



AUSTRALIAN CONSTRUCTION INSIGHTS  
Research powered by HIA Economics

# Construction Brief

13 February 2017

## RBA on a road to nowhere ...

### The RBA is on a road to nowhere ...

*Update:* ... in terms of the Official Cash Rate (OCR) in 2017. In our last *Construction Brief* we noted that 'There is a good chance that the official cash rate will remain unchanged during 2017.' Last Tuesday 7<sup>th</sup> February the Board of the Reserve Bank of Australia (RBA) left the OCR steady at 1.50 per cent. The statement following the decision provided support for our core view of 'rates on hold'. The same can be said for the *RBA Quarterly Statement on Monetary Policy* released last Friday 10<sup>th</sup> February. See <http://www.rba.gov.au/>

*Insight:* Forecasts for the RBA OCR are all over the place at present. Some, like us, think the RBA will remain on hold as concerns about strong dwelling price growth and investor lending dominate. Others think that a relatively weak economic and inflationary pulse will prompt further rate cuts. As we noted above, this prospect has diminished following the RBA communications during the second week in February. There is a third camp (of course there would be, we're economists) who think that the RBA will be raising rates before the end of 2017.

<https://hia.com.au/~media/HIA%20Website/Files/Media%20Centre/Media%20Releases/2017/national/RBA%20rules%20out%20any%20short%20term%20rate%20cut.a.shx>

### What's in store for construction activity?

*Update:* Most of the early 2017 batch of key indicators for new home building has been released. What remains is the HIA-CoreLogic *Residential Land Report* which is due out this Wednesday 15<sup>th</sup> February.

<https://hia.com.au/BusinessInfo/economicInfo/EcoPublications.aspx>

*Insight:* The December 2016 quarter profile for key leading indicators such as HIA New Home Sales, and ABS Building Approvals and Housing Finance are consistent with our long held view. Firstly, new housing commencements will hold up well through the first half of 2017. Secondly, national commencements peaked in CY2016 and a down cycle will be led by 'multi-units', primarily medium/high density dwellings. When we complete our latest forecasting review the ACI dwelling composition forecasts are likely to highlight a healthy short term outlook that is relatively broad-based, with some further upside for semi-detached/townhouse product. <http://aciresearch.com.au/en/premium-products.aspx>

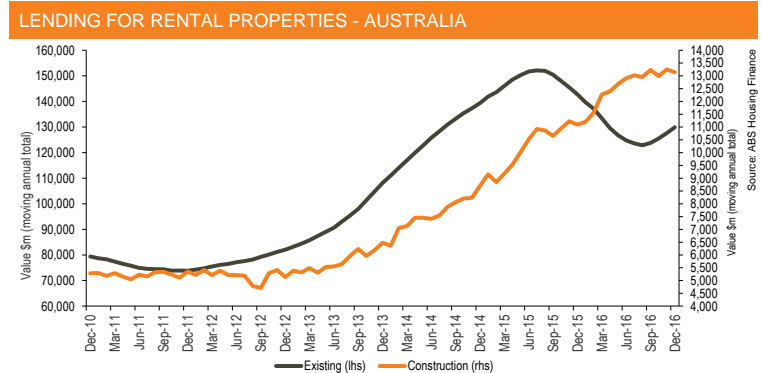
Conditions are not as strong in non-residential building and engineering construction markets. Victoria and New South Wales are ranked the number one and number two markets by the ACI *Construction Monitor*. The next

key update on opportunities in various sub-sectors of non-residential construction as well as different geographical markets will be the first 2017 edition of our *Construction Monitor* in mid-March.

<http://aciresearch.com.au/en/Publications.aspx>

### Top of the charts: Investment lending

*Update:* Lending to residential investors is back in the spotlight because of the renewed upward trend evident below for existing property. Note that lending for construction - only a partial measure of total lending for investment in new property - continues to sit at record highs.



*Insight:* The RBA used its February quarterly *Statement on Monetary Policy* to reignite concern about financial stability risk related to housing. The Bank is worried about the acceleration in the growth of lending for investment in established property. The Bank made it fairly clear that it would leave the situation to APRA (Australian Prudential Regulation Authority), who is already on the case. APRA issued a stern warning to banks last week. Note that fixed rates for investor mortgages are already on the up because overseas wholesale funding costs have increased. Watch this space.

### How is the Trump travelling?

*Update:* In quite a predictably unpredictable and raucous manner!

*Insight:* It does appear that the President will reveal some detail regarding fiscal policy (tax cuts etc.) in a speech he is delivering to Congress on February 28<sup>th</sup>. That suggestion set tongues wagging and volumes will only rise this week and next. The news saw the Australian share market enjoy its best day last Friday since January 3<sup>rd</sup> on the way to posting a gain of 1.8 per cent for the week. Our local bourse did fall by 1.6 per cent the previous week. The Trump effect is alive and kicking, but will continue against that backdrop of unpredictability.

## The fortnight ahead – key releases

## Tuesday 14 February

HIA Economics Research Note, Building Approvals by Type and Region, 2017 update, 11.00am

## Wednesday 15 February

Westpac-Melbourne Institute Index of Consumer Sentiment, February 2017, 10.00am

HIA-CoreLogic Residential Land Report, September 2016 quarter, 11.00am

## Thursday 16 February

ABS Labour Force, January 2017, 11.30am

## Tuesday 21 February

HIA Economics Discussion Paper, Australia's Dwelling Prices: a New Year Snapshot, 11.00am

## Wednesday 22 February

ABS Construction Work Done, Preliminary, December 2016 quarter, 11.30am

## Thursday 23 February

ABS Private New Capital Expenditure and Expected Expenditure, December 2016 quarter, 11.30am

## Key Construction Indicators

### Housing Finance for Owner Occupiers by Loan Purpose

		For construction of a new dwelling	For purchasing a new dwelling	Total loans for new dwellings	For purchasing established dwellings (excl. refinance)	Total for new and established dwellings (excl.)	Total loans for all dwellings (incl. refinance)
NSW	3 months to Dec 2016	3,763	3,022	6,785	25,671	32,456	52,295
	Quarter on Quarter	-6.4%	8.7%	-0.2%	-5.1%	-4.1%	-7.5%
Vic	3 months to Dec 2016	4,884	2,723	7,607	23,105	30,712	46,568
	Quarter on Quarter	2.5%	6.5%	3.9%	-4.4%	-2.5%	-2.0%
QLD	3 months to Dec 2016	3,771	1,518	5,289	18,917	24,206	33,267
	Quarter on Quarter	6.2%	33.0%	12.7%	1.1%	3.4%	2.1%
SA	3 months to Dec 2016	1,136	409	1,545	6,030	7,575	11,635
	Quarter on Quarter	-2.7%	6.5%	-0.5%	-0.5%	-0.5%	-0.4%
WA	3 months to Dec 2016	2,938	649	3,587	8,487	12,074	18,126
	Quarter on Quarter	-22.2%	5.0%	-18.4%	-5.6%	-9.8%	-11.4%
Tas	3 months to Dec 2016	266	123	389	1,974	2,363	3,176
	Quarter on Quarter	7.7%	17.1%	10.5%	11.5%	11.3%	9.1%
NT	3 months to Dec 2016	124	40	164	559	652	925
	Quarter on Quarter	-14.5%	-56.0%	-30.5%	2.4%	-18.7%	-18.4%
ACT	3 months to Dec 2016	216	264	480	1,798	2,140	3,221
	Quarter on Quarter	-20.3%	-6.7%	-13.4%	1.3%	-8.9%	-3.4%

Source: ABS 5609.0

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