Your window into the future of the construction industry

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AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

16 November 2015

Confidence amid changing conditions

RBA maintains accommodative policy stance

Update: After leaving the Official Cash Rate (OCR) on hold on Melbourne Cup day, there have been a number of important communications from the RBA including three speeches by officials and the regular quarterly Statement of Monetary Policy. A consistent theme has been the need for monetary policy settings to remain accommodative.

Insight: While the door for another interest rate cut is still ajar (just), there is still little clarity with regard to whether the board sees any pressing need to charge on through it or whether they are content to sit back and wait to see what unfolds. Data releases last week showing a strengthening labour market, an improvement in commercial lending, and a bounce in consumer confidence - in the same month as the trading banks imposed an out of cycle hike to mortgage rates - paints quite a rosy picture of how things are tracking. Furthermore, healthy data updates in the US in recent weeks could be the trigger that the Fed needs to start lifting the cash rate when the FOMC next meet in December. Were this to occur, we would see pressure come off the Australian dollar. This would provide a boost to the competiveness of Australian trade exposed industries without any assistance from another rate cut.

Housing Finance - Investor lending slowing

Update: The latest housing finance figures released last week showed a modest pick-up in lending to owner-occupiers in September 2015, although a rather sharp fall in lending to investors captured the headlines. After reaching a peak of $13.1 billion in April this year, the aggregate value of lending to investors purchasing established homes has been tracking along at around $12.5 billion per month. The latest result shows lending to investors fell by 7.8 per cent to $11.7 billion in September, making it the lowest level of investor lending in more than a year.

Insight: As the major lenders have implemented changes to their mortgage lending practices in response to APRA's guidance late last year, the risk posed by a spell of pro-cyclical growth in property prices and investor lending appears to have moderated. A widening in the interest rate margin between investor loans and owner occupier loans should see growth in the owner occupier market outperform the investor market over the months ahead.

Will we (finally) see animal spirits improve?

Update: The Westpac-MI Consumer Sentiment Index increased by 3.9 per cent in November to break through the critical 100-points threshold. The latest reading (for October) of the NAB Business Confidence Index, however, pulled back from the previous month's strong gain. The index eased by 3 points to a still-positive reading of +2.

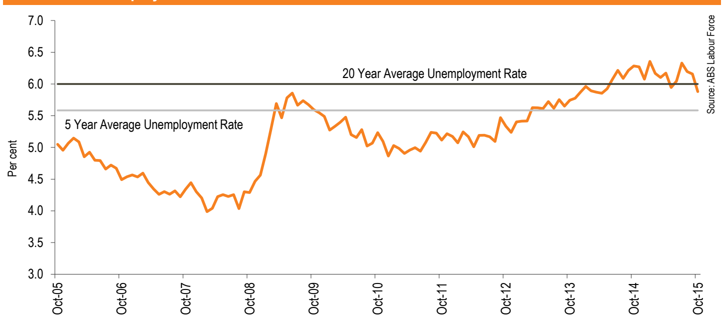
Insight: The consumer confidence result was not only one of three 100+ results recorded over the last twenty months, but it also pointed to strong Christmas spending. So, while business confidence declined to a level below its long-run average, sustained increases in consumer confidence will hopefully spur on the 'animal spirits' among businesses. This brings us to the **CAPEX** release in the coming fortnight. Firms have been extremely reticent to invest, but is this reaching a conclusion? There are signs (see below) that firms are starting to invest into more labour, so CAPEX results will illustrate whether there is a similar inclination towards capital.

Top of the charts – Labour market optimism?

Update: The latest labour force statistics provided a surprisingly strong result, with solid growth in full time jobs, an improvement in the labour force participation rate, and the national unemployment rate dropping to 5.9 per cent in October.

Insight: The labour force data has been somewhat volatile lately and there have also been questions around its reliability. Nevertheless, the persistent strength of the labour market has outperformed expectations all year and we should embrace the positive story that the latest figures are showing. However, we still need to acknowledge the chance that a revision or correction next month could pare back the sharp improvement reported last week. If the unemployment rate stabilises below 6 per cent, it would present a challenge to the RBA's notion of abundant spare capacity in the economy.

Australia's Unemployment Rate



The outlook for home renovations

Update: The Spring Edition of the HIA-ACI Renovations Roundup will be released in the coming fortnight.

Insight: Renovations activity slumped during 2012 and 2013 and unfortunately the subsequent recovery has lacked momentum. Our recently-updated forecasts for renovations activity (see here http://hia.com.au/BusinessInfo/economicInfo/housingForecasts.aspx) show our expectation that sustained growth in renovations activity will only gather momentum over the medium to longer term forecast horizon. Renovations Roundup will provide additional commentary and analysis of the renovations market. Visit http://aciresearch.com.au/ for details of this publication.

The fortnight ahead – key releases

The fortnight ahead is somewhat light on in terms of the updates relevant to the construction industry:

Friday 20 November

ABS Australian National Accounts: State Accounts, 2014-15, 11.30am.

Monday 23 November:

HIA State and National Outlook series, Spring 2015 edition, 11.00am.

Wednesday 25 November:

ABS Construction Work Done (preliminary), September 2015 quarter, 11.30am.

Thursday 26 November:

ABS Private New Capital Expenditure and Expected Expenditure, September quarter 2015, 11.30am

Friday 27 November:

HIA-ACI Renovations Roundup, Spring 2015 edition, 11.00am.

Key construction indicators

Construction work yet to be done			
	Residential building	Non-residential buidling	Engineering construction
	$ millions	$ millions	$ millions
	original, current prices	original, current prices	original, current prices
June 2014 quarter	25,488	26,794	103,804
June 2015 quarter	31,141	21,238	74,008
Annual change (%)	22.2%	-20.7%	-28.7%

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