Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

5 December 2016

Approvals and New Home Sales touch Two-Year Lows

Two-year low for HIA New Home Sales

Update: Results for October 2016 indicate that HIA New Home Sales fell to their lowest in over two having fallen by 8.5 per cent during the month. This included an 8.2 per cent reduction in detached house sales, with a 9.2 per cent decline on the multi-unit side of the market.

Insight: Sales volumes during October were the lowest since July 2014 – on the detached house side, the level of activity is at its lowest since July 2013. The HIA New Home Sales data for October were mirrored by ABS Building Approvals figures released the following day which indicated that new dwelling approvals fell by some 12.6 per cent during the month to their lowest level since September 2014. This was driven by the sharp 23.5 per cent reduction in multi-unit approvals. This adds to the weight of evidence suggesting that we are in the process of passing the peak in new home building activity.

Further weakening in construction activity

Update: Latest ABS data on the volume of Construction Work Done indicates that activity continued to contract during the September 2016 quarter, with a 4.9 per cent reduction compared with the previous quarter and 11.1 per cent down on the same period a year earlier.

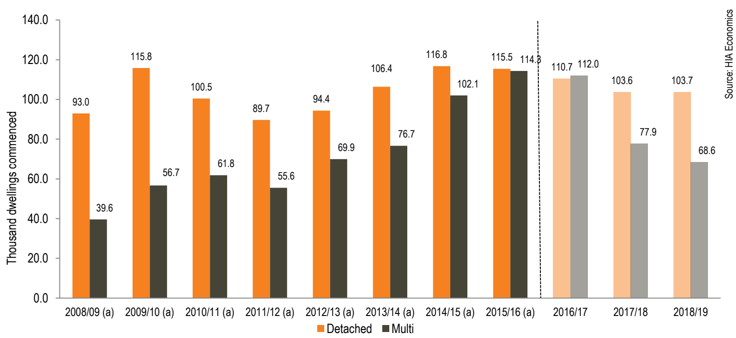
Insight: Engineering construction continues to weigh heavily on these data, with the volume of work done down by some 23.2 per cent during the September 2016 quarter compared with the same period a year earlier. However, the renewed strength of key commodities prices (particularly coal) over recent months may eventually bring about recovery in project investment. Outside of engineering, non-residential building has yet to find its feet and work done in this area during the September 2016 quarter was 7.6 per cent lower than a year earlier. The difficulties in non-residential building partly reflect sub-par business sentiment, but there's a good chance that looser purse strings on the public infrastructure front will help kick start activity. The next edition of the ACI *Construction Monitor* (due out on Wednesday, 14th December) will explore latest developments in more detail and provide updated forecasts for non-residential construction activity by subsector.

Top of the charts: Strong year end for dwelling prices

Update: Dwelling price data for the month of November 2016 have been released by CoreLogic and indicate that the pace of dwelling price growth remains very robust. Compared with a year earlier, dwelling prices have increased by some 9.3 per cent across the eight capital cities, with the strongest increase coming in Sydney (+13.1 per cent) and Perth being the only capital to see prices decline over this period.

Insight: Dwelling price growth continues to benefit from very low interest rates, a reasonably solid labour market and substantial inflows of migrants from overseas. One of the curious features of the Sydney and Melbourne markets is that dwelling prices have outgrown rents by a large margin for some time, resulting in the rental yield declining to record lows (2.8 per cent) in both cities. This is in contrast to markets where price growth has been slower and the rental yield is now higher, like Hobart (5.3 per cent) and Darwin (4.9 per cent).

Australian Housing Starts Forecasts



Upward move for US interest rates?

Update: The US economy has been working at its near full capacity, and is on track to grow at an annualised pace of 3.6 per cent in the fourth quarter of 2016. This will support the much predicted upward revision to US interest rates in December and a stronger US dollar.

Insight: US interest rates had been at near zero levels since the GFC but last December they were raised to around 0.25 per cent. US rates have been kept very low for so long because the US was hit by the crash in its housing market and banking sector between 2007-09. There are growing expectations that the US interest rate will rise by 0.25 per cent in December. Over time, US interest rates will gradually rise further. These expectations are based on strengthening economic conditions and a pick-up in inflation.

Will the major central banks around the world immediately follow the US's lead? Not likely. Most developed economies are wrestling with low inflation and weak investment. The European Central Bank, Japan and China are all expected to continue quantitative easing, with interest rate increases some way off. On this vein, the RBA is unlikely to move on interest rates at its 6th December meeting although a further rate reduction during 2017 is possible, depending on developments with inflation and the exchange rate.

The fortnight ahead – key releases

Tuesday 6 December

RBA Monetary Policy Decision, December 2.30pm

Wednesday 7 December

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

HIA Stamp Duty Watch, Summer 2016, 11.00am

ABS National Accounts, September 2016, 11.30am

Tuesday 13 December

ABS Residential Property Price Index, September 2016, 11.30am

Wednesday 14 December

ACI Construction Monitor, Summer 2016, 11.00am

Thursday 15 December

HIA Renovations Roundup, Summer 2016, 11.00am

ABS Labour Force, November 2016, 11.30am

ABS Australian Demographic Statistics, June 2016, 11.30

Key Construction Indicators				
	Residential building approvals - houses	Residential building approvals - other	Residential building approvals - total	Non-residential building approvals
	Number	Number	Number	$ billions
	seasonally adjusted	seasonally adjusted	seasonally adjusted	seasonally adjusted
3 months to October 2016	28,565	26,873	55,436	11.37
Quarterly change (%)	-2.4%	-12.1%	-7.4%	14.1%
Q on Q, annual change (%)	-4.2%	-12.9%	-8.6%	33.5%
Latest 12 months	117,482	115,305	232,785	39.22
Previous 12 months	119,495	122,142	241,636	33.47
Annual change (%)	-1.7%	-5.6%	-3.7%	17.2%

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