



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

6 June 2016

Where is the road ahead for construction?

GDP

Update: The latest update for Gross Domestic Product (GDP) in Australia presented a predictably mixed bag of results for the construction industry. The result that wasn't predicted by the market was a stellar update for headline GDP for the March 2016 quarter. Economic activity increased by 1.1 per cent over the quarter (well above market expectations) for annual growth of 3.1 per cent.

Insight: There are plenty of reasons to question the sustainability of this latest update for Australia's economic growth. Weak inflationary pulses confirmed in the result are a further reason for negative rhetoric. Let's not forget, though, it was a great result on the expenditure side of the GDP equation. Household consumption, aided by a still healthy housing industry, grew by 0.7 per cent in the March 2016 quarter, for annual growth of 3.0 per cent. New dwelling investment increased by 1.6 per cent. This represented the fourteenth increase in fifteen quarters. This amazing run is virtually unsurpassed in the 57 year history of seasonally adjusted new dwelling investment measured in the National Accounts. Investment in renovations (alterations and additions) increased for the first time in three quarters, growing by a solid 1.2 per cent to be up by 3.0 per cent when compared to the March 2015 quarter. In short, it's not all doom and gloom!

The road ahead for new home construction

Update: It is lamentable that little credit was paid in the post GDP analysis to the direct and indirect influence that healthy residential construction activity played in the latest GDP result. We paid attention - see: <http://hia.com.au/en/IndustryPolicy.aspx>

Insight: Two key leading indicators for future new home building activity – HIA New Home Sales and ABS Building Approvals – suggest that historically high volumes of national new housing construction activity will persist in CY2016 and FY2016/17, generated primarily by New South Wales, Victoria, and to a lesser extent the south east corner of Queensland.

How big is the downside risk to new housing activity?

Update: The forward indicators are positive, but there is a need for further scrutiny of the risks around the durability of what is a very long tail to an Australian new home building cycle.

Insight: There is no need to be alarmist. We'll leave that to others. We are of the view that it is appropriate timing to undertake closer examination of the lags between approvals, commencements and completions for new

housing, particularly in relation to the apartment markets of Sydney, Melbourne, and Brisbane.

On Thursday 9th June we will be releasing the latest edition of the *National and State Outlooks*. Our usual comprehensive coverage of conditions and forecasts for new housing (and renovations) activity will be extended even further in terms of analysis of our upgraded forecasts and the likely conversion of existing approvals to commencements and ultimately completions. See <http://aciresearch.com.au/premium-products.aspx>

Top of the charts: capital expenditure

Update: Commentary around last week's capital expenditure (CAPEX) numbers from the ABS focused on the result falling well short of expectations. Not a good starting update for non-residential construction activity! CAPEX fell by 5.2 per cent in the March 2016 quarter to be down by 15.4 per cent over the year.

Insight: Failing to meet expectations was always a risk. The more important aspect of the CAPEX figures relates to how the non-mining sectors are tracking. We need better results on this front to suggest a meaningful recovery. That's not to say that the opportunities aren't building (pardon the pun) for Australia's non-residential construction sectors. Our next *Construction Monitor* will be released on Thursday 30th June. See <http://aciresearch.com.au/premium-products.aspx>

QUARTERLY CAPITAL EXPENDITURE BY INDUSTRY



Source: ABS 5625.0

Keep an eye on Uncle Sam ...

Update: The topsy turvy question of when the US will next raise interest rates has turned towards topsy again.

Insight: Australia might be in election mode, but let's not forget the importance of the timing around any future rate rise in the US, which will still only be the second for the cycle. While on the subject of interest rates we have a decision here in Australia on Tuesday 7th June. There is much less chance of a follow-up rate cut to compliment the 25bp reduction in May than first thought. The likelihood of a further 25bp reduction sometime in 2016 is high, though, so every meeting is 'live'.

The fortnight ahead – key releases

Tuesday, 7 June

AiG/HIA Performance of Construction Index, May 2016, 9.30am

Reserve Bank of Australia Board meeting and interest rate decision, June 2016, announcements at 2:30pm

Wednesday, 8 June

ABS Housing Finance, April 2016, 11.30am

Thursday, 7 June

HIA National and State Outlooks, 'autumn' 2016, 11.00am

Wednesday-Thursday, 15-16 June

US Federal Open Market Committee meeting

Thursday, 16 June

HIA Renovations Roundup, winter 2016, 11.00am

The latest update of ACI's *New dwelling composition and long term forecasts* will be available to subscribers on Friday 17th June. For further details regarding ACI's forecasting services, publications or research please contact info@aciresearch.com.au.

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CONTRIBUTORS:

Harley Dale Chief Economist

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