

31 May 2022

Aus dwelling approvals: another leg lower? April -2.4%^{mth}, -32.4%^{yr} (vs mkt 0.5%) Volumes down but avg approval value soars on surging costs.

- Dwelling approvals continued to move lower in April, coming in a touch under expectations but consistent with our prior that underlying conditions are weakening. Total dwelling approvals declined 2.4% vs expectations of a slight gain (market +0.5%) to be down -32.4%^{yr}. While volatility makes trends very hard to read the soft result suggests approvals may be taking another leg lower.
- The April dip follows a large 19.2% drop in March and an extremely choppy start to the year - Jan -24.6%, Feb +41.4%^{mth} - reflecting omicron and weather disruptions. March was also notable for a particularly low number of 'high rise' approvals (-60% below the 5yr avg).
- The segment breakdown show an expected bounce in high-rise approvals in April (albeit still 20% below the avg over the six months prior to March). This was more than offset by a weakening in medium density unit approvals (we estimate down over 25%^{mth} in seasonally adjusted terms). Private detached house approvals nudged 0.5% higher.
- The more granular detail showed a slightly more pronounced decline (-10.9%^{mth}) across the sub-markets with median dwelling prices below \$750k that had a bigger take-up of Federal HomeBuyer support last year. This could be a sign that the unwind of the associated pull-forward effect has not quite run its course although it's hard to be certain given the number of other disruptions in play.
- At a state level, approvals declined in NSW (-6.8%) and Qld (-4.5%), were about steady in WA (-0.3%) but posted a solid 7.8% gain in Vic (mainly on a bounce in high rise from an exceptionally low March read) and a big 50% jump in SA where a rebound in high rise coincided with a similar-sized bounce in medium density unit approvals.
- One aspect of particular note is a big surge in the average value of dwelling approvals. This is not often of interest as average values are so heavily affected by compositional shifts. However, the latest reads are showing a big, broad-based lift that looks to go well beyond this. Indeed, for detached houses, the average approval value is up 22%^{yr}, the strongest annual lift since the mid-1970s! The surge is across all major states and suggests cost blow-outs are leading to very sharp rise in prices, some of which may also be an effort by developers to recoup losses on existing commitments, with many still working through a large backlog of work set on fixed-price terms but now running on a much higher cost base.
- These price effects likely factored in the value of renovation and non res building approval as well, both of which are holding at relatively high levels. Renovations rose 6.6%^{mth} to be 50% above pre-COVID levels, albeit off recent highs. The value of non res approvals dropped 30% but is cycling a big jump through Feb-Mar and still rising strongly on a quarterly basis.
- Overall, the apparent cost-driven surge in approval values is troubling. With a large backlog of unprofitable work, steep cost and price increases, interest rate hikes and a housing markets entering a correction phase, the situation has the makings of a 'perfect storm' for Australia's dwelling construction sector.

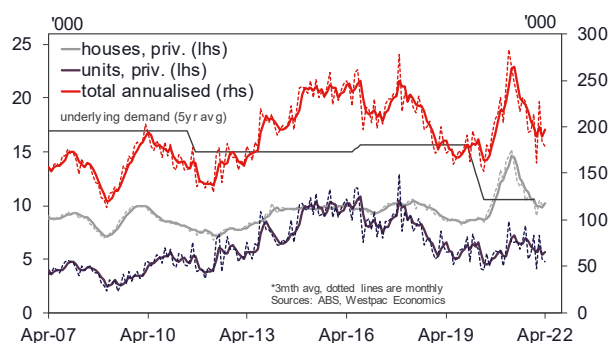
Matthew Hassan, Senior Economist, ph (61-2) 8254 2100

Building approvals - April 2022

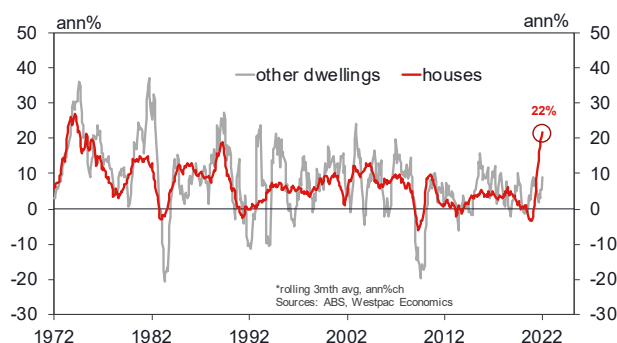
| 3mth avg | latest | 3mth %chg* | | %yr | |
|--------------------------------|---------------|--------------|-------------|--------------|--------------|
| | | Mar | Apr | Mar | Apr |
| Private houses | 10,181 | -7.2 | 2.1 | -28.1 | -30.5 |
| Private units | 5,641 | -7.2 | 0.5 | -12.0 | -18.7 |
| Public dwellings | 548 | 118.2 | 144.8 | 38.4 | 44.2 |
| Total dwellings | 16,370 | -5.2 | 3.5 | -21.8 | -25.5 |
| Total dwellings, mthly* | 14,908 | -19.2 | -2.4 | -35.2 | -32.4 |
| - units in 'high rise'^ | 2,722 | -11.7 | -6.8 | -16.9 | -19.8 |
| - units in 'low rise'^ | 2,792 | -1.0 | -5.0 | -1.0 | -14.7 |
| Renovations, \$bn | 0.964 | -8.1 | -7.5 | -4.7 | -9.8 |
| Non-res., \$bn | 5.538 | 15.7 | 38.4 | -1.4 | 6.3 |

*figures for 'total dwellings mthly' are monthly and mthly%ch, all others are rolling 3mth avg and 3mth%ch; ^all sectors, Westpac estimates
Sources: ABS, Westpac Economics

Dwelling approvals

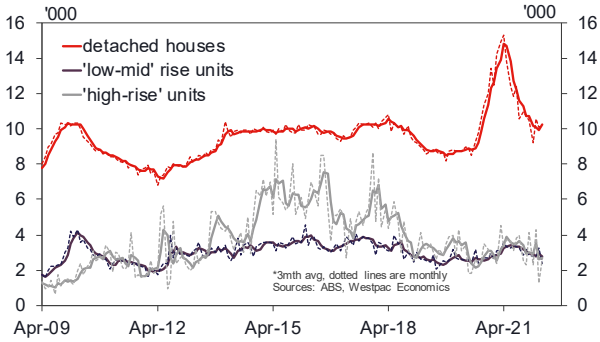


Dwelling approvals: avg value, full history

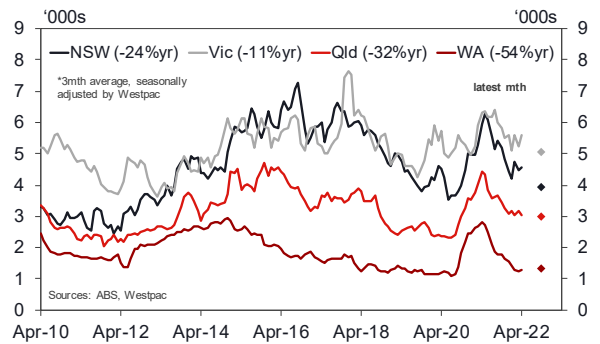


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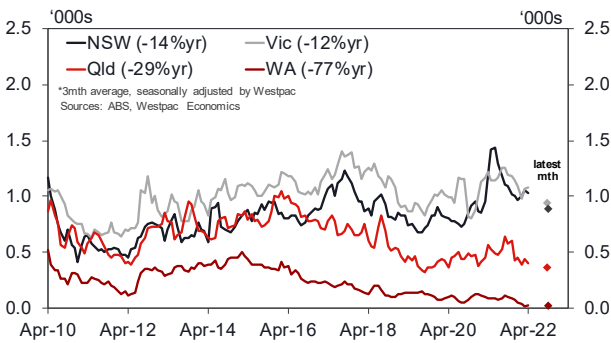
Dwelling approvals: broad segment



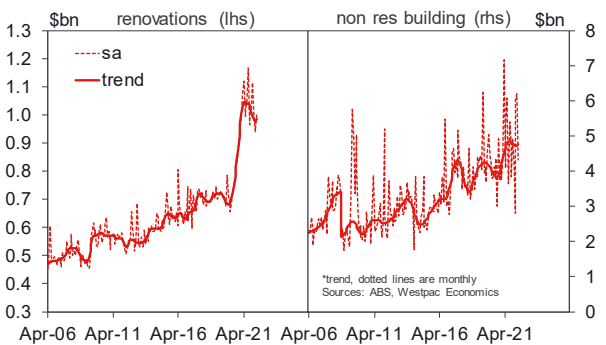
Total dwelling approvals: by state



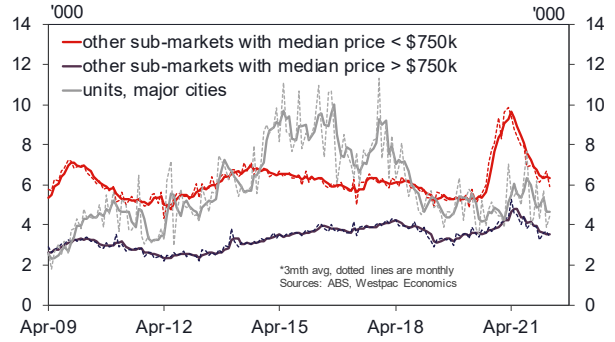
'Low-mid rise' approvals: by state



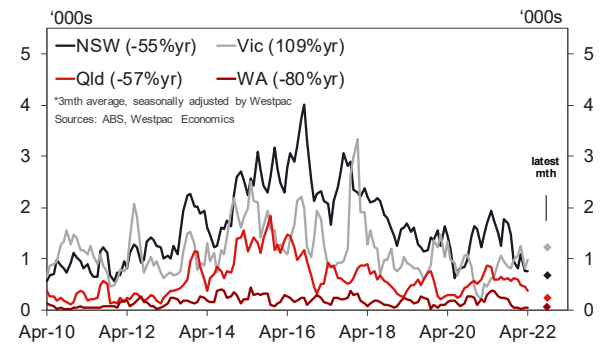
Value of renovation & non residential approvals



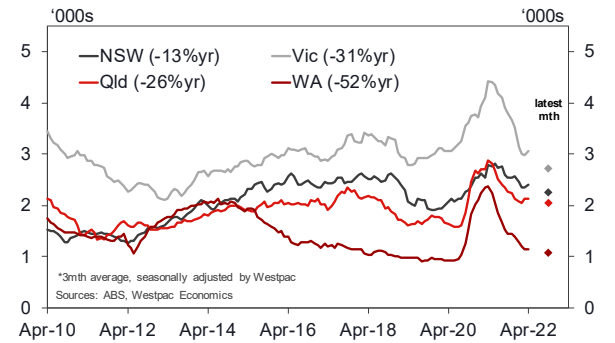
Dwelling approvals: selected groupings



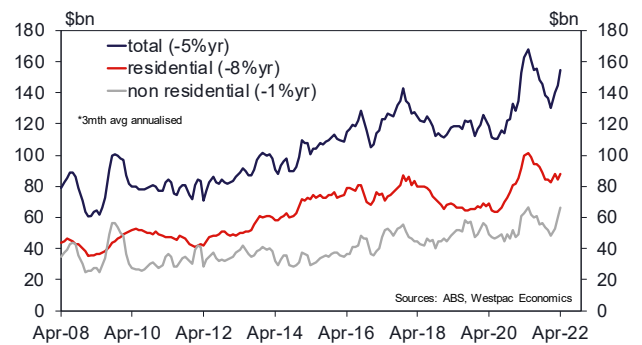
'High rise' approvals: by state



Detached house approvals: by state



Total value of building approvals



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