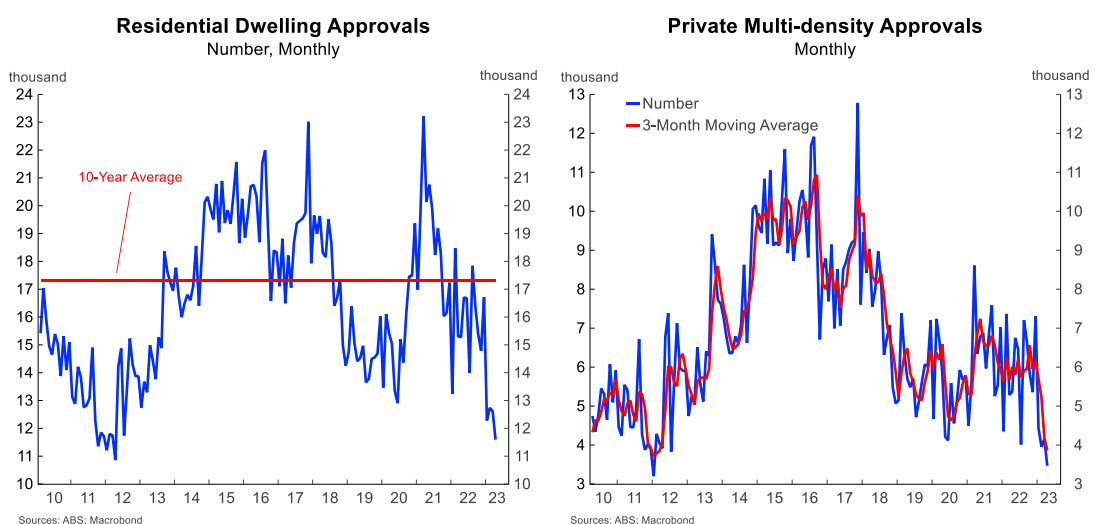


Tuesday, 30 May 2023

Building Approvals

Housing Imbalance Set To Get Worse

- New residential dwelling approvals declined by 8.1% in April. Approvals are now 50% lower than the cyclical peak in March 2021 and are at their lowest levels in over a decade (April 2012).
- The weakness is widespread. Approvals for private medium and high density dwellings declined by 16.5% over April, are 60% lower than the peak and are at their lowest level since January 2012. Approvals for private detached houses declined by 3.8% to be almost 20% lower than a year ago. Approvals across all states are significantly below the levels recorded a year ago.
- The forward indicators for housing supply are deteriorating quickly. On top of this, given the ongoing challenges facing the construction sector, more approved projects are being delayed or are in jeopardy; completions fell over the December quarter by almost 2%.
- While completions are coming down and likely to decline further, we have seen net overseas arrivals continue to power ahead. In fact, approvals for each additional working age person have reached a record low – suggesting that the imbalance will get worse before it gets better.
- It will take time for this imbalance to be resolved. During the mining investment boom, we had a record surge in population which saw migration reach the then record high of around 300k in 2008-09. Back then, the Reserve Bank (RBA) was cutting rates in response to the GFC, and it still took more than three years for significant new supply to come online. The RBA still has a tightening bias, which suggests that the supply response will be more delayed this time around.
- The extreme weakness in approvals means residential construction activity will continue to turn down and the imbalance will worsen.
- What are the implications? Excess demand for housing and too little supply means the cost of housing will increase – both rents and sales prices. This implies there's downside for non-housing consumption and, therefore, the broader economy.



Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist

Jarek Kowcza
jarek.kowcza@banksa.com.au
0481 476 436

Senior Economist

Pat Bustamante
pat.bustamante@banksa.com.au
0434 856 909

Economist

Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.