



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

04 July 2016

Election 2016: Hung Parliament for Australia?

Inconclusive election outcome adds to uncertainty

Update: With over 80 per cent of the votes counted, the result of the election is still unknown. It is possible that the Coalition may achieve a razor-thin majority, but a hung parliament could yet prove to be the outcome. About 13 seats have still to be allocated, and their destination will decide the fate of the next parliament. It is likely that no party will achieve an overall majority in the Senate once the results are counted over the next few weeks.

Insight: Firstly, the entire basis, 'the trigger', of the double-dissolution election was the previous senate's failure to pass the Australian Building and Construction Commission (ABCC) bill. This bill will return to parliament in a joint sitting, but the make-up of the new senate (a greater mix of minor party representatives and independents) makes the likelihood of the bill passing more uncertain, which is not encouraging for the construction sector. Furthermore, the uncertain election result puts at risk the planned reductions in the company tax rates announced in the recent federal budget.

How will the dust settle after Brexit?

Update: Voters in the UK narrowly voted in favour of leaving in the European Union (EU) on 23rd June, a result which came as something of a shock. The British Prime Minister David Cameron announced his intention to resign following the result, with the new Prime Minister likely to take charge by the start of October.

Insight: The British Pound crashed to a 31-year low after the result became clear, and some stock markets across Europe saw significant losses in the aftermath of the vote. Currencies like the US Dollar and the Japanese Yen surged after the result. Despite large falls on international equity markets, the ASX 200 saw an immediate fall of over 3 per cent, but much of this has been recovered in recent days. However, there is much potential for twists and turns as the long and complicated process of 'brexiting' actually unfolds. Globally, yields on high-quality debt fell following the decision of the UK's voters meaning that interest rate expectations across most of the advanced economies have been revised downwards.

A key factor in tomorrow's interest rate decision

Update: The RBA's first meeting post-election and post-Brexit takes place tomorrow. The market expectation is that rates will be left unchanged in July, but it is likely that at least one further 25 basis point reduction will occur later in the year.

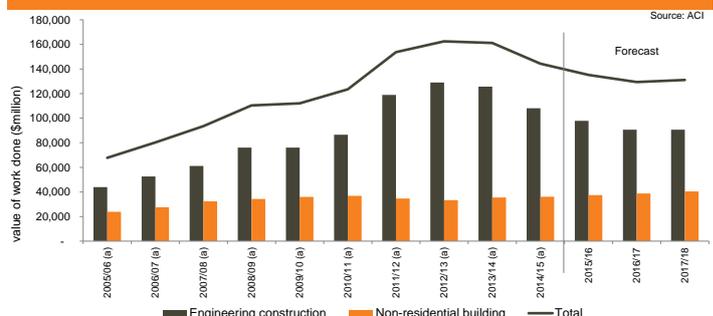
Insight: The unfavourable effects of the Brexit vote on the world economy and business sentiment means that

it makes the outlook for interest rates a considerably more dovish. Yields on government bonds and other high quality securities have fallen over the past week, reflecting the market's expectation of the weaker rates outlook. However, a number of fundamental factors will facilitate the movement to a lower cash rate, including the very low inflationary environment, the weakness of earnings growth and the solid position of the Australian dollar's exchange rate in the mid-70s against the US currency. The RBA will probably be relieved at the relatively muted reaction of the financial markets here to the Brexit vote, but it will be keeping a close eye on events.

Top of the charts: Construction forecast update

Update: The winter edition of the ACI Construction Monitor was released last week and contains ACI's latest forecast for engineering and non-residential construction. The latest forecast reinforce the expectation that the contraction in mining investment will remain the dominant feature of the construction landscape, while non-residential building activity is forecast to post incremental improvements.

AUSTRALIAN CONSTRUCTION ACTIVITY OUTLOOK



Insight: The transition away from the mining led growth of the past few years is ongoing and it has progressed in a relatively orderly fashion thus far. Nevertheless, there is still a long way to go before we can consider the transition complete and any number of things could happen in the interim.

The aggregate value of work done on non-residential buildings is forecast to grow by 3.4 per cent in 2015/16, with growth accelerating to 3.8 per cent in 2016/17, and 4.2 per cent in 2017/18. The forecast trajectory for aggregate engineering construction activity shows a contraction of 9.5 per cent in 2015/16, with a further 7.3 per cent fall in activity in 2016/17.

The transition is being clearly experienced differently in different sectors within the construction industry and in various geographic regions around the country. For the full analysis and explanation of ACI's forecast order you copy of the ACI Construction Monitor.

The fortnight ahead – key releases

Monday, 4 July

ABS Building Approvals, May 2016, 11.30am

Tuesday, 5 July

Reserve Bank of Australia Board meeting and interest rate decision, July 2016, announcement, 2.30pm

Thursday, 7 July

AiG-HIA Performance of Construction Index, June 2016, 9.30am

Monday, 11 July

ABS Housing Finance, May 2016, 11.30am

Wednesday, 13 July

ABS Building Activity, March 2016, 11.30am

ABS Lending Finance, May 2016, 11.30am

Thursday, 14 July

ABS Labour Force, June 2016, 11.30am

Key Construction Indicators**Engineering Construction Work Done - March 2016**

	March 2016 qtr (\$million)	Last 12 months (\$million)	Annual Change (%)	Quarterly Change (%)	Q on Q Change (%)
Roads, highways and subdivisions	3,893	14,964	1.9%	2.6%	5.9%
Bridges	214	828	27.4%	0.7%	31.5%
Railways	762	3,713	-37.7%	-25.8%	-31.8%
Harbours	239	1,356	-65.8%	-9.0%	-60.3%
Water storage and supply	456	2,066	-14.9%	-6.9%	-10.7%
Sewerage and drainage	563	2,309	8.5%	-14.5%	23.5%
Electricity generation, transmission and distribution	1,629	7,754	-19.4%	-17.0%	-13.6%
Pipelines	365	5,604	3.2%	-60.4%	-66.0%
Recreation	949	3,878	0.1%	-12.2%	13.3%
Telecommunications	2,436	8,688	36.4%	9.0%	45.1%
Oil, gas, coal and other minerals	10,281	49,657	-13.6%	-15.5%	-15.5%
Other heavy industry	132	708	-27.4%	-20.4%	-8.0%
Other	250	945	-29.6%	16.8%	20.9%
Total	22,169	102,471	-10.8%	-12.0%	-9.6%

ACI **Regional Forecasts** will be available from this Friday 24th June. These forecasts cover new dwelling commencements in major regional areas for all eight states and territories. For further details regarding ACI's forecasting services, publications or research please contact info@aciresearch.com.au.

ACI produces a wide suite of publications and research which include the latest industry analysis, forecasts and emerging trends, at a national, state and even regional/local level. If you would like to order publications referenced in this brief please email info@aciresearch.com.au



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

CONTRIBUTORS:

Shane Garrett Senior Economist

Geordan Murray Economist

Disclaimer: This document is produced by ACI based on information available at the time of publishing. All opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. Neither HIA nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.