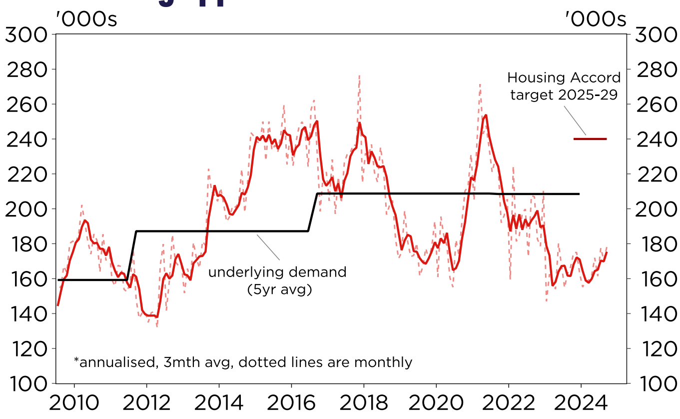
31 October 2024

AUSTRALIAN DWELLING APPROVALS BULLETIN

Modest up-trend starting to show through more clearly

- Total dwelling approvals rose 4.4% in the September month to be up 6.3% for the quarter, building on a 4.7% rise in the June quarter.
- Approvals are starting to show clearer signs of a modest up-trend forming.
- Detached house approvals are showing the clearest up-trend, with units still languishing at low levels.
- State divergences are becoming starker. NSW, Vic and Tas are showing no real signs of a pick-up but Qld, WA and SA are seeing robust gains. That mirrors a similar divergence in wider housing market performances and may also reflect differences in state government policy measures. These upturns may put additional pressure on already strained pipelines in WA and SA.
- Cost pressures appear to be seeing a sustained moderation.

Dwelling approvals



Total dwelling approvals +4.4%mth, +6.8%yr

A clearer picture of a gradual and uneven recovery

Matthew Hassan
Head of Australian Macro-forecasting

Dwelling approvals rose 4.4% in September, coming in slightly above the consensus forecast of a 2.1% gain. The latest month was the first relatively 'clean' read following some unit-led choppiness in August (–3.9%) and July (+10%). As such, the result is a clearer sign that a recovery is starting to gain some traction. That said, the detail shows the recovery is narrowly-based, mainly driven by detached house approvals in Queensland, Western Australia and South Australia. Several factors suggest this will continue to be the case near term.

Most of the figures in the table and in the accompanying charts show approvals in rolling three-month average terms, to tone down the volatility of the monthly data.

Detached houses lifting but units languish

As noted, the most positive signs are coming from private detached house approvals. While the segment trailed units in the month and over the quarter, it has shown more consistent trend gains since the start of the year – a positive sign for what is typically a more stable segment. Annual growth is running at 13.1%yr for quarterly approvals. That said, detached house approvals are still slightly below their 10yr average.

Meanwhile, units are still bumping around historic lows. As always, volatility makes this segment harder to assess but so far there are no convincing signs of a lift in either the aggregate or detailed picture. While the 8.3% rise in unit approvals for the September quarter may look promising, it follows a flat June quarter and sharp 17.6% drop in the March quarter.

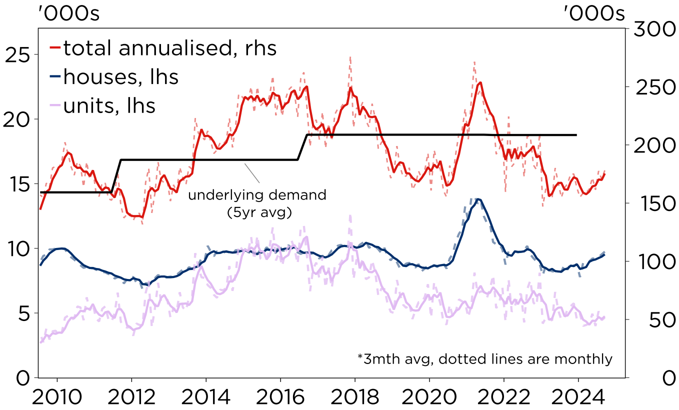
Most of this reflects shift in 'high rise' approvals where the broader picture is still fairly bleak – approvals over the last 12 months down 17% on the previous year and 60% below the highs seen nearly a decade ago. Rising construction costs have been a big issue for this segment over the last two years. Consumer preferences have also turned against high rise over the last decade despite dwellings in this space typically being more affordable than detached houses. 'Low-mid rise' unit approvals have been steadier but also softer in trend terms, declining 5.5%qtr and 5.8%yr. Consumers have shown a clearer preference for this type of dwelling, particularly in the large capital cities where affordability is more challenging. More generally, the lack of traction around unit approvals makes it much harder to meet the already ambitious Housing Accord target of 1.2m new dwellings by 2029. Higher density construction will be critical to accelerating housing supply.

Building approvals – September 2024

		3mth %chg*		%yr	
3mth avg	latest	Aug	Sep	Aug	Sep
Private houses	9,535	3.1	4.3	11.6	13.1
Private units	4,744	2.7	8.3	-5.1	-1.3
Public dwellings	341	31.5	43.9	-15.5	51.0
Total dwellings	14,620	3.4	6.3	5.1	8.6
Total dwellings, mthly*	14,842	-3.9	4.4	4.7	6.8
– units in 'high rise'^	2,420	-0.6	27.8	-13.5	6.3
– units in 'low rise'^	2,373	-0.8	-5.5	0.5	-5.8
Renovations, $bn	1.152	4.4	1.0	13.5	10.3
Non–res., $bn	5.261	-9.6	0.6	-32.2	-15.0

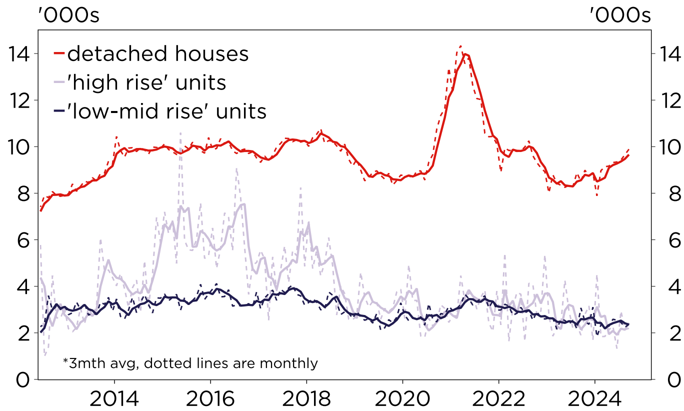
*figures for 'total dwellings mthly' are monthly and mthly%ch, all others are rolling 3mth avg and 3mth%ch; ^all sectors, Westpac estimates
Sources: ABS, Westpac Economics

Dwelling approvals: major segment



Source: ABS, Macrobond, Westpac Economics

Dwelling approvals: detailed segment



Source: ABS, Macrobond, Westpac Economics

States diverge

The other clear pattern showing through is the divergence across states. Unit-related noise obscures the picture a little but there look to be two clear groups forming. The first, comprising of NSW, Victoria and Tasmania, is showing little or no evidence of an upturn with quarterly approvals down 1.4%yr on a combined basis. The second, comprising of Queensland, WA and SA, is where the action is, quarterly approvals up 25%yr on a combined basis.

That split is also evident in wider market performances, dwelling price growth running at a double-digit annual pace across capital cities in the 'medium-sized' states but at a much slower pace in NSW and slipping lower in Victoria and Tasmania. There may also be a policy element to this divergence with the 'strong' states all introducing some variation on stamp duty concessions and/or additional grants for first home buyers.

The segment detail shows the divergence more clearly for detached houses. State 'high rise' approvals highlight the extent of noise rather than any clear trends while 'low-mid' rise approvals are generally oscillating around a down-trend, Queensland looking a little more stable.

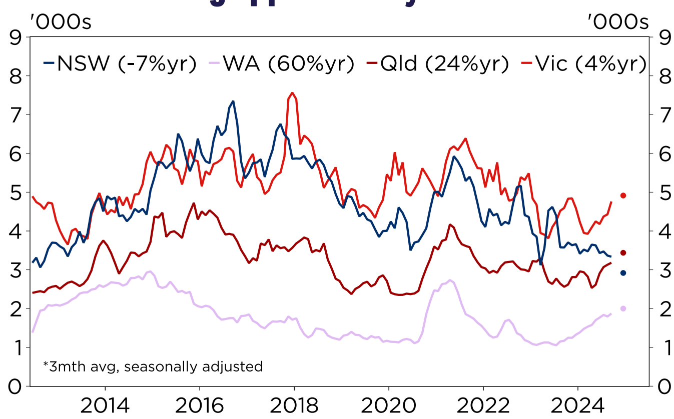
Pipeline pressures varying as well

It should be noted that the continued backlog of unfinished dwelling projects also shows significant variations by state. In some cases, the lift in new approvals will add to already high loading.

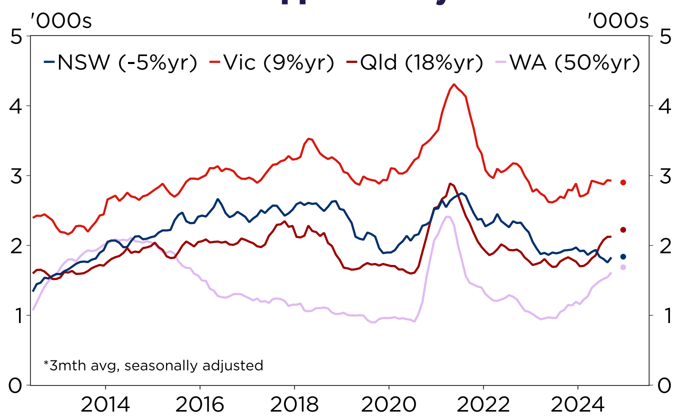
Figures to June 2024 show there are still 220k dwellings under construction nationally, down only marginally from the 240k peak seen when supply chain disruptions were most intense in 2022. Around 90k of these are detached houses, which peaked at 105k. This compares to pre-COVID levels of 60k for detached houses and 200k for all dwellings.

Relative to the current pace of completions, the state figures show the pipeline is a significantly larger backlog in Western Australia and South Australia, where it is still over a year's building. As such, the lift in new dwelling approvals in these states could even see the pipeline rise again from here, in Western Australia in particular. Conditions appear more balanced in the bigger south eastern states, with subdued new approvals likely to see a further rundown of backed up work in New South Wales and Queensland.

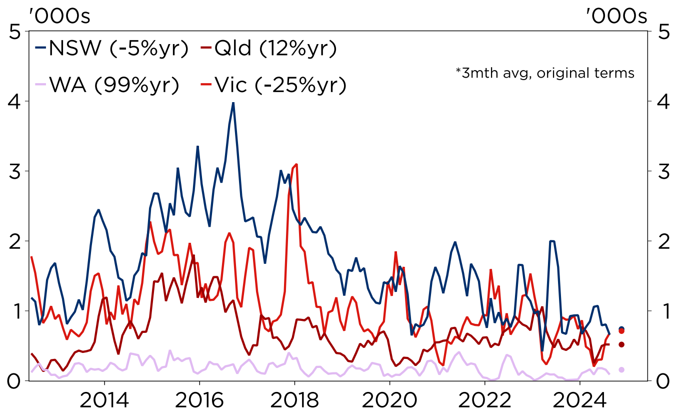
Total dwelling approvals: by state



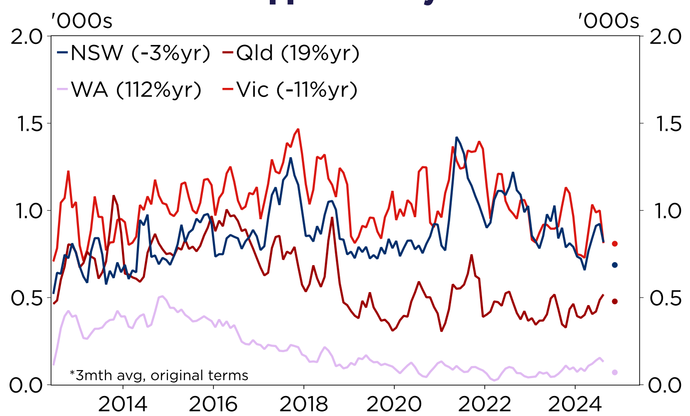
Detached house approvals: by state



'High rise' approvals: by state



'Low-mid rise' approvals: by state



Renovations and non residential building

The value of renovation approvals has been hovering a around a flat trend, dipping 1.3% in the September month but up 1% for the quarter. The quarterly value of approvals are still up 10%yr

Meanwhile, the value of non-residential building approvals has been stabilising after a big pull-back, up 3.6% in the month but just 0.6% for the quarter. Quarterly approvals are down 15%yr.

Note the cost escalation will be a factor in both of these approval measures. For renovations, that points to flatter underlying 'volumes' of work approved while for non-residential building it implies large outright declines.

We can get a sense of the cost side of building from the dwelling approvals data where we can back out estimates of the average value of dwellings approved, for detached houses in particular. This surged 20% when the cost-of-living crisis erupted in 2022, capturing the sharply higher cost of raw materials (steel and timber especially) and the sector's wider profitability issues stemming from fixed price contracting.

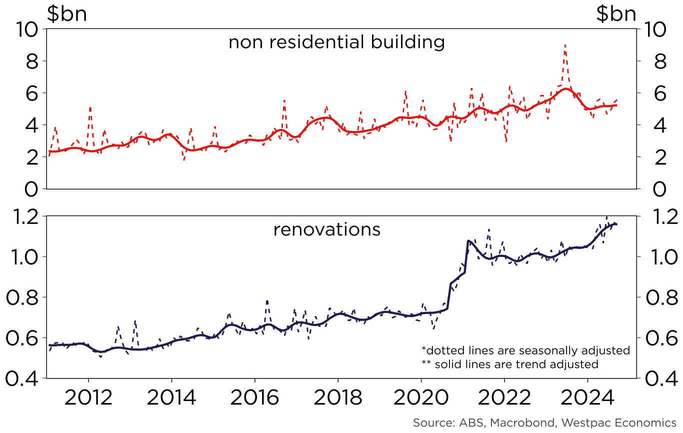
The latest update shows a continuation of the more sedate cost pulse that has emerged since mid year, annual growth in average house approval values holding just over 3.0%yr.

While this does not map perfectly to the house purchase cost component of the CPI, it is broadly consistent, perhaps hinting at some further moderation into year-end.

Conclusion

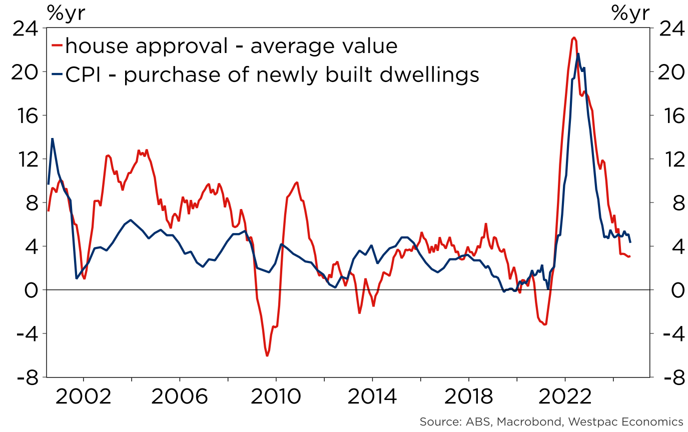
Overall, September dwelling approvals update provides clearer evidence that a recovery is starting to form but that it is narrowly-based, confined to detached houses and the 'mid-sized' states. That pattern looks likely to continue near term.

Value of renovation & non res approvals



Source: ABS, Macrobond, Westpac Economics

Dwelling approvals: avg value



Source: ABS, Macrobond, Westpac Economics

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