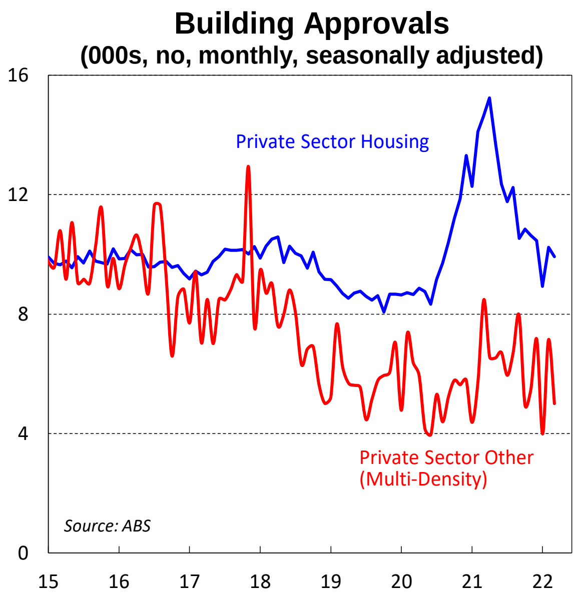
Data Snapshot

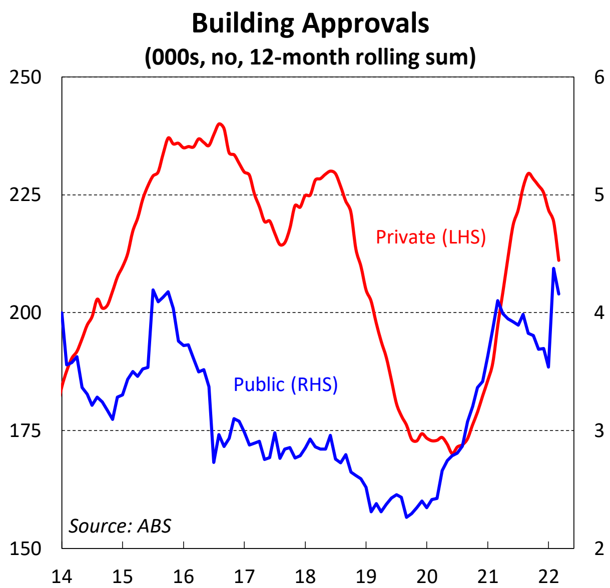
Thursday, 5 May 2022

Building Approvals

Large Drop as Construction Boom Softens

- **Building approvals plunged by 18.5% in March. This followed significant volatility in January and February caused by the Omicron outbreak. During those months, approvals initially plummeted by 26.6% in January, before surging by 42.0% in February.**
- **Taking the first three months of 2022 together to smooth some of the Omicron effects, approvals were around 10% lower in the March quarter versus the December quarter of 2021.**
- **The monthly result was driven by a 29.9% drop in private multi-density dwelling approvals (e.g. apartments and townhouses). Looking into the detail, this was led by weaker apartment approvals, particularly high-rise apartments. However, this is a volatile segment.**
- **Private sector house approvals declined by 3.0% as momentum in the housing market continues to slow. Private sector house approvals are now 34.8% below the record high in April 2021.**
- **The surge in approvals has created a large pipeline of residential construction work to be completed. This is expected to support activity as projects are finalised. More generally, the construction sector faces challenges from labour shortages and supply disruptions, which have pushed up costs and in turn are squeezing margins.**
- **The housing boom continues to slow as stretched affordability and higher fixed rates weigh on sentiment. This week, the RBA kicked-off the rate hike cycle and more hikes are expected. While demand remains strong and economic growth is robust, these headwinds are likely to weigh on building approvals in coming months.**





Building approvals plunged by 18.5% in March. This followed significant volatility in January and February caused by the Omicron outbreak. During those months, approvals initially plummeted by 26.6% in January, before surging by 42.0% in February.

In March, approvals fell to their lowest level since the January plunge. Excluding January, approvals dropped to their lowest level since August 2020 but remained almost 20% above the pandemic trough in June 2020. On an annual basis, total approvals dropped by 35.6%.

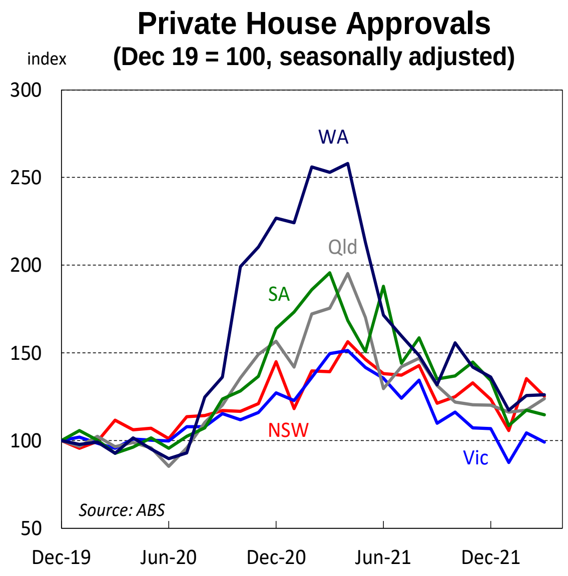
Taking the first three months of 2022 together to smooth some of the Omicron effects, approvals were around 10% lower in the March quarter of 2022 versus the December quarter of 2021.

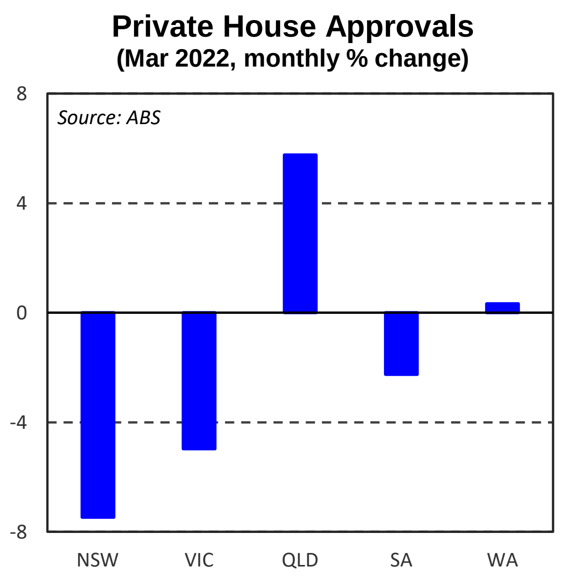
The March result was driven by a large fall of 29.9% in approvals for private multi-density dwellings (e.g. apartments and townhouses). In annual terms, multi-density dwelling approvals declined by 41.0%. However, this is a volatile segment as it is affected by the timing of approvals of large projects. Looking further into the detail, the fall was driven by a large decline in apartment approvals, particularly high-rise (9+ storey) apartments.

Private sector house approvals declined by 3.0% in March as the momentum in the housing market continues to slow. This followed volatile outcomes of -14.6% and +14.6% in January and February, respectively, as the outbreak of Omicron impacted approvals in those two months. March quarter approvals were almost 12% below approvals in the December quarter of 2021.

Private sector house approvals have now fallen by 34.8% from the record high in April 2021. Private sector house approvals surged during the pandemic as first home buyers and other owner-occupiers took advantage of low interest rates and Federal and state government incentives, such as HomeBuilder. Approvals have trended down since the peak as the impacts of these policies were unwound and momentum in the housing market began to slow.

Private sector house approvals have pulled back significantly across all states following the peaks in early 2021. However, approvals remain above pre-pandemic levels (as of December 2019) in all states except Victoria.





Across the country, double-digit falls in total approvals were record across Victoria (-34.6%), Tasmania (-27.3%), NSW (-23.9%) and SA (-23.5%). Queensland (12.4%) and WA (5.1%) bucked the trend and recorded gains in approvals in March. The volatility was largely attributed to large swings in multi-density approvals across states.

Approvals for private sector houses were also mixed across the country. NSW (-7.5%), Victoria (-5.0%), and SA (-2.2%) all recorded falls in March. Queensland (5.8%) and WA (0.3%) were again the outperforming states in the month.

The value of non-residential approvals fell 0.8% in March.

Outlook

The surge in approvals has created a large pipeline of residential construction work to be completed. This is expected to support activity as projects are finalised. More generally, the construction sector faces challenges from labour shortages and supply disruptions, which have pushed up costs and in turn are squeezing margins.

Growing headwinds are likely to weigh on dwelling approvals in coming months. The housing boom continues to slow as stretched affordability, higher fixed mortgage rates and expected increases in the cash rate weigh on buyers. On Tuesday, the RBA kicked-off the rate hike cycle with a 25 basis point increase, taking the cash rate to 0.35%. We expect further increases over coming months and project a cash rate of 1.75% by the end of the year. Inevitably, this will take more steam out of the housing market.

However, economic growth is robust, the unemployment rate is expected to decline to below 3.5% and wages growth is projected to pick up. These factors will continue to support housing demand.

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