



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

14 December 2015

Rate hikes – who'd have thought?!

Welcome to ...

...the last *ACI Construction Brief* for 2015. On behalf of all the team at Australian Construction Insights I'd like to begin by wishing you all a happy and safe holiday season.

Has Christmas come early?

Update: We are on the record in the *Construction Brief* as saying the US should just get on with it and raise interest rates. We hardly think you'd class that as Christmas coming early, though. There has been an expectation for some considerable time that the US FOMC – Federal Open Market Committee would this year raise interest rates for the first time in over a decade. On the home front, there has been an element of 'I used to be indecisive, but now I'm not so sure' to pricing of another interest rate change - that would be down of course, not up.

Insight: We will almost certainly (often jinxed words for an economist) see the Fed raise interest rates this week. It may be worthwhile bearing in mind that through all the hype everybody will inevitably deal with in and around this hiking decision, this action would have first occurred back in September, had economic conditions in China not rattled the Fed. Markets are primed and priced for a rate hike. The fact remains, though, that the world's largest and most influential economy looks as though it's about to raise interest rates for the first time in over a decade. That's an extraordinary situation and nobody knows precisely how the reaction will pan out ...

So, what about us? Nothing to see here... yet.

Update: It doesn't take much, does it? A couple of economics updates stronger than expected and somebody sparks conjecture of an interest rate rise in Australia!

Insight: We remain of the view that the Official Cash Rate (OCR) will stay on hold at 2.00 per cent throughout 2016, but that financial institutions will increase variable mortgage rates (and probably business rates) early in the New Year. Against this backdrop there is still a far greater risk that the RBA lowers the OCR further before it raises it. Like all true economists, we can provide a 'but' in the middle of that! We started pointing out some time ago that while a first rate hike is some distance off, it usually happens faster than anticipated. Now is about the time to begin bearing that in mind.

NSW - the king of the non-res world

Update: The latest *ACI Construction Monitor* – released on December 9th – revealed New South Wales as having the strongest non-residential construction market in Australia, followed by Victoria.

Insight: Adopting a positive perspective heading into 2016 is assisted by NSW and Victoria now sitting atop the

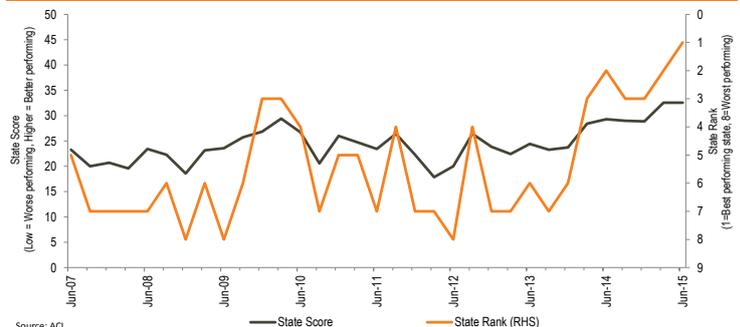
economic pile. These are, of course, Australia's largest states and they both also look the goods in terms of the *CommSec State of the States Report*, while our updated *Housing Scorecard* – out this Wednesday 16th December – is expected to paint a similar scene for residential construction conditions. For further information regarding the *Construction Monitor* and the *Housing Scorecard*, contact Stuart Hylton-Cummins at s.hyltoncummins@aciresearch.com.au

Top of the charts – NSW non-res construction

Update: The *ACI Construction Monitor* for Summer 2015 not only ranked NSW the number one non-res market – but also assessed non-res construction conditions in NSW as having a strengthening outlook.

Insight: We also have a 'strengthening' assessment for non-residential construction conditions in Victoria. The remaining six states and territories are all assessed to be 'neutral' or 'weakening'. As we've highlighted all year, looking below the aggregate story reveals plenty of opportunity in non-residential construction. Plus, don't forget those infrastructure projects, especially in NSW!

OVERALL RANKING - NEW SOUTH WALES



Source: ACI

Oh, MYEFO ...

Update: ...could be the title of a really bad item at the Eurovision Song Contest. In reality it is Australia's Mid-Year Economic and Fiscal Outlook and it is due out this Tuesday 15th December.

Insight: This report is the most important economic release of late 2015; even though we think our *Housing Scorecard* is a very insightful read! MYEFO could make or break the early post-honeymoon period of the Turnbull Government and represents the first big test for new Treasurer, Scott Morrison. The report will be jam-packed with pre-Christmas 'goodies'. Budget revisions, guidance about a reform agenda, and any announcements regarding spending cuts are just three areas to watch. An important area for housing will be whether there is a downward revision to the expectation for Australia's long term rate of economic growth. Such a downgrade would have adverse implications for the underlying requirement for future new housing supply.

The fortnight ahead – key releases

The fortnight ahead understandably appears less busy, but does include MYEFO, our Housing Scorecard, and the US Fed decision:

Tuesday 15 December

Commonwealth Treasury MYEFO 2015

ABS Residential Property Price Indexes: Eight Capital Cities, September 2015 quarter, 11.30am.

RBA Minutes of December Board Meeting, 11:30am.

Wednesday 16 December:

HIA Housing Scorecard, Summer 2015, 11.00am.

Thursday 17 December:

US FOMC Interest Rate Decision, 06:00am AEDST

ABS Australian Demographic Statistics, June 2015 quarter, 11.30am.

Monday 21 December:

HIA Research Note, *The Outlook for 2016*, 11.00am.

Key construction indicators

NEW SOUTH WALES	Current Quarter Result	Deviation from Decade Average*	Indicator Score	Quarterly Change in Score
Commercial Buildings - Total	1,189,212	29.9%	7.0	2.0
Industrial Buildings - Total	248,446	-12.7%	3.0	-3.0
Other Non-residential - Total	1,284,051	8.6%	8.0	1.0
Bridges, railways and harbours	512,926	-21.2%	2.6	0.9
Electricity generation, transmission etc. and pipelines	657,482	-33.9%	1.7	0.0
Heavy industry	516,603	-49.9%	0.9	0.0
Recreation and other	300,934	0.0%	3.0	-0.4
Roads, highways and subdivisions	1,805,138	22.2%	2.1	0.4
Telecommunications	480,943	15.2%	1.7	-0.9
Water storage and supply, sewerage and drainage	325,440	-26.1%	2.6	0.0
Non-residential building sub-total			18.0	0.0
Engineering Construction sub-total			14.6	0.0
State Score			32.6	0.0

Source: ACI Construction Monitor

Note: The latest ACI Dwelling Composition Forecasts were released last month. This report and set of forecasts contains a three year outlook for new home commencements – nationally and by each state and territory – broken down across detached housing, semi-detached dwellings of one versus two storeys, low density product, and medium/high density apartments. For further details visit <http://aciresearch.com.au/en/Publications.aspx>

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