

## House & renovation approvals hit record highs Record April new car sales & construction activity

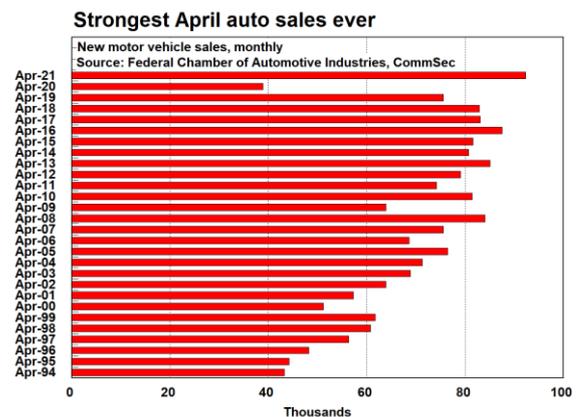
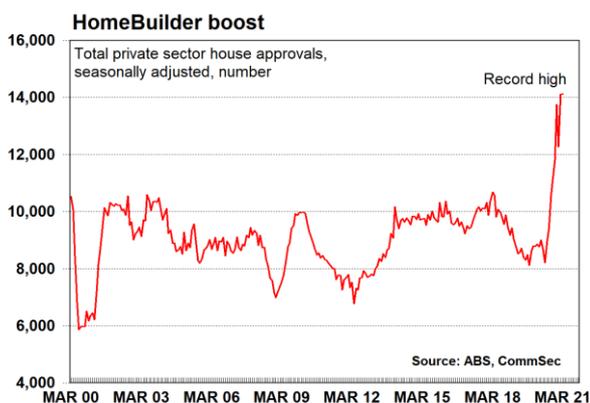
Building approvals; New vehicle sales; Construction gauge; Services activity

- Dwelling approvals:** Council approvals to build new homes rose by 17.4 per cent to 23,176 units in March – the most in 3 years. Approvals are up 47.4 per cent on a year ago – the strongest annual growth rate in 11 years. Private sector house approvals were up 0.1 per cent to an all-time high of 14,117 units. The value of alterations & additions approved were up by 7.3 per cent in March to a record \$1,072.5 million.
- New vehicle sales:** New vehicle sales totalled 92,347 units in April – the highest number of sales for the month of April on record. Sales are up 137.2 per cent on a year ago. In the 12 months to April, sales totalled 1,000,676 – a 13-month high – to be up 1.0 per cent on a year ago.
- Construction sector:** The Australian Industry Group (AiGroup) and HIA (Housing Industry Association) Performance of Construction index (PCI) eased from a record high of 61.8 in March to 59.1 in April. But the underlying PCI activity index climbed 5.1 points to a record high of 62.8 with engineering construction activity at all-time highs of 63.8. And the PCI selling prices index rose by 1.5 points to an historic high 73.3. Readings above 50 indicate an expansion of activity.
- Purchasing managers' indexes (PMI):** The 'final' IHS Markit services purchasing manager index rose from 55.5 in March to a record 58.8 in April. The composite index, which measures combined services and manufacturing output, rose from 55.5 to an historic high of 58.9. Readings above 50 indicate an expansion of activity. Data collection began in May 2016.

*The building approvals and lending finance data has implications for banks, retailers, developers, building and building material companies. New vehicle sales data provides insights into business and consumer spending and provides guidance on conditions for the Autos and Components sector of the sharemarket. The Performance of Construction index provides insights for business conditions in the sector. The purchasing manager index gives a guide to conditions in manufacturing and services sectors.*

### What does it all mean?

- It's been quite the week for the Aussie property market. National home prices are straddling record highs, the value of new home lending commitments are at historic highs and council approvals to build new private detached houses are at all-time highs. Leading indicators of construction activity are also at the highest level on record,



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pointing to continued home price gains this year and next. Commonwealth Bank (CBA) Group economists expect prices to lift by a combined 14 per cent in 2021 and 2022.

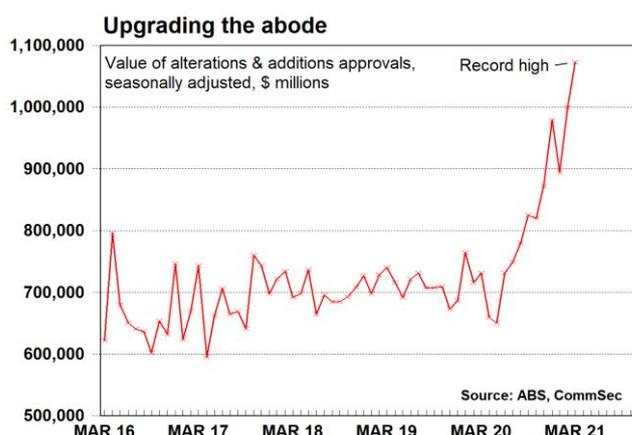
- That said, home price growth and residential building activity could ease from elevated levels as affordability constraints for first home buyers, the HomeBuilder expiry, shortages of tradies, supply disruptions, rising building material costs and slower population growth combine to weigh on demand. Of course, a prolonged period of record low interest rates - as signalled by the Reserve Bank - remains a key support for new home building and 'renos'.
- The Australian Industry Group (AiGroup) and Housing Industry Association's (HIA) Performance of Construction index (PCI) eased from historic highs in April. But the underlying activity index climbed 5.1 points to a record high of 62.8 points as building work increased ahead of the HomeBuilder grant deadline on March 31. While house building activity is a smidgen below February's record levels, engineering construction lifted 2.3 points to an all-time high of 63.8 as infrastructure-related building cranked up a gear courtesy of state government spending.
- And the pipeline of residential building work is expected to remain elevated in the near-term if leading indicators of activity, such as building approvals, are any guide. Council approvals to build new homes surged by 17.4 per cent to 23,176 units in March – the most in 3 years. Approvals are up 47.4 per cent on a year ago – the strongest annual growth rate in 11 years. Private sector house approvals were up 0.1 per cent to an all-time high of 14,117 units. The value of alterations & additions approved were up by 7.3 per cent in March to a record \$1,072.5 million.
- Western Australian building approvals - while down in March - were up a massive 129.2 per cent on a year ago. And the rolling annual number of Greater Perth building approvals hit a 4½-year high of 19,427 units in March. The building boom is also evident in Queensland and South Australia with March approvals up 82.2 per cent and 69.6 per cent, respectively, on a year ago. Rolling annual numbers are broadly at 2-year highs in both states.
- New car sales have bounced back from their most recent cycle low in October 2020. Sales totalled 92,347 units in April – the most sales for an April month on record. Sales are up 137.2 per cent on a year ago – from the depths of pandemic lockdown.
- While the global semiconductor chip shortage is weighing on the supply of new cars for eager car buyers, it boosting the profits of car dealerships with less price discounting due to low inventories and strong buyer demand. Peter Warren Automotive (PWA Holdings) made a successful Aussie sharemarket debut last week, joining Eagers Automotive and Autosports Group as the only car dealership groups on the Australian Stock Exchange.



## What do you need to know?

### Building Approvals – March

- **Council approvals to build new homes** rose by 17.4 per cent to 23,176 units in March – the most in 3 years. Approvals are up 47.4 per cent on a year ago – the strongest annual growth rate in 11 years.
- **Total house approvals** rose by 1.2 per cent to a record-high 14,404 units in March to be up 62.2 per cent on a year ago. **Private sector house approvals** were up 0.1 per cent to an all-time high of 14,117 units to be up 60.9 per cent on a year ago. **Public sector house approvals** surged 117.4 per cent in March to 287 units but were still up a massive 173.3 per cent on a year ago.
- **Apartment approvals** jumped 59.4 per cent to a 2½-year high of 8,772 units in March to be up 28.1 per cent on a year ago.
- **Over the past year** 198,439 new homes were approved - a 2-year high.
- **Dwelling approvals across states in March:** NSW (+26.9 per cent); Victoria (+24.7 per cent); Queensland (+12.1 per cent); South Australia (+3.5 per cent); Western Australia (-6.4 per cent); Tasmania (-4.8 per cent).
- **The value of all commercial and residential building**



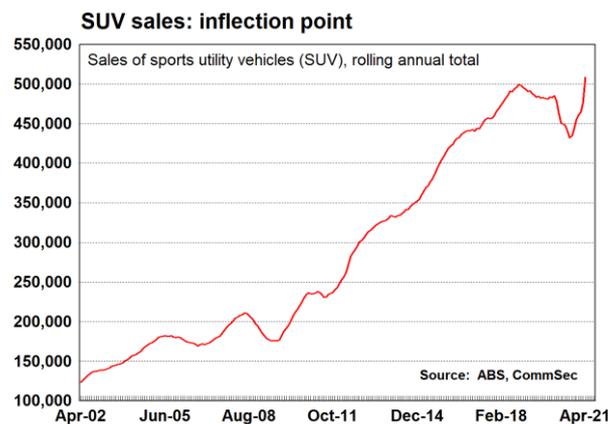
approvals rose by 36.3 per cent in March. Total residential approvals lifted 22.9 per cent with new building up 25.4 per cent and alterations & additions up by 7.3 per cent to all-time highs. Commercial building jumped 59.4 per cent.

**New vehicle sales - April**

- New vehicle sales totalled 92,347 units in April – the highest number of sales for the month of April on record. Sales are up 137.2 per cent on a year ago.

**The Federal Chamber of Automotive Industries reported:**

- “The April 2021 market of 92,347 new vehicle sales is an increase of 53,421 vehicle sales or 137.2 per cent on April 2020 (38,926) vehicle sales. April 2021 had 23.6 selling days compared to April 2020 with 23.9 which resulted in an increase of 2284.3 vehicle sales per day.
- The Passenger Vehicle Market is up by 8,906 vehicle sales (97.2 per cent) over the same month last year; the Sports Utility Market is up by 31,154 vehicle sales (172.9 per cent); the Light Commercial Market is up by 12,278 vehicle sales (130.1 per cent); and the Heavy Commercial Vehicle Market is up by 1,083 vehicle sales (46.9 per cent) versus April 2020.
- Toyota was market leader in April, followed by Mazda and Mitsubishi. Toyota led Mazda with a margin of 10,156 vehicle sales and 11.0 market share points.”
- Sales across states and territories over the year to April: NSW (up 143.9 per cent); Victoria (up 142.0 per cent); Queensland (up 144.4 per cent); South Australia (up 134.7 per cent); Western Australia (up 139.0 per cent); Tasmania (up 157.6 per cent); Northern Territory (up 98.4 per cent); ACT (up 4.1 per cent).
- In the 12 months to April, sales totalled 1,000,676 – a 13-month high – to be up 1.0 per cent on a year ago. In the year to April, SUVs accounted for a record 69.3 per cent of combined SUV and passenger car sales.

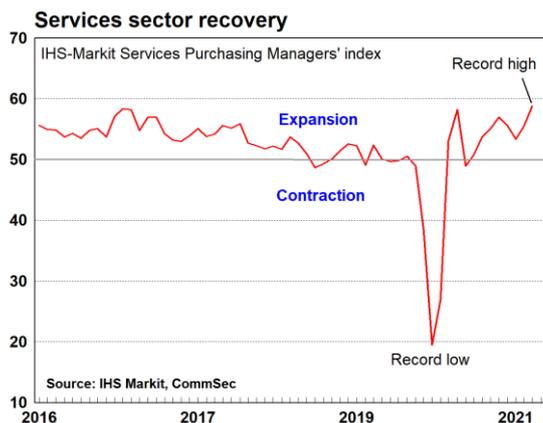


**AiGroup & HIA Performance of Construction index (PCI) – April**

- The Australian Industry Group (AiGroup) and HIA Performance of Construction index (PCI) eased from a record high of 61.8 in March to 59.1 in April. Readings above 50 indicate an expansion of activity.
- In seasonally-adjusted terms, PCI activity rose 5.1 points in April to a record 62.8. But employment fell 3.9 points to 59.2. New orders lost 7.7 points to 57. Supplier deliveries were down 6.1 points to 56.0 – but all three readings are hovering just below historic highs in March. And input prices eased 0.4 points in April to 92.5. Selling prices rose 1.5 points to a record 73.3 and average wages fell 6.4 points to 65.4.
- Ai-Group noted: “The new orders index appears to have peaked in Q1 of 2021, reflecting the very successful HomeBuilders program. This is in line with recent house approvals and financing trends. Although approvals have already peaked, the pipeline of work created by this spike in demand is likely to keep home builders busy for many months to come.”
- And, “Builders across all sectors continue to report shortages of skilled trades contractors, key supplies and components. They also report rising input prices, freight delays and high freight charges. Home builders remain wary of a post-HomeBuilder demand slump but are hopeful that low interest rates and other factors will help to support demand.”

**IHS Markit Purchasing Managers’ indexes (PMI) – April**

- The ‘final’ IHS Markit services purchasing manager index rose from 55.5 in March to a record 58.8 in April. The composite index, which measures combined services and manufacturing output, rose from 55.5 to an historic high of 58.9. Readings above 50 indicate an expansion of activity. Data collection began in May 2016.
- IHS Markit economists reported, “April PMI data signalled that business activity across the Australian service sector rose at the strongest pace since data collection began in May 2016, reflecting further moves towards recovery. This was aided by the further easing of COVID-19 restrictions which boosted customer confidence and demand alike.”
- And, “Service providers were enthused by the upturn in demand and expanding their workforce numbers at the joint-fastest pace on record. Nonetheless, strains on business capacity remained evident and intensified amid ongoing supplier delays.”



### What is the importance of the economic data?

- The Bureau of Statistics' monthly **Building Approvals** release contains figures on local council approvals to build residential structures such as homes and units as well as commercial premises such as offices and shops. Approval is one of the first stages of the construction 'pipeline' and is thus a key leading indicator of future activity. An increase in approvals would point to stronger future activity for construction-related companies.
- The **Federal Chamber of Automotive Industries** releases estimates of **new vehicle sales** on the third business day of the month. The figures highlight the strength of consumer spending as well as conditions facing auto & components companies.
- The Australian Industry Group compile the **Performance of Manufacturing Index**, the **Performance of Services index** and the **Performance of Construction index** each month (the latter with the Housing Industry of Australia). **IHS Markit** also compile **purchasing manager surveys** for manufacturing and services sectors. The surveys are amongst the timeliest economic indicators released in Australia. The surveys are useful not just in showing how key sectors are performing but also in providing some sense about where they are headed. The key 'forward looking' components are orders and employment.



### What are the implications for investors?

- The HomeBuilder stimulus has been incredibly successful. Commonwealth Treasury data shows that 121,363 HomeBuilder applications have been received since June 2020 with Victorian applications highest at 35,169 as at April 9, 2021. The federal government has said that the scheme has supported around \$30 billion of residential projects, supporting jobs and boosting building activity following the pandemic shock.
- While there are concerns that the demand pull-forward of council building approvals ahead of the HomeBuilder expiry could ease, construction bottlenecks have seen the federal government recently announce the extension of the building commencement requirement of the program, supporting activity. That said, construction prices are lifting with the PCI selling prices up 1.5 points in April to 73.3, signalling that builders are passing on their cost increases to home buyers and renovators. With inflationary pressures building - and home prices and new investor lending lifting – housing credit growth appears set to accelerate. Given this backdrop, an eventual policy response from regulators appears likely.

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