



AUSTRALIAN CONSTRUCTION INSIGHTS  
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# Construction Brief

8 May 2017

## Can public infrastructure investment be Australia's next growth driver?

### RBA firms on lofty growth expectations

**Update:** An interest rate announcement is usually enough for the RBA to be front page news, however the RBA upped the ante last week. The messaging around their economic outlook conveyed in the interest rate announcement, release of the quarterly Statement of Monetary Policy, and a speech by RBA Governor Phillip Lowe have been the more revealing news this week.

**Insight:** While the RBA haven't materially changed their view, they now seem to be more confident that economic growth will achieve the improvements laid out in their forecasts. Overall, they expect to see economic growth gradually increase to 'a little over 3 per cent' over coming years. The improved growth will be driven by a stronger contribution from rising LNG exports as the major gas projects built over the last few years reach full capacity.

However, the RBA's expectation for conditions experienced by non-mining businesses and households is a little less bullish. Wage growth is likely to remain subdued which will act as a drag on household consumption. The Governor has also commented on his concerns about the dampening effect that the high level of household debt is having on consumption spending. The excess capacity in the labour force is likely to remain until there is uplift in non-mining business investment that creates jobs, but evidence of this is still patchy. Perhaps a bout of public sector infrastructure investment could be the catalyst to get the ball rolling.

### Infrastructure lifts Australian PCI in April

**Update:** The headline result for the Performance of Construction Index indicates that the construction industry continued to expand during April with a result of 51.9. Any result higher than 50 signifies expansion. The result for April was a little higher than March's 51.2 figure.

**Insight:** During April, the engineering construction subsector posted the strongest result for the month (55.6) which was due to a stronger contribution from non-mining infrastructure work. Both house building (53.0) and apartment building (55.3) activity saw expansion during the month – the first time that both segments of residential building have expanded in the same month since July 2016. In fact, apartment building activity was the second strongest subsector during April. The commercial construction sector continued to flounder – the index tracking this part of the market fell to 43.2 implying the sharpest rate of contraction in six months.

### Uptick in building material prices

**Update:** The latest update to the Producer Price Indexes for the March 2017 quarter shows that the price of building materials used in house construction increased

by 0.9 per cent in the first quarter of 2017, and was up by 2.7 per cent compared with a year ago.

**Insight:** The largest component of the index is timber, board and joinery, which accounts for around 27 per cent of the index. In aggregate, the price of 'timber, board and joinery' used in a new home increased by 2.9 per cent during the year. However, there was a significant difference between structural timber and boards, and 'value-added' timber building products. The price of structural timber increased by only 0.2 per cent in the year to March 2017, while the price of plywood and board increased by 1.8 per cent over this period. The price growth reported for 'value-added' timber products were significantly higher. The price of timber cupboards and built-in furniture increased by 5.7 per cent during the year, and the price of timber windows increased by a similarly high 5.1 per cent.

### Top of the charts:



### More infrastructure work entering the pipeline?

**Update:** Another Federal Budget is almost upon us. When the Treasurer releases the budget on Tuesday (9<sup>th</sup> of May) it is expected to focus on boosting infrastructure investment and to also include measures pitched to address housing affordability.

**Insight:** Aside from the inevitable discussion about 'deficit' and 'good debt' vs. 'bad debt', funding for transformational infrastructure is likely to dominate the day. So far we've heard about the second Sydney airport at Badgerys Creek, the Melbourne to Brisbane Inland Rail, and increasing the capacity of the Snowy Hydro Scheme. The funding of these projects will inevitably impact the budget's bottom line, even though they will be in the "good debt" bucket.

On housing affordability, possible budget measures span four areas: the bond aggregator (discussed in a previous edition of Construction Brief), overcoming the deposit gap for first home buyers (enabling access to super savings or tax concessions on savings), reducing the impediments to households downsizing, and identifying underutilised commonwealth land suitable for residential development.

**The fortnight ahead – key releases****Monday 8 May**

ABS Building Approvals, March 2017, 11:30am

**Tuesday 9 May**

Commonwealth Budget, 7:30pm

**Monday 15 May**

ABS Housing Finance, March 2017, 11:30am

ABS Regional Building Approvals, March 2017, 11:30am

**Wednesday 17 May**

ABS Lending Finance, March 2017, 11:30am

Westpac-MI Consumer Sentiment Index, May, 11:00am

**Thursday 18 May**

ABS Labour Force, April 2017, 11:30am

**Key Construction Indicators:****Price indexes for materials used in house construction - March Qtr 2017**

	Quarterly change	Annual change
Materials Used in House Building	0.9%	2.7%
Timber, board and joinery	0.9%	2.9%
Ceramic products	0.3%	2.2%
Concrete, cement and sand	0.3%	1.9%
Cement Products	-0.1%	1.3%
Steel products	0.4%	2.0%
Other metal products	2.0%	3.5%
Builders hardware	1.0%	3.2%
Plumbing products	-0.3%	2.6%
Electrical equipment	5.8%	6.9%
Installed gas and electrical appliances	0.4%	1.2%
Other materials	-0.2%	1.2%

Source: ABS 6427.0

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