



**AUSTRALIAN CONSTRUCTION INSIGHTS**  
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# Construction Brief

15 August 2016

## New low for interest rates - good news for construction?

### How low can interest rates go?

*Update:* The RBA cut interest rates by another 25 basis points at its meeting at the beginning of this month. The official cash rate now sits at just 1.50 per cent, easily the lowest in history. Compare this to the 3.00 per cent low we reached during the deepest and darkest days of the GFC! The major banks reacted by passing only a portion of the cut onto borrowers, as well as hiking their deposit rates; although many other lenders lowered borrowing costs by the full 25bps or more.

*Insight:* Interest rate uncertainty therefore still reigns supreme and business borrowing costs remain (arguably) above where they need to be in many instances. On the face of it, though, even lower rates are good for construction activity: more projects can now leap through the appraisal hurdles and the cost of doing business is made a bit less onerous. The fact that the cut was more prompted by the low inflationary environment than concerns about growth is another positive. The RBA may not be done yet: some are predicting a 1.00 per cent cash rate by mid-2017.

### What's the outlook for building materials?

*Update:* Demand for building materials has seen strong growth as a result of Australia's largest and longest new home building boom. The 2016 edition of the ACI *Building Materials Bulletin* is released on 17 August and gets down to the nitty gritty. The detailed report is the only one of its kind in Australia and contains estimates and forecasts of usage for more than 30 materials used in the construction of detached houses for the 2007 to 2020 period.

*Insight:* Last year's inaugural *Building Materials Bulletin* contained a few interesting nuggets of information. For example, enough plasterboard was used for detached house building during 2015 to cover more than 70 square kilometres, around one tenth of the area of Singapore. This year's edition of the report will be an invaluable resource for those engaged in strategic planning, budgeting, industry analysis, and equity valuations. See:

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

### New dwelling approvals down – but lending rises

*Update:* There was mixed news for new housing in the latest ABS figures for June on building approvals and housing finance. During the month, total new dwelling approvals fell by 2.9 per cent with a 2.4 per cent decline on the detached house side with 'multi-unit' approvals falling by 3.4 per cent. Housing finance data painted a more positive picture, with the number of loans for the construction or purchase of new homes rising by 2.3 per

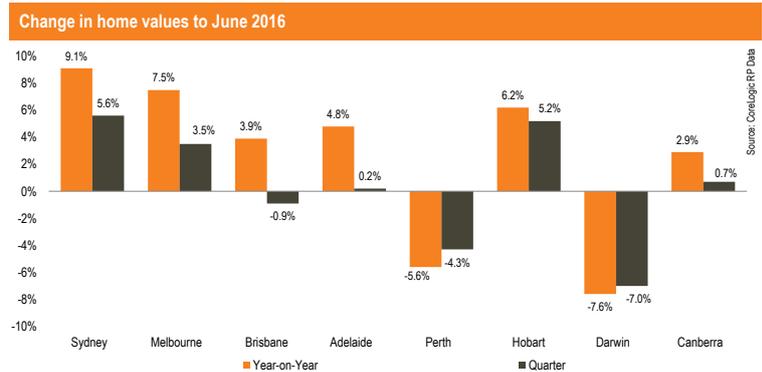
cent to reach a level 6.3 per cent higher than the same month last year.

*Insight:* These trends are largely in line with our read of the market at the moment. The volume of new homes reaching completion stage is set to remain high for some time yet, meaning that lending activity will stay elevated. The decline in approvals in June adds further to the evidence that we are close to a peak in actual activity, with the multi-unit side likely to slow down more quickly than detached house building. ACI's latest set of forecasts for detached house and multi-unit starts, as well as renovations activity, will appear in the Winter 2016 edition of the benchmark *State & National Outlooks* reports which are released on 24<sup>th</sup> August next. Our dwelling composition and regional forecasts will follow a week later. For further details on the forecasts that will become available see:

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

### Top of the charts: Dwelling Prices decelerate

*Update:* Latest dwelling prices data show that home price inflation continues to slow. In the year to July 2016, house prices rose by 6.1 per cent with unit prices seeing growth of 6.0 per cent over the same period. This compares with a year ago when overall dwelling price growth was 11.1 per cent. There continues to be remarkable divergence across the geographic markets.



*Insight:* In many respects, the slowdown in dwelling price growth is unsurprising: rental prices are growing at their slowest rate since late 1994 and population growth is a shadow of its former self due to the reduction in migration flows. One big question at this stage concerns the possible effects of newly-introduced stamp duty surcharges in the larger states on demand and prices, particularly in the 'units' markets. The research note will be available from 11am on Tuesday:

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

**The fortnight ahead – key releases****Tuesday 16 August**

HIA Dwelling Prices Research Note, July 2016, 11.30am

**Wednesday 17 August**

ACI Building Materials Bulletin, 2016 edition, 11.00am

**Thursday 18 August**

ABS Labour Force, July 2016, 11.30am

**Wednesday 24 August**

HIA State and National Outlooks, Winter 2016, 11.00am

ABS Construction Work Done, June 2016, 11.30am

**Key Construction Indicators**

	Residential building approvals - houses	Residential building approvals - other	Residential building approvals - total	Non-residential building approvals
	Number	Number	Number	\$ billions
	seasonally adjusted	seasonally adjusted	seasonally adjusted	seasonally adjusted
3 months to June 2016	28,966	29,318	58,283	9.24
Quarterly change (%)	-0.2%	-0.7%	-0.5%	22.0%
Annual change (%)	-4.5%	-4.8%	-4.7%	17.3%
Latest 12 months	116,807	116,441	233,246	34.10
Previous 12 months	119,243	111,907	231,150	31.68
Annual change (%)	-2.0%	4.1%	0.9%	7.6%

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