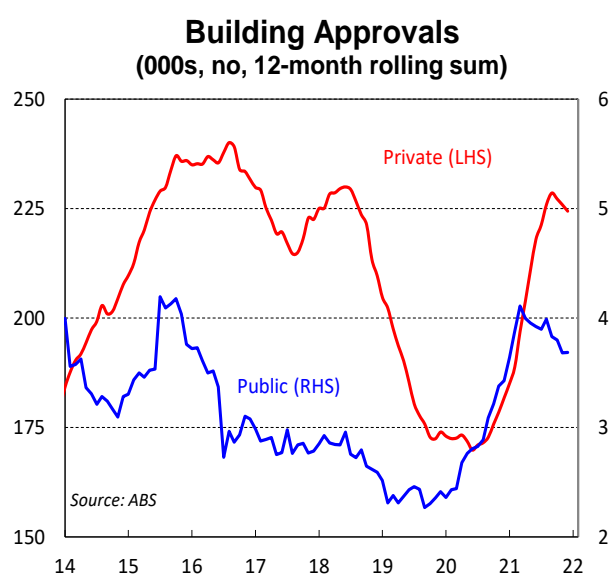
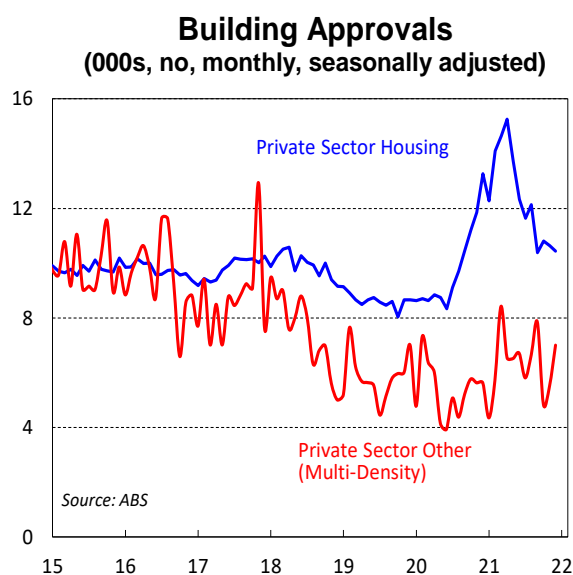


Thursday, 3 February 2022

Building Approvals

Units Spike While Houses Weaker

- Building approvals jumped by 8.2% in December, underpinned by a 27.5% spike in approvals for multi-density dwellings (e.g. apartments and townhouses). This is a volatile series. The result was the largest monthly increase for building approvals since March 2021.
- Private sector house approvals declined by 1.8% in the month and have fallen 31.5% from record levels in April 2021. The run up was the result of a combination of government stimulus measures (such as HomeBuilder), low interest rates, and strong demand.
- Despite the fall in recent months, demand remains strong, and approvals were 20.5% above pre-pandemic levels. New detached home sales, a leading indicator of private sector house approvals, increased by 11.3% in December, the fifth consecutive month of growth.
- Private sector house approvals fell across all states, except WA (0.8%). NSW (-7.9%) and SA (-7.1%) experienced the largest falls. Multi-density approvals spiked by 123.1% in NSW. This was driven by a large jump in approvals for high rise (9+ storey) apartments.
- A growing number of headwinds are building in the market, including affordability constraints and shortages of land, labour and building materials. However, demand remains strong and new home sales are increasing.
- The pipeline of construction activity remains robust following the significant run-up in approvals over late 2020 and through 2021. This will support employment and economic growth over 2022 and beyond, as projects are completed.



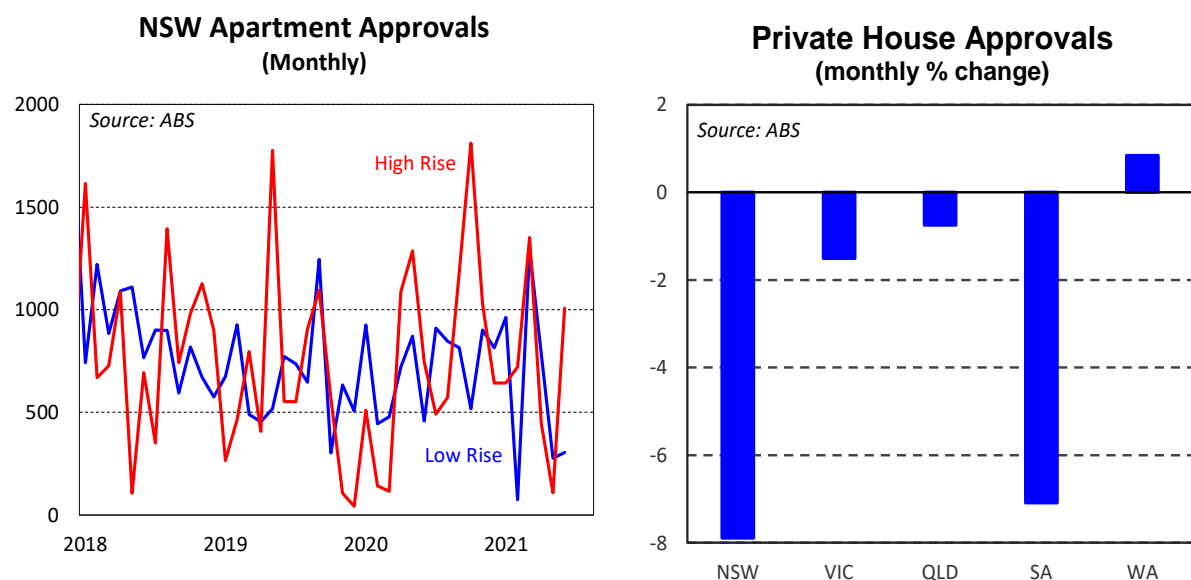
Building approvals jumped by 8.2% in December, underpinned by a 27.5% spike in approvals for multi-density dwellings (e.g. apartments and townhouses). This is a volatile series and was driven by a 123.1% surge in NSW. The result was the largest monthly increase for building approvals since March 2021. On an annual basis, building approvals fell by 7.5% as approvals have come down from high levels in late 2020 and early 2021.

Private sector house approvals declined by 1.8% in the month. This is the second consecutive monthly decline, following a 4.0% increase in October. The November estimate was initially published as an increase, however, was revised to a decrease in this latest release. Private sector house approvals have fallen 31.5% from record levels in April 2021. The run up in house approvals was the result of a combination of government stimulus measures (such as HomeBuilder), low interest rates, and strong demand.

Despite the fall in recent months, demand remains strong, and private sector house approvals were 20.5% above pre-pandemic levels (as of December 2019). New detached home sales, a leading indicator of private sector house approvals, increased by 11.3% in December, the fifth consecutive month of growth. This demonstrates the strong demand that exists in the market.

COVID-19 case numbers increased rapidly across many states towards the end of December. This may have impacted approvals in affected states. However, this effect is likely to be more pronounced in January when case numbers peaked. The fall in private sector house approvals over the past two months could reflect some lingering weakness from the unwind of the HomeBuilder effect.

Demand continues to be supported by low interest rates. Affordability constraints driven by increases in the construction of new homes, and shortages of land, labour and building materials are headwinds facing the market. Additionally, many lenders have lifted fixed interest rates and there is the prospect of an increase in the cash rate by the Reserve Bank later this year.



Private sector house approvals fell across all states, except WA (0.8%). NSW (-7.9%) and SA (-7.1%) experienced large falls, followed by Victoria (-1.5%) and Queensland (-0.7%).

Multi-density approvals spiked by 123.1% in NSW. This was driven by a large jump in approvals for high rise (9+ storey) apartments. Multi-density approvals also rose in SA (29.1%) and Victoria (10.0%). WA (-68.3%) and Queensland (-37.2%) both experienced large falls, however, both states were coming off large increases in the prior month.

The value of non-residential approvals fell 16.3%, although this is a volatile series.

Outlook

A growing number of headwinds are building in the market, including affordability constraints and shortages of land, labour and building materials. However, demand remains strong and new home sales are increasing. The large surge in COVID-19 case numbers remains an uncertainty in the near term.

The pipeline of construction activity remains robust following the significant run-up in approvals over late 2020 and through 2021. This will support employment and economic growth over 2022 and beyond, as projects are completed.

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