

2 November 2022

Aus dwelling approvals: broad-based softening Sep -5.8% mth, -13.0% yr (vs mkt -10%) Expected weakening beginning to materialise.

- Dwelling approvals posted a 5.8% decline in September, in line with Westpac's -5.0% forecast but much milder than market expectations of a 10% drop. This follows a recent period of upside surprises and underlying resilience, indicating that dwelling approvals are beginning to respond to the numerous headwinds facing the sector and the broader economy.
- The segment detail suggests September's decline was broadly based across components.
- Private detached houses posted a sharp 7.8% drop in September. This comes after a modest 0.9% gain in July and a surprisingly solid 4.8% lift in August, which defied the broader weakening in the housing market backdrop. While a decline was to eventually materialise, the scale was much greater than expected, likely reflecting a 'catch-up' to the cost and profitability issues that are currently affecting the sector.
- Private sector units, which were at the epicentre of recent volatility in total approvals, posted a more modest 1.8% fall in September. The decline was centred on 'medium density' approvals (low rise units, townhouses and terraces), at -16.8%, while 'high rise units' posted a relatively light 2.7% fall.
- Also, the state data exhibited a very broad base to the September decline, the city level breakdown for example showing detached house approvals posting strong declines across all capital cities. Of note, Sydney and Perth were down 19%, followed by Brisbane and Melbourne down 14%, and Adelaide down 8%. The September print for private sector units was relatively more mixed by state, but on balance, the decline in total approvals was widespread across the nation, with SA (-19.7%), WA (-9.3%), NSW (-8.8%), and Qld (-6.2%) all in the red, with Vic bucking the wider trend at +3.4%.
- The value of renovation approvals dipped 2.9% in September, subverting the solid 5.7% lift in August. In trend terms though, renovation values are holding the gradual underlying up-trend since around April this year. The value of non residential building posted a moderate 4.0% increase in September, following the 22.6% plunge in July and 18.7% rebound in August. High volatility makes this difficult to pin point, but in both cases, approvals are likely reflecting a mix of falling work in volume terms and strong rises in construction costs.
- Overall, the September report suggests that dwelling approvals are beginning to more broadly weaken, reflecting the harsh set of circumstances facing the housing market, including: aggressive rate rises; a material correction across wider housing markets; sharp rises in building costs and associated strains on builders working through a large backlog of unprofitable work; and uncertainties around the timing and cost of new builds due to widespread supply issues affecting both materials and labour. That being said, approvals are still well above their 2018-19 lows, indicating that there is plenty of capacity for further weakness over the coming months.

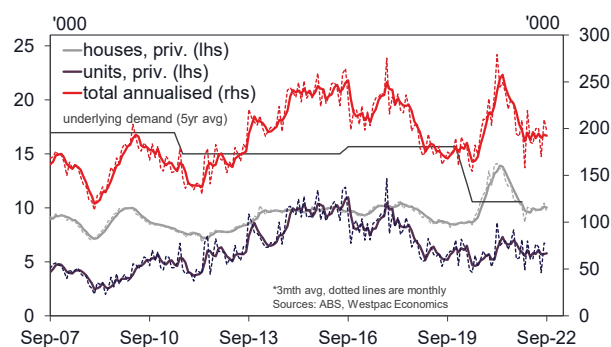
Ryan Wells, Economist

Building approvals – September 2022

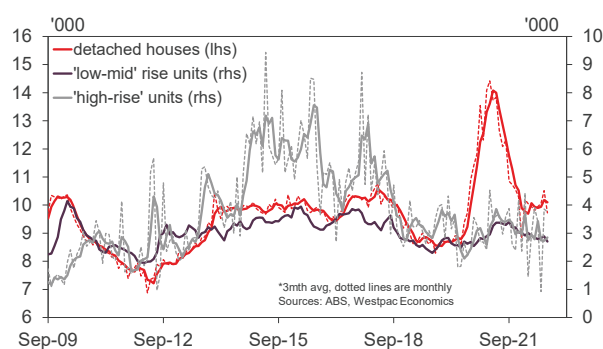
3mth avg	latest	3mth %chg*		%yr	
		Aug	Sep	Aug	Sep
Private houses	10,009	2.6	2.0	-17.5	-13.9
Private units	5,791	-0.2	-5.2	-13.9	-17.1
Public dwellings	234	24.1	-25.3	-0.2	-7.6
Total dwellings	16,034	1.9	-1.3	-15.9	-15.0
Total dwellings, mthly*	16,455	23.1	-5.8	-9.4	-13.0
- units in 'high rise'^	2,847	-1.9	-17.0	-20.0	-18.2
- units in 'low rise'^	2,703	1.8	-3.1	-12.2	-20.4
Renovations, \$bn	1.032	2.0	1.8	-4.4	-2.4
Non-res., \$bn	4.500	-13.0	-11.7	-7.4	-3.0

*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

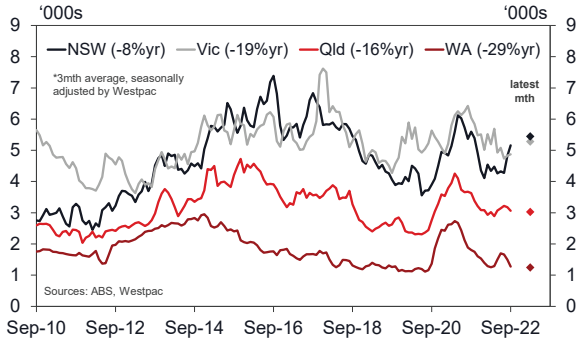


Dwelling approvals: broad segment

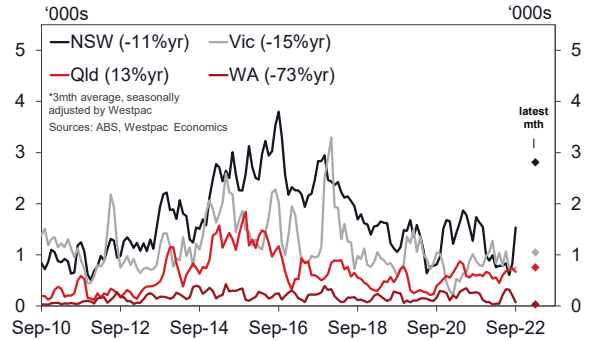


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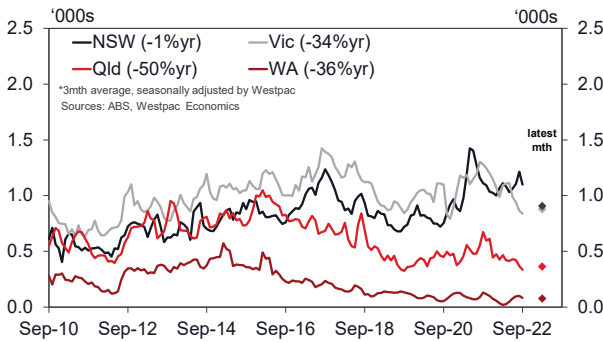
Total dwelling approvals: by state



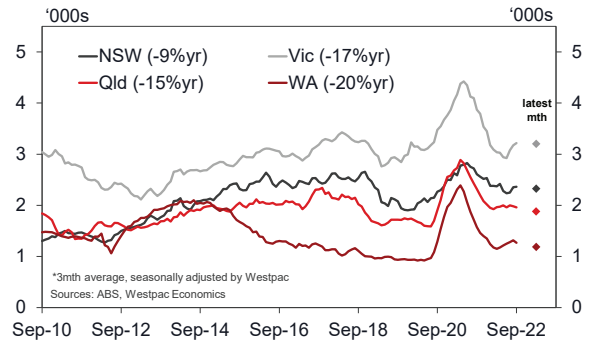
'High rise' approvals: by state



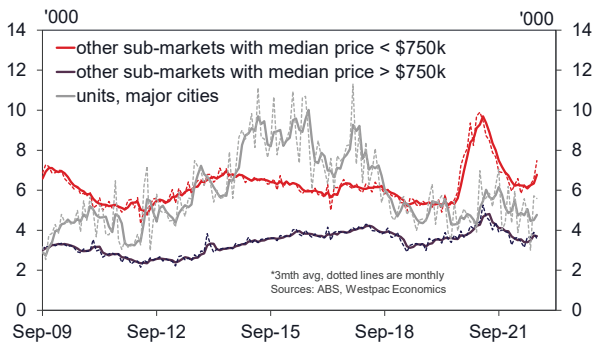
'Low-mid rise' approvals: by state



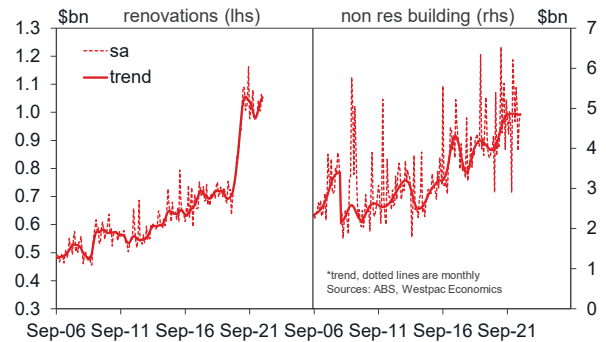
Detached house approvals: by state



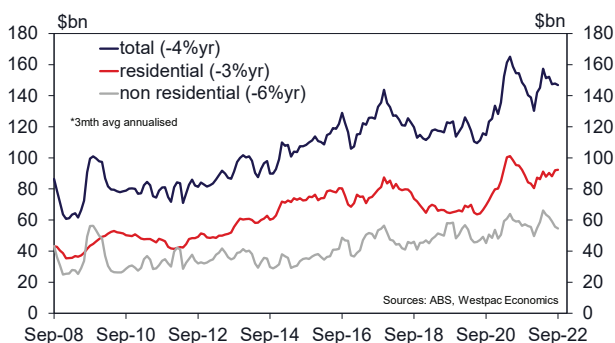
Dwelling approvals: selected groupings



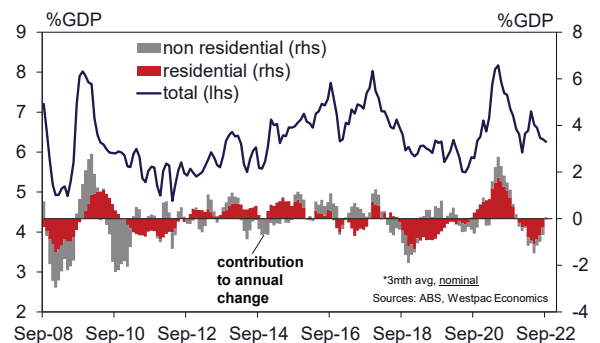
Value of renovation & non residential approvals



Total value of building approvals



Total value of building approvals, %GDP



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