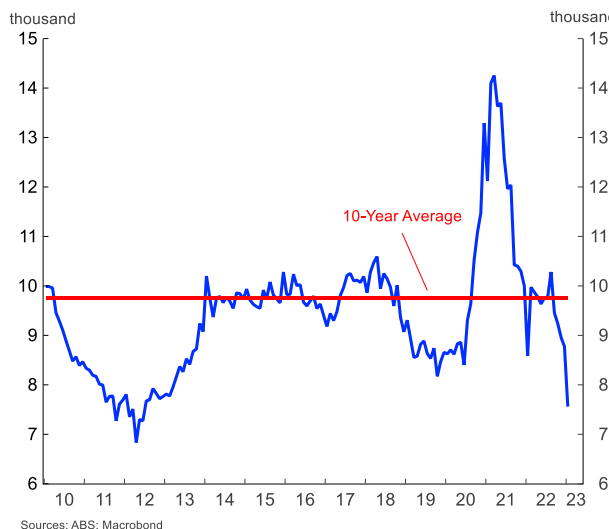


Building Approvals

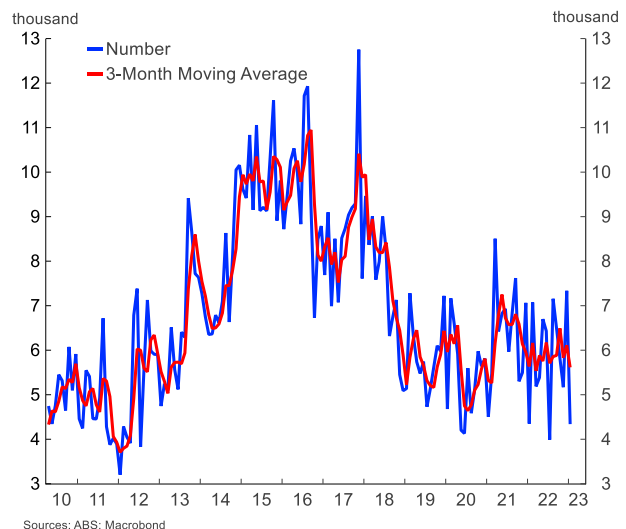
Ominous Sign for Renters as Approvals Slump

- Private sector approvals have slumped to their lowest level since July 2012. Compared to their peak in March 2021, private sector approvals have fallen by almost 50%. The number of both house (-13.8%) and multi-density approvals (-40.8%) declined over the month of January.
- Approvals for houses declined across all states and territories, while multi-density approvals increased in the mining states of Queensland and Western Australia.
- The rate of new private sector dwelling approvals has been falling steadily. Elevated material and labour costs in the construction sector have combined with rising interest rates to reduce demand for new housing.
- The weakness is likely to persist for some time, putting further upward pressure on rents as booming demand from high migration pushes up against inelastic supply. We have previously argued that higher interest rates will delay the supply side response compared to other periods where we have experienced strong population growth.
- We are seeing this play out. Just yesterday, ABS data showed that average rents across Australia increased by almost 5% in the year to January 2023. Newly advertised capital-city rents increased by 11.6% in annual terms to the end of February 2023 – the highest on record (since the early 2000s). Eventually, higher rents will entice investors to return to the market. We expect this to happen towards the end of 2023 in some pockets, only after further rent hikes.

Private Sector House Approvals
Number, Monthly



Private Multi-density Approvals
Monthly



The total number of dwellings approved fell 27.6% in January, to be 8.4% lower in annual terms.

Detached House Approvals

Approvals for private sector houses fell by 13.8%, to be the lowest result recorded since June 2012. Taking a step back, new house approvals have tumbled by almost 50% since their peak in March 2021 and are running well below the average rate of the past 10 years.

Clearly, the slow-down in demand for the construction of new detached houses has been material. However, this is not especially surprising given the elevated cost of construction and rise in borrowing costs. Additionally, the HomeBuilder policy induced a large bring forward of demand and the unwind of that policy has also been flowing through. It will likely take a reversal of the headwinds to demand for new house approvals to turn a corner.

Multi-Density Approvals

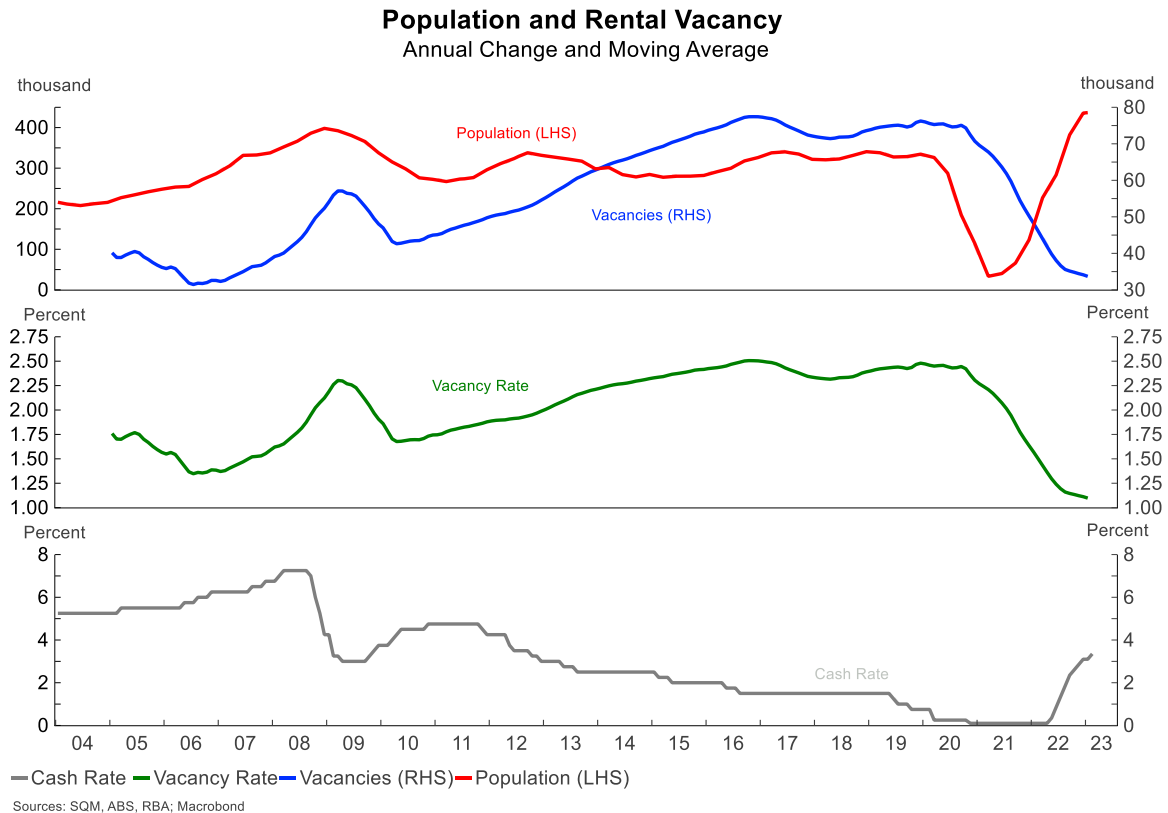
Private multi-density approvals fell 40.8%, demonstrating that multi-density approvals are not immune to the headwinds facing new housing demand.

The 3-month moving average, which accounts for some of the month-to-month volatility, reveals that a gradual slowdown is also underway in multi-density building approvals. This measure suggests that approvals have fallen 22.5% since their peak in May 2021, despite the spike in apartment approvals in December. Indeed, average approvals over the three months to December were running well below the 10-year average.

Impact on rents

The downturn in the residential construction sector will put further upward pressure on rents as booming demand from high migration pushes up against inelastic supply.

We have previously argued that higher interest rates will mean the supply side response will be delayed compared to other periods where we have experienced strong population growth.



Last time we had as strong a pickup in migration was in 2008-09; back then, interest rates were falling in the aftermath of the GFC. This led to a strong supply side response and increase in rental properties. In this cycle, we expect the supply response to lag, exacerbating the pressure in rents.

By State

Across Australia, total dwelling approvals decreased in every state and territory bar one. Only Queensland recorded an increase, driven by apartment developments approved in January.

State	Residential Building Approvals by State								
	Total			Private Sector Houses			Private Sector Other		
	Number	Monthly Chg. %	Annual Chg. %	Number	Monthly Chg. %	Annual Chg. %	Number	Monthly Chg. %	Annual Chg. %
NSW	2,599	-49.0	-32.4	1,749	-17.3	-11.8	815	-72.3	-55.6
VIC	3,586	-38.6	-5.6	2,570	-9.9	-1.0	984	-61.0	-13.5
QLD	3,525	25.6	15.1	1,406	-16.6	-21.2	2,098	88.5	71.5
SA	845	-6.5	-0.4	731	-2.8	0.6	113	-14.4	-6.6
WA	1,050	-7.9	-12.7	867	-18.7	-23.7	112	86.7	918.2
AUS	12,065	-27.6	-8.4	7,560	-13.8	-12.0	4,340	-40.8	-0.3

Pat Bustamante, Senior Economist

Ph: +61 468 571 786

Contact Listing

Chief Economist

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

Senior Economist

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

Senior Economist

Pat Bustamante
pat.bustamante@stgeorge.com.au

Economist

Jameson Coombs
jameson.coombs@stgeorge.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 St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George 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 St.George products and details are available. St.George 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. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.