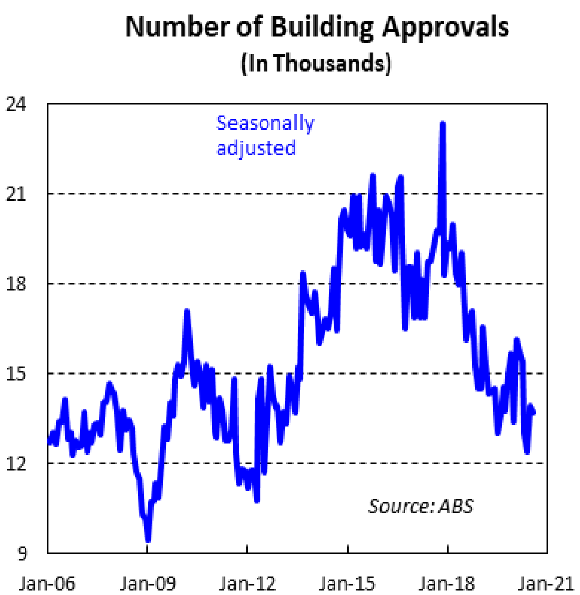
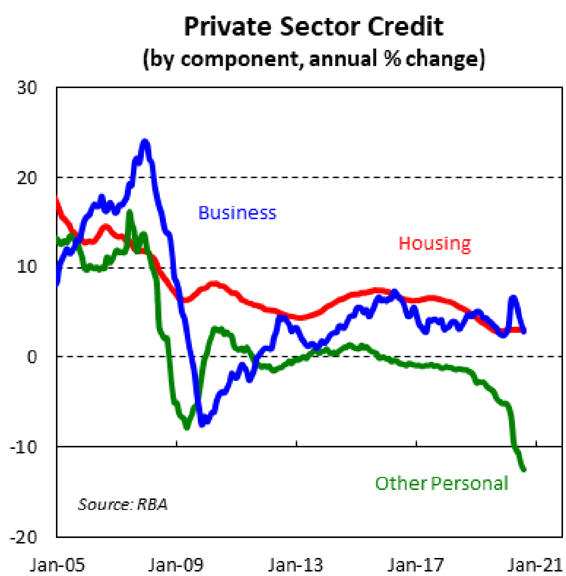
Building Approvals & Private Sector Credit

Flat Credit. Pullback in Building Approvals

- **There was a slight pull-back in building approvals in August following a surge in July. Approvals were down 1.6% following a 12.2% rise in July. Over the year to August, approvals are up just 0.6% but activity last year was also subdued. The general trend decline in housing approvals has been in play since late 2017.**
- **The aggregate figures hide developments within the sector. Private sector houses (as opposed to apartments) rose 4.8% in August after an 8.6% lift in July.**
- **On a State basis, there were massive variations. Tasmania (-26.2%) and NSW (-14.2%) saw sharp declines. Approvals also fell in South Australia (-4.8%). At the other end of the scale, Western Australia reported a 33.8% increase in approvals while Queensland was up 8.1%. Approvals in Victoria rose 1.8%.**
- **The housing sector faces several headwinds. Economic uncertainty, rising unemployment, and abruptly weaker population growth are keeping the sector nervous. On the other hand, government incentives and historically low interest rates are attracting interest**
- **August saw no growth in credit provided to the private sector. Credit had fallen 0.1% in each of the three previous months and is now up only 2.2% over the year.**
- **High levels of unemployment will constrain credit growth in the near term. Budget stimulus and changes to lending rules could provide some upside over the next year.**





Building Approvals: As expected, there was a slight pull-back in building approvals in August following a surge in July. Approvals were down 1.6% following a 12.2% rise in July. Over the year to August, approvals are up just 0.6% but activity last was also subdued. The trend decline in housing approvals since late 2017 continues.

In 2018, building approvals averaged around 17,600 per month. In the twelve months to August 2020, the monthly average is just 14,400, a drop of 18.2%.

The aggregate figures hide developments within the sector. Private sector houses (as opposed to apartments) rose 4.8% in August after an 8.6% lift in July. This may be well be due to the mix of State stamp duty changes, the Federal government's Homebuilder program or the historically low interest on offer.

Private sector houses have accounted for around 60% of approvals over the past few years. This share is rising as the apartment boom takes a breather.

Approvals of apartments fell 11% in August but this after a 23% rise in July. Over the year, apartment approvals are down 18.4%, continuing the slide that began in 2018.

On a State basis there were massive variations. Tasmania (-26.2%) and NSW (-14.2%) saw sharp declines. Approvals also fell in South Australia (-4.8%). At the other end of the scale, Western Australia reported a 33.8% increase in approvals while Queensland was up 8.1%. Approvals in Victoria rose 1.8%. The monthly number are highly volatile as 'lumpy' apartment approvals tend to buffet the result. Interestingly, the Australian Bureau of Statistics has suspended its provision of trend outcomes due to the impact of COVID-19 on its adjustment factors.

Outlook: The housing sector faces several headwinds. Economic uncertainty, rising unemployment, and abruptly weaker population growth are keeping the sector nervous. On the other hand, government incentives and historically low interest rates are attracting interest. Changes to lending rules may also assist the sector in the months ahead. The sector is inherently cyclical and over time will turn the corner.

Private Sector Credit: August saw no growth in credit provided to the private sector. Credit had fallen 0.1% in each of the three previous months and is now up only 2.2% over the year.

There was, however, 0.4% growth in credit extended for owner-occupier housing in August. The pace of credit growth in this sub-sector has been consistent for the five months with 0.4% growth in every month since April. This is despite rising unemployment and the restrictions imposed due to COVID-19. Credit extended to owner occupiers is up 5.4% in the twelve months to August.

Investors in housing appear to on the side-lines in terms of credit. Monthly growth in this sector has been zero or negative since January 2019. In August, the result was zero growth for the third month in a row. Over the year to August credit, extended to housing investors has fallen 0.6%.

Credit for businesses has fallen for a fourth consecutive month, after a surge in April and a pause in May. During August, credit fell 0.4%, but is still up 2.9% on a year earlier.

'Other personal' credit fell 1.1% in August. This sector of the market has not seen monthly growth since 2015. Over the twelve months to August credit extend to this sector, which includes personal credit card and car loans, has fallen 12.5%.

Outlook: High levels of unemployment will constrain credit growth in the near term. Budget stimulus and changes to lending rules could provide some upside over the next year.

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