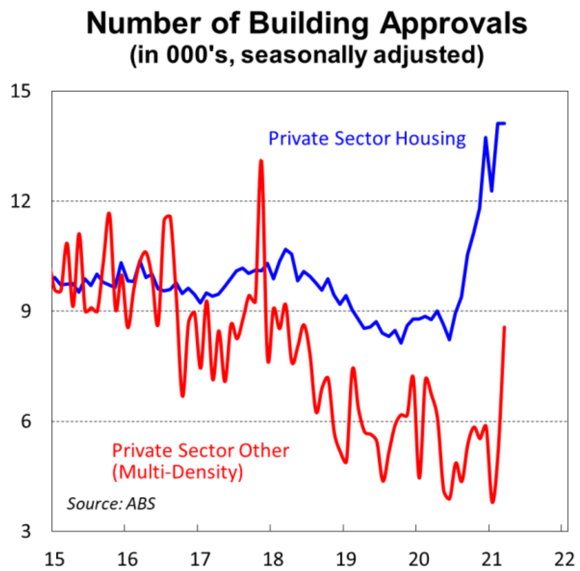
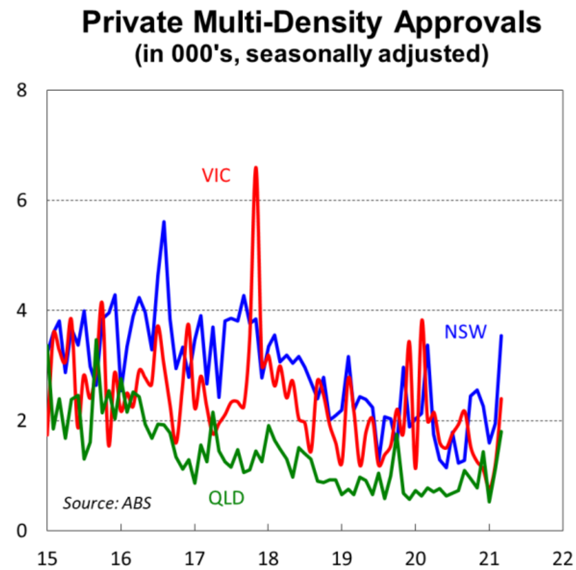
Wednesday, 5 May 2021

Building Approvals

Approvals Climb to Second Highest on Record

- **Building approvals have continued to climb, jumping 17.4% in March. Total building approvals are now at their second highest level on record, exceeded only by November 2017.**
- **The pick up was driven largely by a 63.6% surge in approvals for private multi-density dwellings (i.e. apartments and townhouses), especially in NSW and Victoria.**
- **The ongoing strength in building approvals points to a solid construction pipeline. This is good news as we emerge from the COVID-19 recession as it will bolster jobs growth.**
- **March was the last month to qualify for the HomeBuilder scheme. The Federal government program has driven significant volatility in approvals in recent months and underpinned a bring-forward in demand.**
- **Private sector house approvals edged up marginally to a new record high and are now up 60.9% over the year.**
- **Non-residential approvals leaped to an all-time high, up 59.4% in March, alongside a rise in both private and public projects in the month.**
- **We expect solid underlying momentum in building approvals over the rest of the year, underpinned by historically low interest rates and the ongoing economic recovery. However, there may be transitory weakness in approvals in the months ahead following the expiry of HomeBuilder.**





Building approvals have continued to climb, jumping 17.4% in March. Total building approvals are now at their second highest level on record, exceeded only by November 2017. The pick up was driven largely by a 63.6% surge in approvals for private multi-density dwellings (i.e. apartments and townhouses). The jump was well above the expectations of economists, with the median estimate pointing to a 3.0% rise.

The ongoing strength in building approvals points to a solid construction pipeline. This is good news as we emerge from the COVID-19 recession as it will bolster jobs growth and government tax revenues.

March was the last month to qualify for the HomeBuilder scheme. The Federal government program has driven significant volatility in approvals in recent months and underpinned a bring-forward in demand.

The government has since announced it would extend the construction commencement deadline for HomeBuilder by 12 months. The extension gives builders until September 30 next year to begin work, rather than September this year, smoothing out the pressure on construction workers and allowing more of the homes to actually be built.

Private sector house approvals edged up marginally to a new record high and are now up 60.9% over the year. The surge in approvals has been underpinned by a combination of record low interest rates, government support and the shift towards houses and away from apartments.

The jump in private sector multi-density approvals was driven by NSW, Victoria and Queensland. Over the year, multi-density dwelling approvals are now up 27.4%. This category is volatile month-to-month and has declined over recent years alongside a slowdown in approvals for high rise apartments.

Non-residential approvals leaped to an all-time high, up 59.4% in March, alongside a rise in both private and public projects in the month.

The increase in approvals was generally broad based across the states. Growth was the strongest in NSW (32.3%) followed by Victoria (24.8%). Queensland (15.7%) and South Australia (3.4%) also posted good gains. There were modest declines in WA (-6.4%) and Tasmania (-4.8%). Approvals in WA are coming off a very high level and are still up 129.2% over the year, boosted by a housing stimulus package from the state government.

Outlook

We expect solid underlying momentum in building approvals over the rest of the year driven by historically low interest rates and the ongoing economic recovery. However, there may be transitory weakness in approvals in the months ahead following the expiry of HomeBuilder at the end of March. At the same time, some key short-term risks have abated. The labour market is looking solid, despite the conclusion of JobKeeper at the end of March. In addition, home loans on repayment deferrals have fallen to very low levels relative to their pandemic-induced peak.

Matthew Bunny, Economist
Ph: 02-8254-0023

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023