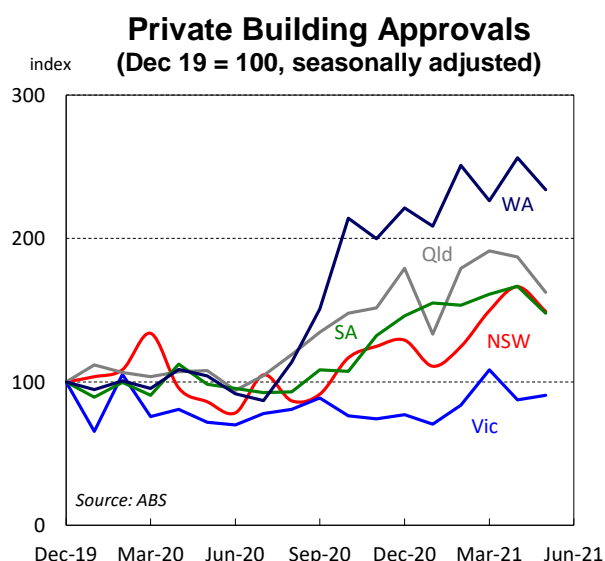
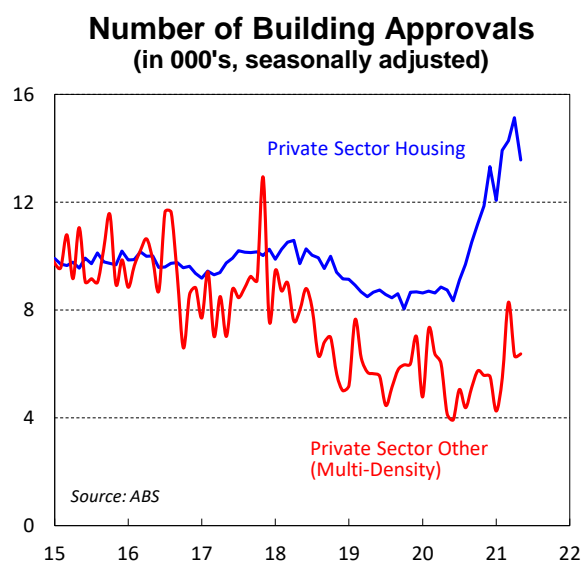


Monday, 5 July 2021

Building Approvals

Momentum Solid Despite HomeBuilder Unwind

- Residential building approvals continued to ease in May, declining 7.1% in the month, following the expiry of the HomeBuilder scheme at the end of March. This follows a 5.7% decline in April.
- The decline in May was underpinned by a 10.3% decline in approvals for private sector houses – coming off a record high in April. Approvals for private multi-density dwellings (i.e. apartments and townhouses) edged up 1.2%.
- Despite the pullback in recent months, approvals are still very strong and point to a solid construction pipeline. In May building approvals were still up 27.0% relative to pre-COVID levels, as at December 2019. The number of private sector house approvals was the fourth highest on record in May, and remains up a whopping 56.6% on its pre-pandemic level.
- By region, the growth in private sector approvals has been strongest in Western Australia (133.9%) relative to the pre-pandemic levels. Approvals in Queensland, New South Wales and South Australia are all around 50–60% higher than December 2019 levels. Meanwhile, Victoria remains a clear laggard, with approvals down 9.3% compared to their pre-pandemic benchmark.
- Overall, the May data showed there is still solid underlying momentum in building approvals. Building activity will continue to be supported over the medium term by ultra-low interest rates and the ongoing economic recovery.
- The near-term outlook for building approvals is less certain since the exact timing of the unwind of the HomeBuilder effect is unclear. Plus, some of this unwind is likely to be offset by the strong upturn across the wider housing market.



Residential building approvals continued to ease in May, declining 7.1% in the month, following the expiry of the HomeBuilder scheme at the end of March. This follows a 5.7% decline in April.

HomeBuilder led to a pull-forward in construction activity which is now unwinding. Treasury reports that just under 100k applications for new builds were received under the scheme. The exact timing of the unwind is unclear because of a lag between contract signing and construction approval.

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Despite the pullback in recent months, approvals are still very strong and point to a solid construction pipeline. In May building approvals were still up 27.0% relative to pre-COVID levels, as at December 2019. The number of private sector house approvals was the fourth highest on record in May, and remains up a whopping 56.6% on its pre pandemic level.

By region, the growth in approvals has been strongest in Western Australia (133.9%) relative to pre-pandemic levels. The Western Australian State government provided additional support to home builders on top of the Federal government's HomeBuilder package, supercharging growth in approvals in the state, which had been declining for a number of years following the peak in approvals during the mining boom.

Approvals in Queensland, New South Wales and South Australia are all around 50–60% higher than December 2019 levels.

Notably, the smaller states of Western Australia and South Australia saw a stronger uptake of the HomeBuilder scheme, helping to boost approvals in these states. This is because a larger share of dwellings in the smaller states meet the price cap and commencement guidelines. For example, many homes in Sydney and Melbourne did not fall under the original \$750k price cap.

Meanwhile, Victoria remains a clear laggard, with approvals down 9.3% compared to their pre-pandemic benchmark. This likely reflects the more severe COVID-related disruptions Victoria has endured relative to the rest of the country.

In May, the pullback in dwelling approvals was broad based across the states. The largest decline was in Queensland (13.1%) followed by South Australia (11.9%), New South Wales (10.9%) and WA (8.7%). Dwelling approvals in Victoria edged up (3.2%) and Tasmania (2.0%).

The value of non-residential building approvals rose by 28.5% in May, driven by a large rise in public sector projects, although this is an extremely volatile series, which fell 38.5% in April.

Outlook

Overall, the May data showed there is still solid underlying momentum in building approvals. Building activity will continue to be supported over the medium term by this pipeline of work, ultra-low interest rates and the ongoing economic recovery.

The near-term outlook for building approvals is less certain since the exact timing of the unwind of the HomeBuilder effect is unclear. Plus some of this unwind is likely to be offset by the strong upturn across the wider housing market.

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