



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

1 August 2016

Construction will continue to power the economy in 2016/17

Coalition returns to power with slim majority

Update: The House of Representatives seat of Herbert (in Northern Queensland) was 'called' for the Labor opposition yesterday. Legal challenges notwithstanding, that means the Coalition returned to power having won 76 of the 150 seats. To update from two weeks ago: the ALP won 69 seats, with one seat each for the Greens, Katter's Australia Party and the Xenophon Team. The new House of Reps will also contain two independent members from Tasmania and Victoria.

Insight: There will be many tests for the Federal government under this scenario. Political uncertainty may damage consumer and business confidence, and potentially activity. What of the construction industry?

Is the construction outlook little changed?

Update: The answer to that question is probably 'yes'. We are in for another period of political uncertainty, but the new home building cycle should largely track along as indications currently suggest.

Insight: Our latest forecasts will be released during the week beginning August 8th. That will include a review of our newly released regional new housing forecasts. For further information go to:

<http://hia.com.au/en/BusinessInfo/economicInfo/housingForecasts.aspx> The ACI *Construction Monitor* highlights a number of opportunities for non-residential construction – primarily led by the infrastructure investment boom unfolding in Sydney and to a lesser extent Melbourne. See:

<http://aciresearch.com.au/en/Publications.aspx>

RBA in the frame this week

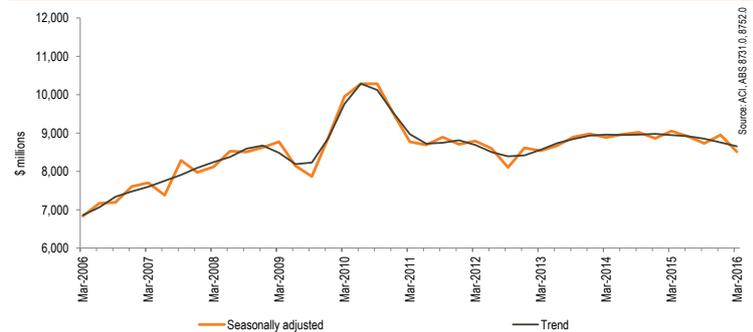
Update: At its meeting on 5th July, the RBA left the Official Cash Rate (OCR) at 1.75 per cent for the third consecutive month. We may not make a fourth month.

Insight: As we have previously noted, with such weak inflationary pressures the RBA has plenty of room for manoeuvre on interest rates. It received additional manoeuvrability last week when the June quarter inflation figures confirmed a very weak inflationary pulse for the Australian economy. Core inflation is running at 1.5 per cent, the slowest rate in 13 years. Some argue that we shouldn't be getting carried away with the low inflation outcome – the OCR is already at a record low. That is a valid point. At the end of the day, though it is about what the RBA does do, not what it should do, and we think the Bank will cut the OCR to 1.50 per cent tomorrow.

Top of the charts: Non-res construction

Update: We've seen the pipeline of non-residential building work easing back since mid-2014, and this continued into the first quarter of 2016. The preliminary estimate of work done during the March quarter fell to the lowest level since the September quarter of 2012. However, there are some bright spots.

TOTAL VALUE OF NON-RESIDENTIAL BUILDING WORK DONE



Insight: Overall the value of non-residential building work done in the March 2016 quarter was down by 4.4 per cent compared with the level a year earlier. This is obviously a soft result. However, demand for non-residential building comes from all corners of the economy – from almost every major industry and from both the public and private sectors. It is important to note that not all of them are underperforming at present. Work done posted strong year on year gains on building for: entertainment and recreation; retail and wholesale trade; short term accommodation; and aged care facilities. See the table below and for further detail see the ACI *Construction Monitor* (<http://aciresearch.com.au/en/Publications.aspx>).

A faltering US economy

Update: Latest data shows the US economy growing at a markedly slower pace (1.2 per cent) in the first half of 2016 than was expected (2.5 per cent).

Insight: That result has of course got the pessimists hoping as the prospect of the US joining the crowded ranks of under-performing global economies increases. The Federal Open Market Committee (FOMC) won't lift interest rates in a hurry, but talk of an imminent rate cut here has increased following this latest growth update for America.

The fortnight ahead – key releases**Monday 1 August**

CoreLogic Home Value Index, July 2016, 10:00am

HIA *New Home Sales Report*, June 2016, 11.00am**Tuesday 2 August**

ABS Building Approvals, June 2016, 11.30am

RBA Interest Rate Decision for August 2016, 2:30pm

Friday 5 August

AiG/HIA Performance of Construction Index (PCI), July 2016, 9:30am

RBA Quarterly Statement of Monetary Policy, 11.00am

Tuesday 9 August

ABS Census Night 2016

Wednesday 10 August

ABS Housing Finance, June 2016, 11:30am

Key Construction Indicators

	Work done in year to March 2016 (\$ million)	Change year on year	Change quarter on quarter
Retail and wholesale trade buildings	6,592	4.1%	13.5%
Transport buildings	905	-28.7%	-44.5%
Offices	6,372	-0.5%	-19.0%
Commercial buildings n.e.c.	411	25.7%	101.6%
Commercial Buildings - Total	14,280	-0.4%	-6.1%
Factories and other secondary production buildings	911	10.0%	-5.9%
Warehouses	2,952	2.4%	-25.7%
Agricultural and aquacultural buildings	422	26.3%	36.4%
Other industrial buildings n.e.c.	680	-26.6%	-8.6%
Industrial Buildings - Total	4,966	-0.1%	-15.6%
Education buildings	4,096	-14.7%	-14.2%
Religion buildings	171	-31.3%	-29.3%
Aged care facilities	1,770	43.4%	47.4%
Health buildings	4,529	-9.7%	-27.2%
Entertainment and recreation buildings	2,689	23.9%	56.2%
Short term accommodation buildings	2,127	41.4%	39.1%
Other non-residential n.e.c.	1,705	-23.0%	-15.6%
Other Non-residential - Total	17,088	-0.6%	0.4%
Total Non-residential	36,333	-0.4%	-4.4%

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CONTRIBUTORS:**Harley Dale**

Chief Economist

Geordan Murray

Economist

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