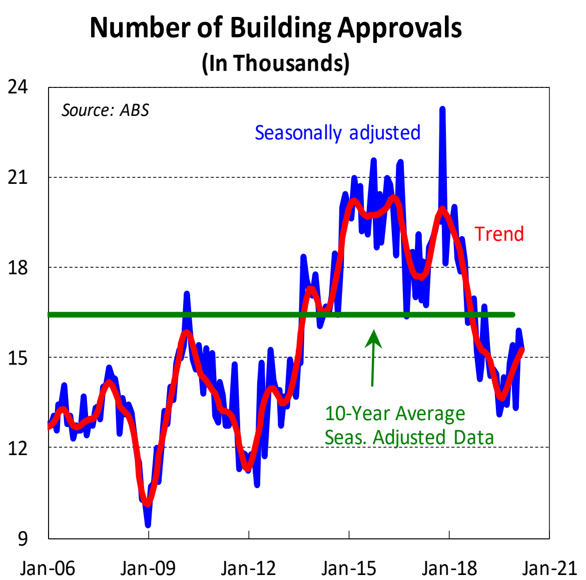
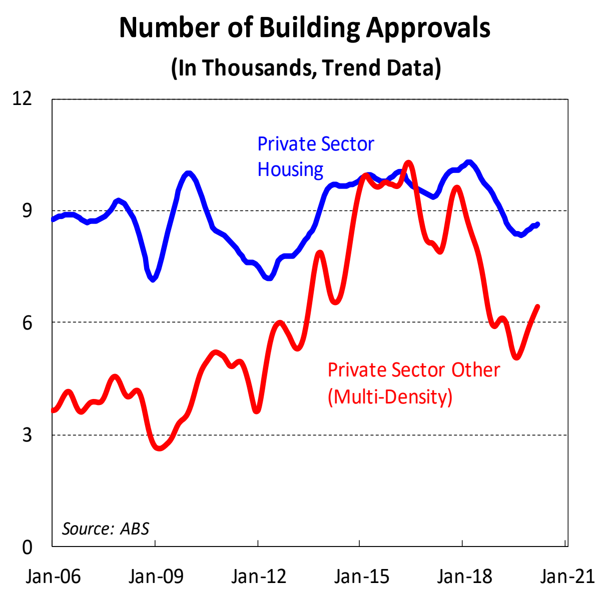
Monday, 4 May 2020

Building Approvals

Building Blues Yet to Set In

- **Building approvals retreated 4.0% in March, after a spike of 19.4% in February. The pullback in March was much softer than the deep decline anticipated by consensus.**
- **Since the end of last year, building approvals are down just 1.0%. It is a mild result, given the disruptive impact of the COVID-19 crisis on the economy, including the building industry.**
- **The "other" segment, which includes multi-density dwellings such as high-rise apartments, was the primary driver of the decline in March. This segment fell by 8.2% in the private sector.**
- **Private-sector housing approvals also declined nationally, by a modest 1.2% in the month.**
- **The other segment is very volatile month to month. In trend terms, which smooths some volatility from the series, approvals for private-sector other dwellings rose by 2.8% in March and have been on the mend since August last year. This improvement has occurred despite concerns around structural quality, cladding issues and debt coverage requirements.**
- **But the improvement is unlikely to continue, with the impact of COVID-19 likely to be more adversely felt on building approvals in coming months.**
- **Higher unemployment and depressed incomes will reduce the demand for housing, despite low interest rates providing an offset.**
- **Population growth will also be weaker this year and it remains questionable whether it can return to where it was before the crisis amid border restrictions and higher unemployment.**





Building approvals retreated 4.0% in March, after a spike of 19.4% in February. The pullback in March was softer than what we were anticipating and what consensus was anticipating – indeed, consensus had centred on a fall of 15.0% in March.

Since the end of last year, building approvals are down just 1.0%. It is a mild result, given the disruptive impact of the COVID-19 crisis on the economy, including the building industry. On a year ago, approvals are 0.2% firmer, which is the first positive outcome in three months.

The "other" segment, which includes multi-density dwellings such as high-rise apartments, was the primary driver of the decline in March. This segment fell by 8.2% in the private sector, although was 3.4% firmer on a year ago. Private-sector housing approvals also declined, but by a modest 1.2% in the month.

The other segment is very volatile month to month. In trend terms, which smooths some volatility from the series, approvals for private-sector other dwellings rose by 2.8% in March and has been improving since August last year.

Indeed, the12-month average of approvals for high-rise apartments of 4 storeys or more has been improving since October 2019, despite concerns around structural and cladding issues and debt coverage requirements. However, this turnaround in recent months is likely to prove only temporary. The impact of COVID-19 should be more adversely felt on building approvals over coming months.

Meanwhile, private-sector housing approvals in trend terms edged up 0.2% in March.

States

The increase in building approvals for March was narrowly driven. NSW approvals, which account for a large share of national approvals, rose by 24.0% in March, which is the biggest gain in four months. The sharp rise was a result of a 44.0% spike in private-sector other approvals in the month. Private-sector housing approvals also rose in NSW in March, by 7.1%. Dwelling approvals are 21.2% higher in NSW on a year ago.

Tasmania also recorded a sharp rise in approvals in March of 11.2% while WA approvals moved 1.9% higher.

Other States posted declines, in particular, Victorian dwelling approvals pulled back 25.5% in March and dropped 1.3% in the year to March. The fall was driven by a 45.3% decline in other private-sector dwelling approvals, undoing some of the 227.1% rise in this segment in February.

Dwelling approvals in QLD and SA fell by 3.3% and 7.4%, respectively, in March and by 2.9% and 9.8% in the year to March, respectively.

Outlook

The building industry showed resilience in March given the size of the health crisis. However, we would anticipate building approvals to decline further in coming months, as the virus adversely disrupts housing demand and the construction industry further. Higher unemployment and depressed incomes are likely to reduce the demand for housing, despite low interest rates providing an offset. Population growth will also be weaker this year and it remains questionable whether it can return to where it was before the crisis amid higher unemployment.

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