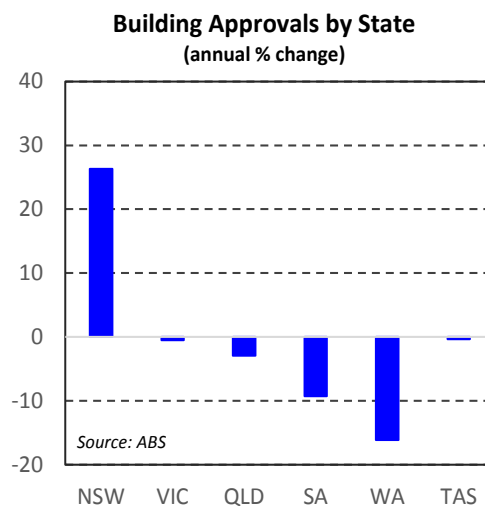
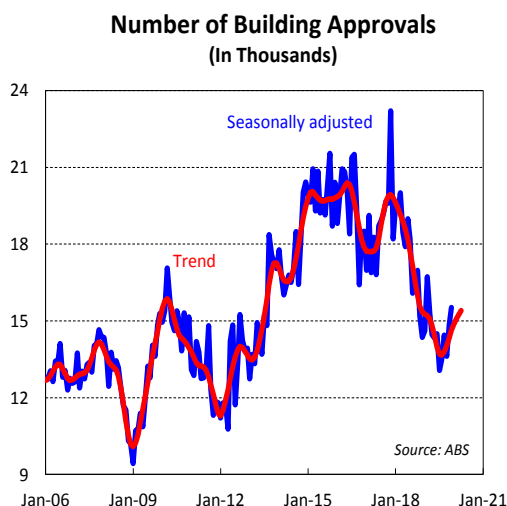


Wednesday, 3 June 2020

Building Approvals

Big, Bad Collapse Fails to Materialise

- The forecast collapse in building approvals due to the impact of COVID-19 failed to materialise. The falls so far in approvals are more akin to a slide. Building approvals dropped 1.8% in April, defying consensus expectations for a bigger fall of nearly 11%.
- Since the end of last year, building approvals are down 1.5%, nowhere near the double-digit decline feared with the shock from COVID-19. But there are lags between applications and approvals, which means there is a risk it may take longer for impacts to become apparent.
- The weakness was more pronounced for approvals to build attached housing, such as townhouses and apartments. Approvals for private-sector 'other' fell 8.9% in April, which is the biggest fall in three months and is down 8.9% since the end of 2019.
- The picture across the States highlighted that the collapse in building approvals in April was primarily avoided due to a strong gain NSW. Building approvals jumped 29.9% in April. Compared with a year ago, approvals were notably lower in all States except NSW.
- We expect building approvals nationally to continue to fall, as higher unemployment and depressed household incomes cause housing demand to slow. Low immigration this year and possibly next year means that underlying demand for housing will also be soggy. Low interest rates will provide some support, especially in areas where available housing stock is low.
- Recent news reports suggest the Federal government is set to announce stimulus targeted to the housing industry, which would take the form of cash grants for large renovation projects. If the grant supports building new housing, then it is likely to help arrest some of the decline in approvals likely over the months ahead.



The forecast collapse in building approvals due to the impact of COVID-19 failed to materialise. The falls so far in approvals are more akin to a slide. Building approvals dropped 1.8% in April, defying expectations for a bigger fall of nearly 11%. It was the second consecutive decline in building approvals, but on a year ago they are 5.7% firmer.

Building approvals have been trending lower for some time. The upturn in dwelling prices had led to a nascent recovery in approvals before COVID-19 provided a disruption. Since the end of last year, building approvals are down 1.5%, nowhere near the double-digit decline earlier feared with the shock from COVID-19. Moreover, in trend terms (which smooths month-to-month volatility), building approvals are still higher. But the Australian Bureau of Statistics (ABS) noted that the lags between application and approval mean it may take longer for impacts to become apparent.

Approvals to build private-sector detached houses rose 2.7%, after recording a decline of 0.7% in the previous month. This sector is up 2.8% since the end of last year when COVID-19 started spreading through the world.

Weakness was more pronounced in approvals to build attached housing, such as townhouses and apartments. Approvals for private-sector 'other' fell 8.9% in April, which is the biggest fall in three months and is down 8.9% since the end of 2019. There has been a lot of volatility month-to-month in other approvals, but the trend is clearly lower.

We expect building approvals to continue to decline, as higher unemployment and depressed household incomes cause housing demand to slow. Low interest rates will underpin some support, especially in areas where there is not a lot of housing stock available to purchase. However, while unemployment continues to rise and job security concerns remain high, the housing market is likely to remain fragile. Furthermore, sharp falls in immigration this year and low immigration levels possibly again next year means that underlying demand for housing will also be soggy.

News reports since late last week have speculated the Federal government is set to announce stimulus targeted to the housing industry, which would take the form of cash grants for large renovation projects. It could also include stimulus for new construction and larger-scale work. If the stimulus supports building new housing, then it is likely to help arrest some of the decline in approvals likely over the months ahead.

The picture across the States highlighted that the collapse in building approvals in April was primarily avoided due to a strong gain NSW. Building approvals jumped 29.9% in April, driven by a spike of 52.2% in approvals for private-sector other. Western Australia and Tasmania also recorded gains of 2.2% and 8.9%, respectively.

The falls in the other States were led by Victoria where building approvals fell by 25.3%. Victoria and NSW are often compared and in today's data one might argue that NSW never managed to close out the underlying dwelling shortage it has faced over the past decade. Victoria's housing demand has also arguably relied more heavily on overseas migration, which is now at a standstill.

In the other States building approvals fell by 7.6% in South Australia, which interestingly was one of the few States to record increases in dwelling prices in April (and May). Queensland also recorded a loss of 3.3% in approvals in the month whilst Western Australia (2.2%) and Tasmania (8.9%) recorded increases.

Compared with a year ago, approvals were notable for being lower in all States except NSW. In NSW, building approvals were up 26.3% on a year ago, which is the strongest annual rate since September 2016. We are not anticipating this sort of strength in NSW can be maintained.

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