Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

9 October 2017

What can the Catalonians teach us about Horizontal Fiscal Equalisation

Update: Revenue equality among Australian States is a long-term, systemic problem, for our Federation. This week the Productivity Commission (PC), as it has done under different names since 1933, embarked on addressing the topic through an inauspiciously named report into Horizontal Fiscal Equalisation.

The problem with the allocation of GST revenues - as is now the predominant focus of this debate – is not the equal sharing of revenues. The problem is: since the end of the Hilmer incentives the allocation of GST revenue to the states does not create incentives to build productivity, improve efficiency or create economic growth.

Western Australia's fiscal situation is an unprecedented fiscal outlier that is now suffering from a two year lag while GST revenues re-calibrate to the changed financial situation. The concern highlighted by the PC is that the growth in GST revenue received by the other states during this boom insulated them from the necessary reforms to create their own revenue and growth engines.

The challenge for Western Australia, is that in order to change the current allocation of GST revenues they need to convince the other States to forego revenue currently allocated in their forward projections (next four years) in the hope that at some time in the history of the Australian Federation that their State will be a beneficiary of these changes.

The distribution of GST revenues amongst the States does have political and economic consequences across the Australian Federation, if equality is considered a necessary requirement for effective democracy. Recent events in Europe and even in our own political history (Eureka Stockade) demonstrate that tax revolts can lead to social unrest.

For this reason, the challenge of reforming our system of horizontal fiscal equalisation is not just the task of Western Australia.

Business and Household Confidence:

Update: Business sentiment is now positive and in fact now above the long-run average. Especially encouraging for the construction industry is that the latest quarterly update (for the June 2017 quarter) found that businesses in this sector were the most confident among all the sectors.

The underlying pressure on household budgets for virtually the entire post-GFC era has been weak growth in real wages. This has been compounded by sharp, ongoing, rises in energy bills for the past five years which are expected to continue for a few more years.

With the premature talk of the RBA ratcheting up interest rates in 2018, households are justifiably pessimistic about their finances. This is the context of the Westpac-Melbourne Institute consumer sentiment index remaining stubbornly below the critical 100-points threshold during the year to date.

Improvements in the labour market (falling unemployment and strong jobs growth) offer something of a bright spot for households – but these improvements will need to translate into wages growth before it precipitates sustained growth in consumer spending.

Outside of the retail and wholesale sectors businesses aren't so glum. Recent updates to NAB's quarterly survey of businesses show that they are experiencing favourable conditions (these have been improving for some time) and that their sentiment in 2017 has started improve (albeit still lagging behind conditions).

Construction Sector Employment

Update: The story of Australia's labour market in this year is the pace of employment growth – over the three month period to August 2017, the annual pace of employment growth was 2.3 per cent and with the number of those at work increasing by 0.9 per cent over the quarter alone. In terms of volumes, this is equivalent to about 274,000 additional jobs across the Australian economy over the past 12 months.

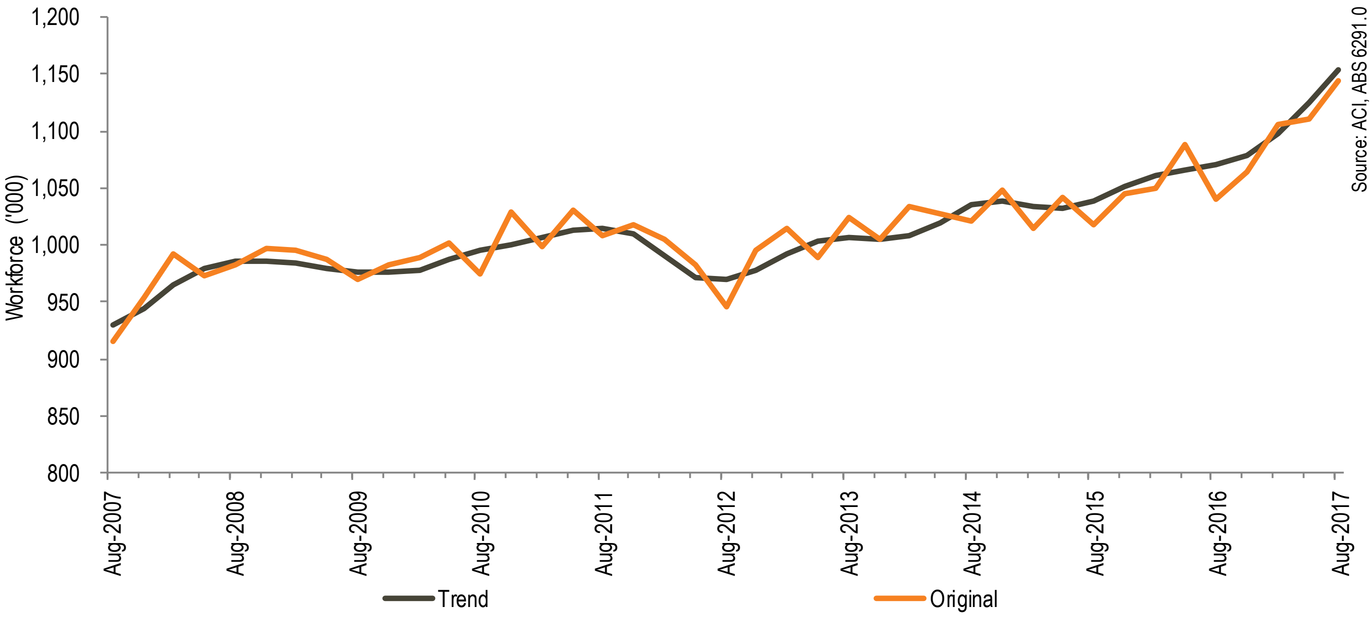
The strength of the labour market apparent in the headlines is backed up by very healthy rates of full-time job creation compared with part-time jobs in recent years.

So far, the big leaps forward in employment have not generated significant pressure on wage growth.

Total employment in the construction sector surged to a new all-time high of 1,144,000 during the August 2017 quarter. This represents a 10.0 per cent increase over the past year and has been driven by the robust conditions in residential building – though activity here is starting to move backwards. Since bottoming out during the August 2012 quarter, construction employment is estimated to have expanded by over one fifth (+20.9 per cent).

Residential building employment has grown by 3.7 per cent over the past year, a pace easily surpassed by non-residential building employment, which saw an increase of some 64.7 per cent. It is worth noting that a large share of this increase could be attributable to reclassification of workers from the 'nfd' groups ('nfd' meaning not further defined) into the groups for which there is a clear definition.

CONSTRUCTION WORKFORCE



ACI will release the Spring edition of out Construction Monitor Report next week. It shows that the main area of growth in the construction sector is from government expenditure while other sectors remain flat or in decline.

A copy of the Report can be obtained from https://hia.com.au/en/BusinessInfo/economicInfo/EcoPublications.aspx

The fortnight ahead – key dates and releases

Wednesday 11 October

ABS Building Activity, June Qtr 11.30am

Thursday 12 October

HIAs Building Better Cities Summit - Manufacturing Building Products in Australia: Where to from here, Sydney

ABS Housing Finance August 2017, 11.30am

Monday 16 October

ABS Lending Finance August 2017, 11.30am

Tuesday 17 October

HIA Renovation Roundup, 11.00am

Thursday 19 October

HIA Affordability Report, 11.00am

ABS Labour force, 11.30am

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