Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

2 May 2016

Infrastructure's the word as Budgets start to roll out

It's Budget Season

Update: The Federal Budget for 2016/17 will be delivered a week early on Tuesday, 3rd May. In an election year, it is likely to be something of a non-event with the government keen to avoid any measures that might cost it votes. However, the Prime Minister announced his 'Smart Cities' policy on Friday means that capital investment in infrastructure may be the big story from the Budget. Meanwhile, Victoria's Budget was delivered last week and included a further increase in the stamp duty surcharge for foreign property buyers as well as several heavy-hitting infrastructure programmes, including over $10 billion in the Melbourne Metro Rail Project.

Insight: Australia's budget deficit was projected to hit $37.4 billion at the time of MYEFO last December, and the persistence of structural deficits will have to be tackled sooner or later through a combination of taxation reform and expenditure measures. The run-up to the election means that anything too drastic is unlikely to be unveiled on Tuesday and the two sides' alternative proposals for fixing the budget will be fought over once the election campaign gets into full swing post-budget. The Victorian government's decision to shake foreign purchasers down more heavily for stamp duty and land taxes will be watched closely in Melbourne where the foreign purchaser is believed to account for a sizeable chunk of demand.

Victoria leads for national Hotspots ranking

Update: The latest HIA *Population and Residential Building Hotspots* Report has just been released, and reveals Australia's strongest performing markets in Australia for new home building and population growth. A "Hotspot" is defined as a local area where population growth exceeds the national average and where the value of residential building work approved is in excess of $100 million. The final ranking of the Hotspots is determined by their respective population growth rates.

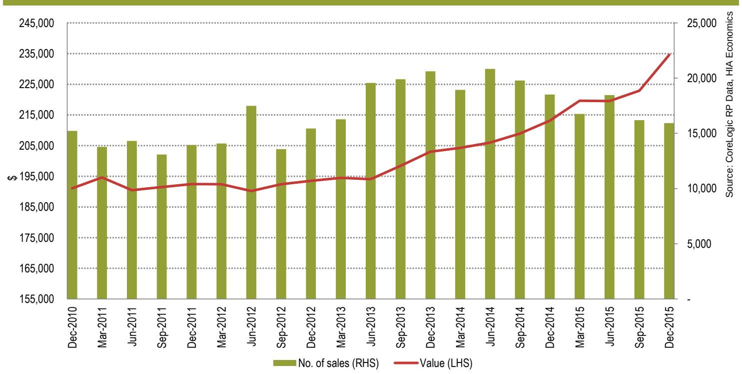
Insight: Based on its performance during 2014/15, ACT's South West area was the country's Number One Hotspot yet again, with $216.5 million worth of new residential building approved and its population more than doubling. In second place was Cranbourne East in Melbourne's southeast, where the population increased by 32.0 per cent and some $328.7 million worth of new residential building was approved. Of the national Top Twenty, six Hotspots were located in Victoria, five in WA, four in NSW, two each in Queensland and the ACT and one in the NT. Further details can be found at http://aciresearch.com.au/en/what-we-offer/forecast.aspx.

Top of the charts: Land Market Tightens again

Update: The latest edition of the *HIA-CoreLogic RP Data Residential Land Report*. The report covers the December 2015 quarter and provides more evidence of severe supply constraints in the market for residential land. During the December 2015 quarter, the number of residential lot sales across Australia fell by 1.6 per cent, while the median lot price increased by 5.2 per cent to $234,600.

Insight: The performance of the land market during the final quarter of 2015 indicates that supply is not fully keeping up with demand as evidenced by the reduction in turnover and the continued surge in prices. As well as being to the detriment of housing affordability – particularly for detached housing – the consistent shortfall in land supply is restricting the Australian economy's capacity to grow and will limit long term gains in living standards.

RESIDENTIAL LAND SALES & MEDIAN LOT VALUE - AUSTRALIA



Inflation weakens: will the RBA move?

Update: Data published by the ABS indicate that the annual rate of consumer price inflation weakened to 1.3 per cent during the March 2016 quarter. During the quarter itself, the price level declined by 0.2 per cent. This aspect of the data release grabbed the most headlines as it was the first quarterly decline in prices since the early days of the GFC in 2008. The rate of inflation had fallen to 1.3 per cent in early 2015 as well, but current developments mean that inflation is within striking distance of an 18-year low.

Insight: Low inflation is partly the result of the collapse in fuel prices over the past year, but a few other factors have played a role. Wage growth has weakened in response to labour market slack, with this taking pressure off prices from the cost side. The recent strengthening of the Australian dollar has also kept import prices in check. There is much interest in how the RBA will respond to the lower-than-expected inflation rate. Recent statements have indicated that it is open to further interest rate reductions in some circumstances. The fact that inflationary pressures are so subdued means that there are less risks arising from reducing interest rates. Given the strengthening of the Australian dollar, lower interest rates may help drive the currency's value back down towards 70c against the USD. However, the RBA may worry that a further rate reduction could be ineffective and a move to lower rates may unsettle consumers and businesses. The language of the RBA's statement on Tuesday will be interesting, and we'll be keeping a close eye out for any changes.

The fortnight ahead – key releases

Tuesday, 3 May

ABS Building Approvals, March 2016, 11.30am

RBA Interest Rates decision, 2.30pm

Federal Budget 2016/17

Thursday, 5 May

HIA New Home Sales Report, April 2016, 10.30am

Friday, 6 May

HIA-AiG Performance of Construction Industry, 2016 edition, 9.30am

Wednesday, 11 May

ABS Housing Finance, March 2016, 11.30am

Key Construction Indicators

	Year to March 2014 ($million)	Year to March 2015 ($million)	Annual Change
Retail and wholesale trade buildings	$5,942	$6,320	6%
Transport buildings	$1,042	$1,251	20%
Offices	$5,711	$6,341	11%
Commercial buildings n.e.c.	$305	$298	-2%
Commercial Buildings - Total	$12,999	$14,210	9%
actories and other secondary production buildings	$908	$799	-12%
Warehouses	$2,497	$2,826	13%
Agricultural and aquacultural buildings	$179	$306	71%
Other industrial buildings n.e.c.	$1,726	$919	-47%
Industrial Buildings - Total	$5,309	$4,851	-9%
Education buildings	$4,867	$4,742	-3%
Religion buildings	$208	$243	17%
Aged care facilities	$1,041	$1,215	17%
Health buildings	$5,105	$4,935	-3%
Entertainment and recreation buildings	$2,168	$2,163	0%
Short term accommodation buildings	$1,118	$1,493	34%
Other non-residential n.e.c.	$2,235	$2,179	-3%
Other Non-residential - Total	$16,742	$16,971	1%
Total Non-residential	$35,050	$36,030	3%

Source: ABS

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