Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

6 November 2017

ACI Construction Monitor Released – public infrastructure puffs its chest

Insight: The Spring edition of the ACI Construction Monitor is now available. It provides the details behind the change in momentum in public sector building and construction activity.

Update*:* With the residential building boom over and the mining boom forgotten, it is now public infrastructure investment that is picking up the task of driving the construction sector and therefore the national economy.

Each of these cycles has had distinct geographical traits, but the public sector capital investment outlook is for more widespread beneficiaries from this sector's time in the sun.

Building and construction is an instructive barometer of the different sectors and geographies of Australia's economy. Increased building and construction activity goes hand in glove with expanding activity within the economy's different sectors and locations and vice versa.

In the current edition of the ACI Construction Monitor we find that the momentum lies in public sector building and construction activity, given various governments' programs of investment in infrastructure. The upswing in government investment began in 2016 and appears likely to be surpassed with even greater investment in 2017.

Government investment follows different market signals to private sector investment and therefore does not follow population growth. In fact, regions that have been faring poorly, such as South Australia have become increasingly important politically and public sector activity stands out as a potential highlight.

The report shows that construction in NSW has seen a boost in investment in transport infrastructure making it the top ranked jurisdiction for work on 'roads, highways, and subdivisions' with $1.75 billion worth of construction undertaken during the March 2017 quarter. This is 29.6 per cent more than the state's five-year average. This is supplemented with strong activity in the ACT where a new metro system is creating significant activity.

Another major factor influencing construction activity is population growth and Australia's population hit a new all-time record of 24.5 million at the end of March this year. This represents an acceleration in population growth after it had started to flag in the aftermath of the mining boom.

With indications that population growth in WA has turned a corner we are confident that the building sector in WA will also begin to grow, very modestly, this year.

Employment growth continues to be strongest in Victoria and consequently it is continuing to attract the bulk of migrants, as well as an inflow of interstate migration with growth of 2.4 per cent. NSW and Queensland have also experienced growth (1.6 per cent), while population growth in the resource states reflects the lower levels of investment in the resource sector (WA, 0.7 per cent and the NT, 0.1 per cent).

To the extent that the past provides a guide to future investment in the construction sector, then these population growth results are also a strong guide to future growth areas.

Update*:* Building Approvals up in September

Building approvals rose by 1.5% in September, to be 0.2% higher over 12 months.

The outlook for building approvals remains for a moderate decline over the next couple of years. This will have an impact on multi-units more significantly than detached house building.

Update*:* Trade surplus doubles on higher exports.

A further sign of an up-lift for resources states comes from the latest trade data which shows that the trade surplus almost doubled in September. This is due to higher resource prices and volumes.

This bodes well for those states waiting for another round of investment in mining.

Update*:* **House prices fall**

Stories of falling house prices can easily cause panic.

CoreLogic data last week reported that detached house prices fell 0.1% and posted softer 7.2% annual growth. Apartment prices rose 0.2% and 6.5%pa.

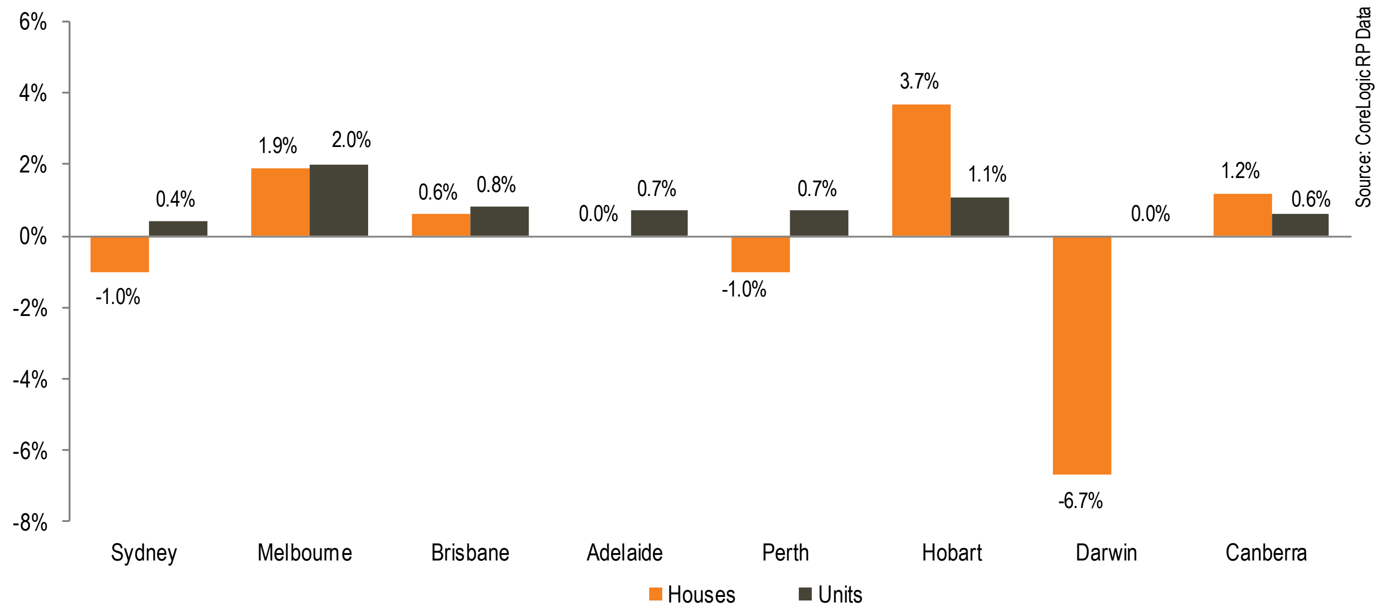
Annual dwelling prices growth is slowing, albeit gradually after peaking in March 2017. Rental vacancy rates support a conclusion that housing market conditions have eased over recent years.

The large increase in the supply of units is one factor, but so too is the slowing rate of economic growth, rising debt levels and low wage growth compounding the affordability challenge.

Our attention is on watching the actions of investors, particularly foreign investors. If this segment of the market withdraws in response to punitive rates of stamp duty and rising borrowing costs then the impact will be on new dwellings, compounding the contraction that has been evident for the past year.

Overall lending growth is easing to investors and some own-occupiers, as finance costs rise and APRA measures "kick in" but it is too early to tell if the regulatory response was heavy handed.

Change in house values - 3 months to October 2017



The fortnight ahead – key dates and releases

Tuesday 7 November

RBA Interest Rate decision 2.30pm

Thursday 9 November

ABS Housing Finance, September 2017, 11.30am

Monday 13 November

ABS Lending Finance, September 2017, 11.30am

Thursday 16 November

ABS Labour Force, October 2017 11.30am

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CONTRIBUTORS:

Tim Reardon Principal Economist

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