3 July 2012

Aus dwelling approvals spike

May approvals +27.3%mth, +9.3%yr (vs mkt +5%); High rise spike (+18ppts), WA disruptions (2ppts) but strength elsewhere as well

- **Dwelling approvals posted a very sharp rise in May, jumping 27.3% to be up 9.3%yr. A large positive was expected after Apr's report showed a 7.6% drop that was mainly due to temporary disruptions in WA, but not a gain of this order (consensus forecast was for a 6% rise).**
- **There were several factors behind the rise but by far the most significant was a spike in private sector 'units' (+59%mth) and more specifically 'high rise' approvals (+92%mth). This segment is notoriously volatile and is often thrown about when there are large multi-unit projects approved. That said, the May increase was spread across NSW, Vic and ACT and in the case of NSW and Vic may reflect state government policy changes as well as a lumpy project pipeline.**
- **Private sector house approvals posted a strong albeit less spectacular 8.7%mth rise. The expected rebound in WA was actually weaker than anticipated (+14%mth from a 35% slump in Apr) suggesting a 'return to normal' here will again be a positive in June. Ex WA strength was broad based gains in NSW (+3%mth) and Vic (+6.5%mth) and rebounds in Qld (+12%mth) and SA (16.5%mth).**
- **The value of renovation approvals continued to decline but non-residential building approvals spiked as well (+71%mth) led by NSW offices (likely the $6bn Barangaroo development) and the health care sector in WA.**
- **Overall, the spectacular headline rise in dwelling approvals may exaggerate the situation but even stripping out technical rebounds and likely one-off spikes and transitory influences there is enough strength left over to indicate a material improvement in conditions. Dwelling construction will still fall in a 'hole' through the middle of this year, particularly in Vic, but the May approvals data suggests there is likely to be a recovery on the other side.**

Dwelling approvals registered an extraordinary spike in May with a 27.3% jump taking total approvals to their highest level since Jan last year. A strong gain had been expected as a gap in the approvals process in WA in April resumed. This was expected to add close to 8% to total approvals with activity elsewhere expected to be relatively flat.

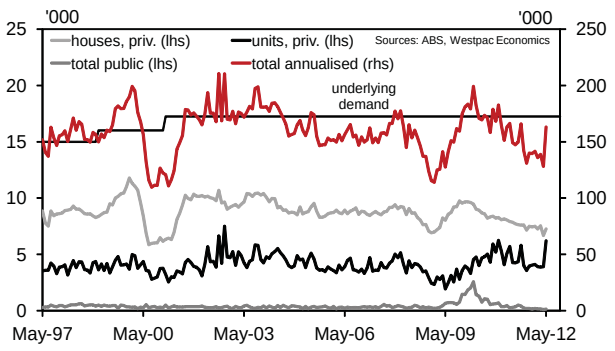
Instead, the recovery in WA was massively augmented by a spike in 'other dwelling' approvals,which includes large multi-unit apartment projects, and strong gains ex-WA. Indeed, if anything the recovery in WA was smaller than expected with only a partial rebound in private sector houses for example – suggesting there is more upside to come from this effect alone.

Building approvals — May 2012

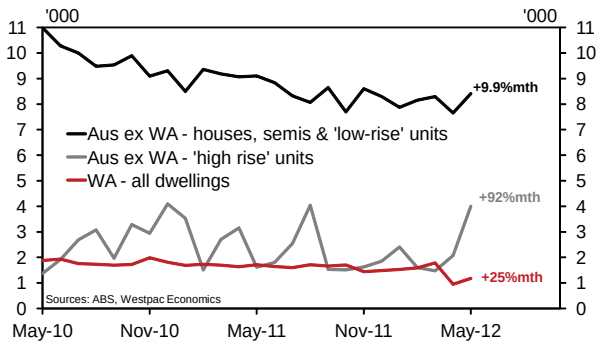
Seasonally adjusted		% chg mth		% chg yr	
	May level	Apr	May	Apr	May
Private houses no.	7,256	-11.4	8.7	-15.6	-7.7
Private units no.	6,197	0.9	58.7	-31.5	45.4
Public dwellings no.	138	-38.5	43.8	-61.0	-54.9
Total dwellings no.	**13,591**	**-7.6**	**27.3**	**-23.0**	**9.3**
Renovations trend $bn	0.512	-1.0	-0.9	-7.5	-8.3
Non-res. trend $bn	2.502	4.4	5.3	-1.5	4.3

Sources: ABS, Westpac

Dwelling approvals



Dwelling approvals: WA, high rise and the rest



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In terms of straight contributions to the 27% monthly rise, 18ppts came from the spike in 'high-rise' approvals, 2ppts came from the partial return to normal in WA, and the rest, 7ppts, was due to strength elsewhere.

Private 'other' dwelling approvals spiked an extraordinary 58.7%mth, rising 47% and 66% in NSW and Vic respectively. The bulk of this was 'high-rise' (units in dwellings of four storeys or more) which catapulted 158% higher in the month to the highest reading since 2002 - when investor-driven developments in NSW and Vic were at their peak. That sort of spike is very unlikely to be sustained, with a pull-back in June to be expected.

That said, it is difficult to tell how much of the surge reflects large specific projects such as the Barangaroo development in Sydney, and how much may be more general demand. Notably, the 2k May increase in 'high rise' approvals was fairly evenly spread across NSW (0.9k), Vic (0.8k) and ACT (0.5k) suggesting at the very least several large projects but possibly also a more general increase. The latter could be partly due to a range of state government policy changes in both NSW and Vic. The NSW state government has shifted the focus of stamp duty concessions from first home buyers to those building or purchasing newly built dwellings, both first time buyers and other purchasers. In Vic, the June 30 expiry of existing incentives of first home buyers building or purchasing newly built dwellings may also have encouraged many to bring forward projects.

Private sector house approvals surged 8.7%mth, with an 8%mth gain ex WA that points to broader underlying strength. Housing finance approvals had been pointing to a firmer track for dwelling approvals up to April, so some of the May gain may be a 'catch-up'/correction.

By state, private sector house approvals are in a firm uptrend in NSW and rose strongly in the month in Vic (+6.5%mth), but have been very volatile in Qld and SA with WA posting only a partial rebound (+14.2%mth after a 34.8%mth collapse in April).

The value of renovation approvals continued to trend lower at a relatively strong 10% annual pace with the decline moderated somewhat by the return to normal in WA (+31%mth).

The value of non-residential building approvals spiked 71% in May due to a mix of a recovery from interruptions in WA and specific projects (a large health project in WA and office in NSW, most likely the $6bn Barangaroo development).

Big picture

Although there are clearly one-off factors behind May's strength – large projects and the WA disruptions in particular – there also appear to be policy influences driving some genuine improvement that looks likely to be sustained. Some of these policy influences, particularly state government policy induced pull-fowards in demand, will not last and will likely see subsequent fall backs. But others, such as incentives favouring purchases of newly built dwellings over existing and, of course, lower interest rates, will have a more enduring positive impact on momentum. Judging the mix will remain difficult near term, and the bounce in approvals is not enough to prevent a 'hole' in construction activity through the middle of this year, particularly in Vic, but it is enough to strongly suggest there will be some form of recovery on the other side.

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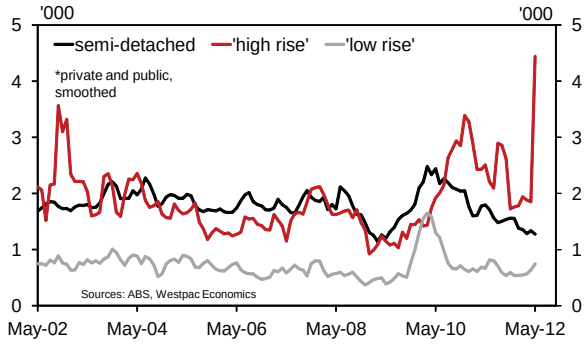
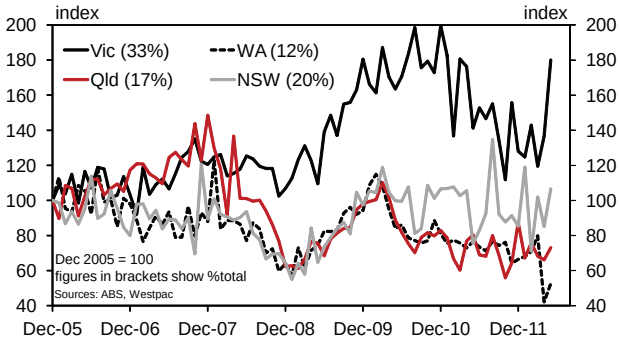
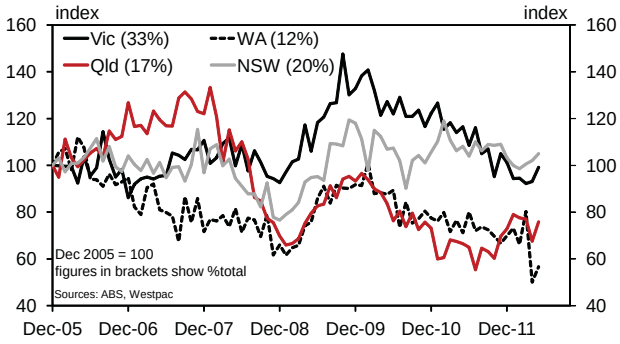
'Other' dwelling approvals: segments



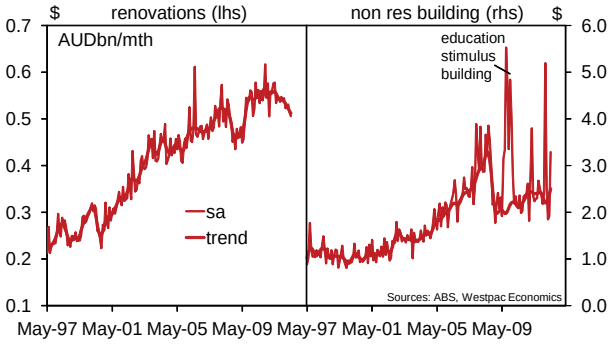
States: total dwelling approvals



States: private house approvals



Value of renovation & non res approvals



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