Australian dwelling approvals drop
Sep approvals −11%mth, −13.4%yr (vs mkt −1%)
Clearer signs of a turning point? Coming from a high level but how fast the descent?

• Dwelling approvals came in much weaker than expected in Sep with an 11% fall that was concentrated in Vic but included significant declines in most states and segments. The market was expecting a slight 1% decline. Westpac was forecasting a 2% fall.

• Note that approvals were coming from a high starting point, with the Aug reading consistent with a 200k annual reading. Big monthly moves are also quite common for total dwelling approvals – historically, 4 in every 10 monthly observations has been a move of over 5% while 1 in every 10 has been over 10%.

• Some pull-back was expected in Sep as Aug’s 3% gain was heavily concentrated in NSW and Vic units – a segment where large projects often result in big month to month swings. The detail confirms this was a factor in Sep – unit approvals in Vic and NSW were down 12.8%mth and 27.8%mth respectively, reversing Aug gains of 20.9%mth and 30.7%mth respectively. However, weakness went well beyond this particular segment. Unit approvals ex NSW and Vic were also down 12.9%mth.

• Private sector house approvals were down notably with a 2.3%mth fall that is a relatively big move for this more stable segment. Here the weakness was more heavily concentrated in Vic which registered a 14.3% drop. The Vic weakness suggests there may have been some ‘extenuating circumstances’ in the month. The Vic state government has amended the way its residential zoning system that came into effect at the end of Oct and may have contributed to swings.

• Other aspects of the survey were a touch better. The value of renovation approvals rose 0.7%mth to be up 10.1%yr and 3.4%qtr. The quarterly gain follows a 1.3% decline in Q2 and an 8.7% surge in Q1. The state breakdown shows renovation activity rising strongly in NSW and Vic and on a flatter and lower trajectory in Qld and WA.

• The value of non-residential building approvals rose 1.4%mth but remains well down on levels a year ago (−22.9%yr). Approvals are down across all states although again the weakness is more pronounced in Qld and WA.

• Clearly the Sep result for dwelling approvals is a weak one that goes beyond simple one-off factors. It points to a turn in the cycle from an apparent peak at the start of the year into some sort of downswing. Gauging the pace of that downswing is now the key. Survey volatility and some possible extenuating factors in Vic means getting a good fix on the slowdown will require several more observations. In the meantime actual dwelling construction is likely to remain strong as the previous backlog of approvals comes through, with the slowdown only coming through once we are well into 2015.

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