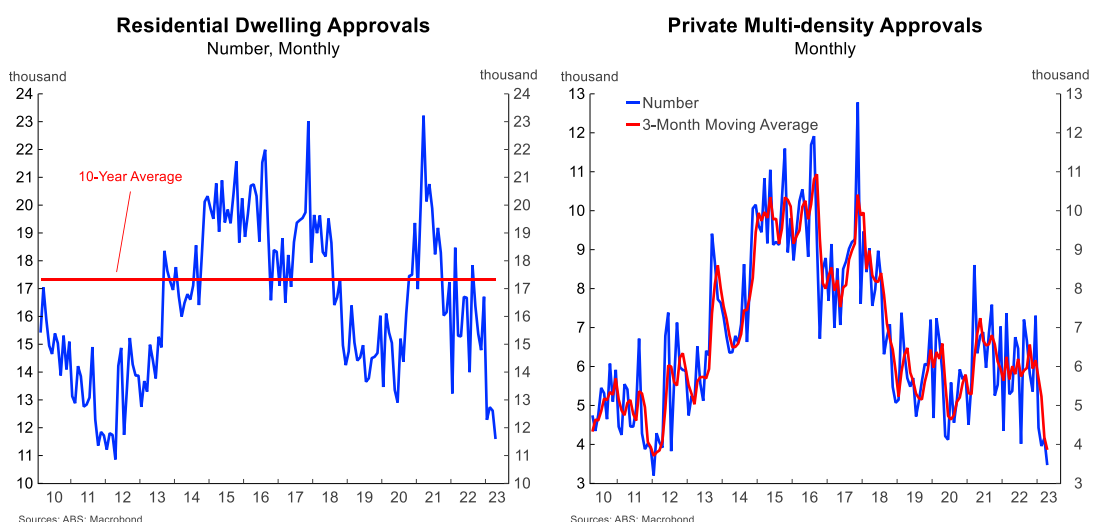


Building Approvals Housing Imbalance Set To Get Worse

- 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.



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