend with a less than flattering

0.5% gain, underpinned by a 40.6% jump in private-sector multi-density dwellings. Victoria (-35.5%) led the declines across the states, followed by SA (-29.2%), NSW (25.9%), WA (-19.9%) and Tasmania (-13.9%).

The data tells a similar story for private-sector-house approvals, which declined by more than 10% in every state. Building approvals have returned below pre-pandemic levels in NSW, Victoria and Tasmania, while approvals in each state are below the levels seen in January 2021.

Outlook

The Omicron outbreak had a considerable impact on building approvals over January, however, the effects are expected to be short lived. Looking beyond the implications of Omicron, dwelling demand is strong. It is supported by low interest rates, and there remains a large pipeline of residential construction work to be done, which was accumulated during the run-up of approvals over late 2020 and 2021.

However, headwinds are growing, including affordability constraints and shortages of land, labour and building materials. In addition, we expect dwelling prices to turn lower later this year, as the Reserve Bank starts a rate-hike cycle.

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