



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

7 March 2016

Households get their mojo back: consumption provides a boost to growth

Economic growth exceeded expectations in Q4 2015

Update: The latest release of the Australian National Accounts showed that the economy expanded by 0.6 per cent in the final quarter of 2015 which was marginally above analysts' expectations. In concert with an upward revision to the result for Q3, the update showed Australia's GDP increased by 3.0 per cent over the 2015 calendar year.

Insight: The rebalancing of economic growth drivers continues to progress. In aggregate, private capital expenditure continued to contract, however, this is still being weighed down heavily by the decline in mining investment. A strong contribution from the household sector was the primary balancing factor. There was a healthy level of growth recorded in both household consumption and new home building. This suggests that consumer sentiment is on the mend, particularly in the context of the healthy labour market readings recently. These are all good signs but businesses are likely to need more convincing before their willingness to open the chequebook improves.

RBA keep rates on hold

Update: For yet another month, the RBA has left the official cash rate on hold at 2.00 per cent.

Insight: On face value there seemed to be very little change in the contents of the RBA's statement regarding the interest rate decision. However, there was an interesting twist of language in the final sentence. The statement concluded that "continued low inflation *would* provide scope for easier policy, should that be appropriate to lend support to demand." This differed from last month's statement which noted that "continued low inflation *may* provide scope for easier policy." The RBA chooses its language carefully, so we're interpreting the change from 'may' to 'would' as a strengthening of the RBA's willingness to cut rates, depending on how inflation and growth pans out. The RBA has already indicated that inflation is likely to remain low over the next year or two.

Building approvals

Update: Modelling by the Australian Bureau of Statistics shows that Australia's population recently broke through the 24 million mark. After many years where new housing supply has fallen short of demographic demand, housing affordability has become a perennial problem in many parts of the country. With a population set to reach 25 million in just a few years, policy makers must make planning for the nation's future housing requirements a higher priority.

Insight: Ensuring that the housing stock and new housing supply match the needs of the community is a near certain way to ensure housing affordability improves. This will require the right number of homes and the right mix of dwelling types being built in the right places. Depending on

the pace of population increase and improvements in living standards, as many as 250,000 new dwellings could be required annually. However, this would require an environment of sustained strong economic growth and commensurately high migration. The more likely mid-range growth scenario involves a required build around 188,000 new homes per year

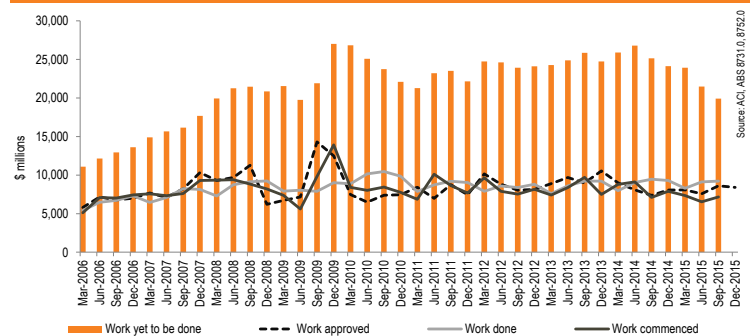
Top of the charts: Non-residential Building

Update: There are a number of leading indicators, including the latest building approvals figures for January, which continue to highlight lacklustre conditions in non-residential building.

Insight: In aggregate, the value of non-residential building approvals have been trending sideways, neither improving nor deteriorating. However, analysis to be presented in the upcoming edition of the *ACI Construction Monitor* reveals a high degree of variation in conditions around the country. Furthermore, the report will also highlight the high degree of variation in conditions across industry segments.

The next edition of the *ACI Construction Monitor* will be available on Thursday 24th March. Subscribe today and get the most in-depth analysis of construction industry conditions around the country, including the latest forecasts: For more information contact Kirsten Lewis at info@aciresearch.com.au

TOTAL NON-RESIDENTIAL BUILDING WORK



New Home Sales – a reminder of a healthy year ahead

Update: Following a strong finish to 2015, total new home sales started 2016 positively, rising by 3.1 per cent. While multi-unit sales declined by 5.8 per cent, it was a synchronised increase in detached house sales in the five mainland states that drove this result. In aggregate, detached house sales increased by 5.8 per cent.

Insight: The New Home Sales Report for January showed further strength. The overall trend evident across both leading indicators is very similar – signalling that once the current (record) pipeline is exhausted, new home construction activity is likely soften. This year will be another healthy one for detached house and 'multi-unit' construction, but it is unlikely to surpass the heights of 2015.

The fortnight ahead – key releases

Monday, 7 March

AI Group-HIA Performance of Construction Index, 9.30am

Wednesday, 9 March

Westpac-MI Consumer Sentiment Index, 11.00am

ABS Housing Finance, January 2016, 11.30am

Friday, 10 March

ABS Lending Finance, January 2016, 11.30am

Wednesday, 16 March

HIA State and National Outlooks, Summer 2016, 11.00am

RBA Interest Rates, 2.30pm

Thursday, 17 March

ABS Labour Force, February 2016, 11.30am

Housing Australia's Future – How much residential building are we likely to need?

Population Growth Scenario			
	Series A	Series B	Series C
Population in 2015	23,781,169	23,781,169	23,781,169
Population in 2050	41,939,543	37,593,636	34,349,728
Implied annual population growth rate	1.6%	1.3%	1.1%
Additional dwellings required per annum	200,347	152,397	116,606
Required annual build rate			
Low real income growth	217,977	170,028	134,237
Medium real income growth	235,608	187,659	151,868
High real income growth	253,239	205,289	169,498

Source: HIA Economics & Australian Construction Insights

*'Required annual build rate' reflects the total number of dwellings that would be needed, including those required to offset demolitions and cater for a potential change in housing demand (ie. smaller household sizes).

For more information regarding the *Housing Australia's Future* report, 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



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CONTRIBUTORS:

Geordan Murray Economist

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