

30 November 2022

Aus dwelling approvals: down-trend beginning to crystalise Oct -6.0%^{mth}, -6.4%^{yr} (vs mkt -2.0%) High-rise fall combines with weakness in private houses

- Dwelling approvals posted a 6.0% decline in October, a touch weaker than Westpac's -5.0% forecast but well below market expectations of a more mild 2.0% drop. Following on from September's fall (revised down from -5.8% to -8.1%), it looks as though the down-trend in dwelling approvals is beginning to crystalise, responding to the numerous headwinds facing the sector and the broader economy.
- The detail puts forward a strong case for the weakness in October. However, it looks as though that some level of underlying volatility continues to influence monthly reads.
- Firstly, private detached houses, which are typically more stable component, posted a 2.2% decline in October, following an appreciable fall of 8.5% in September. Having defied the broader weakening in the housing market backdrop for much of this year, the scale of the weakening to date looks to be reflecting a 'catch-up' to the cost and profitability issues that are currently affecting the sector.
- Secondly, private sector units, which were at the epicentre of volatility in Q3, has continued to post declines. Following a stronger revised fall of 6.9% in September, units weakened by a further 11.3% in October. The segment detail is mixed though, with declines being centred on 'high-rise' approvals (-21.8%) while 'medium-density' approvals rebounded (+11.7%).
- The city level breakdown shows that many of the major capital cities reported strong declines in private detached house approvals, reflecting the deepening corrections present in these housing markets. Of note, Brisbane led with a considerable 15% fall, followed by more moderate declines in Perth (-7.2%), Adelaide (-4.6%) and Sydney (-3.7%), while Melbourne bucked the wider trend with a mild 0.6% gain. The detail for units, however, was decidedly more mixed, leading to patchy results across the nation in terms of total approvals.
- The value of renovation approvals lifted 1.4% in October, almost fully reversing the 1.3% decline in September, thereby continuing to gradually track along a gradual underlying up-trend since around April this year. The value of non residential building approvals has been highly volatile this year, but has since moderated in recent months, posting a 5.7% increase in October. High volatility makes this difficult to pin point, but in both cases, it looks as though the supply headwinds facing the construction sector - materialising as elevated costs - look to be having an increasingly important influence.
- The October report suggests that the weakening in dwelling approvals is becoming clearer. Indeed, the sector is facing a harsh set of circumstances, including but not limited to: aggressive rate rises; a deepening correction across wider housing markets; and ongoing supply issues surrounding labour shortages and rising material costs. That being said, approvals are still above their 2018-19 lows, indicating that there is plenty of capacity for further broadly-based weakness over the coming months.

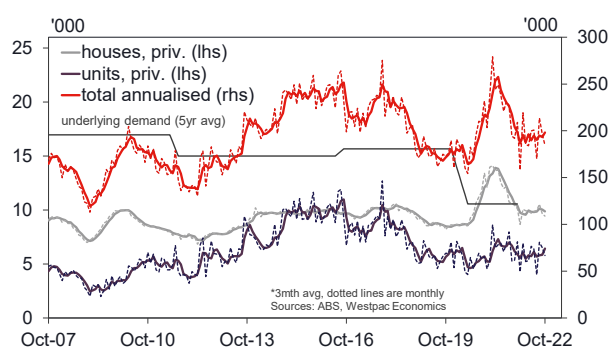
Ryan Wells, Economist

Building approvals – October 2022

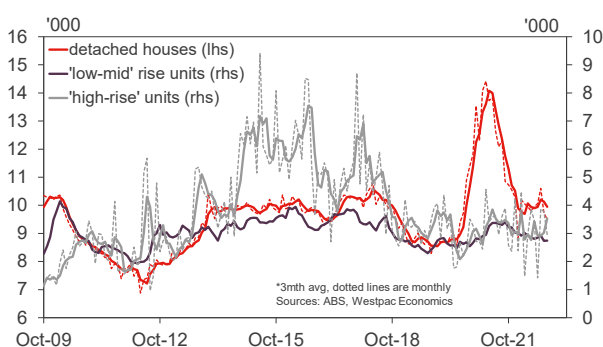
3mth avg	latest	3mth %chg*		%yr	
		Sep	Oct	Sep	Oct
Private houses	9,867	2.3	0.2	-13.6	-11.7
Private units	6,435	-4.3	13.4	-16.3	-4.9
Public dwellings	217	-25.8	-35.1	-8.2	-18.1
Total dwellings	16,519	-0.7	4.2	-14.5	-9.3
Total dwellings, mthly*	15,382	-8.1	-6.0	-13.5	-6.4
– units in 'high rise'^	3,533	-11.9	21.2	-13.3	5.3
– units in 'low rise'^	2,746	-2.6	-3.5	-19.8	-14.7
Renovations, \$bn	1.062	2.8	4.5	-1.5	1.0
Non-res., \$bn	4.953	-10.7	-0.9	-1.6	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

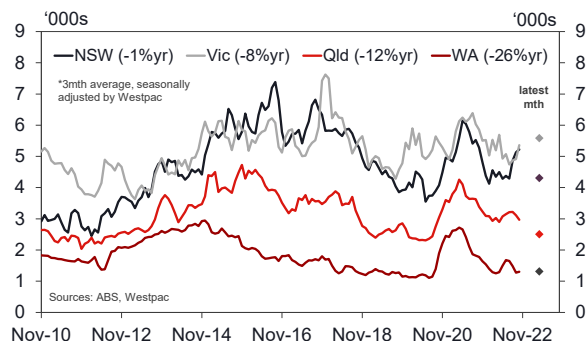


Dwelling approvals: broad segment

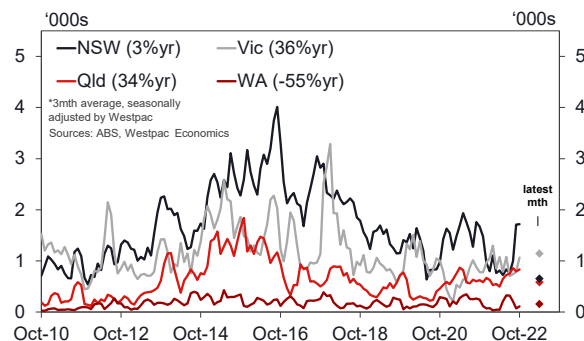


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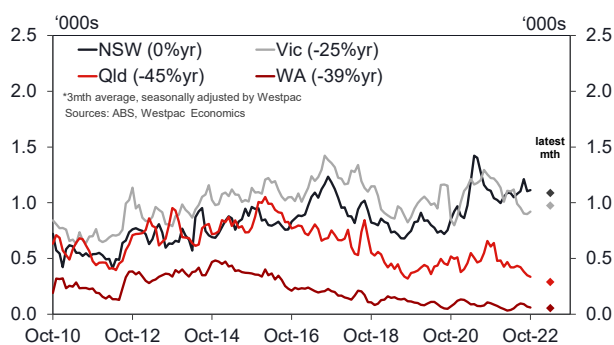
Total dwelling approvals: by state



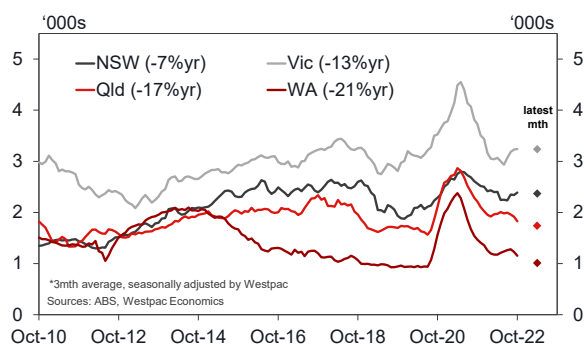
'High rise' approvals: by state



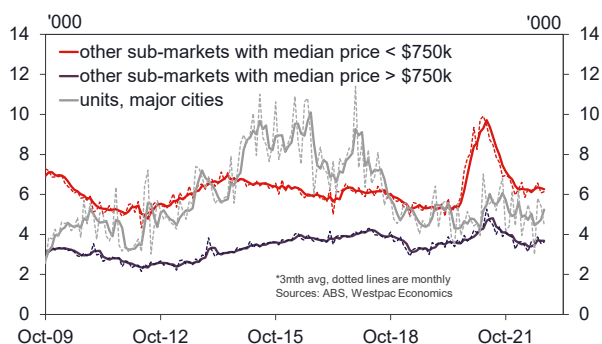
'Low-mid rise' approvals: by state



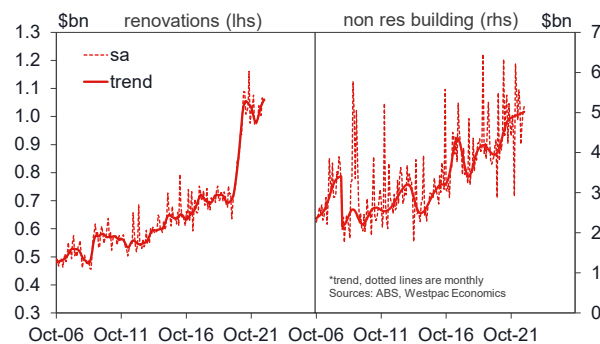
Detached house approvals: by state



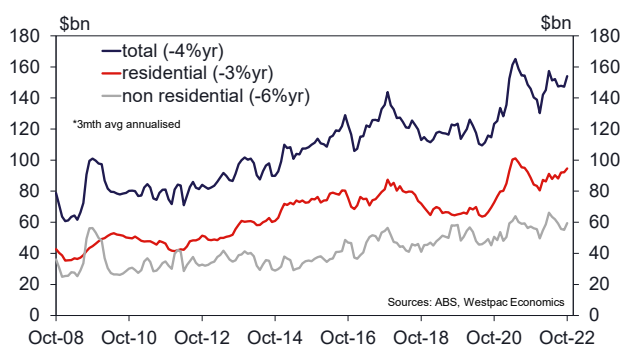
Dwelling approvals: selected groupings



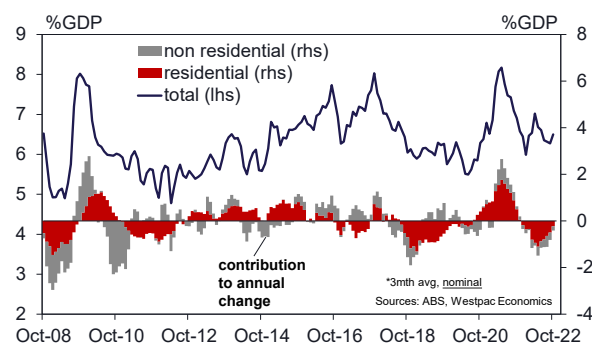
Value of renovation & non residential approvals



Total value of building approvals



Total value of building approvals, %GDP



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