AUSTRALIAN CONSTRUCTION INSIGHTS
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Construction Brief

17 July 2017

With a little help from our friends

World Update

Update: The Australian economy is experiencing a cyclical down-turn in two key sectors, mining and housing. Holding up the economic activity until these sectors recovery will require a little support from our trading partners and some careful management from policy makers

Insight: One of the bright lights for the Australian economy the agricultural sector is buoyed by both strong demand from China for protein (and associated feed grain) and more recently from the exporter friendly exchange rate.

This demand is off the back of a world economy that is powering ahead and beginning to achieve growth levels not experienced since the GFC in 2008. The International Monetary Fund's forecasts for global growth are very positive, reaching 3.5 per cent in 2017 and 3.6 per cent in 2018.

These forecasts may be ambitious given the expectation that the Chinese economy is already expected to ease to 6.6 per cent in 2017 and 6.2 per cent in 2018. The Trump Administration's first Budget assumes the economy will grow at 3.0 per cent a year by 2020. A more conservative estimate from the Congressional Budget Office estimates real GDP to grow by only 2.0 per cent a year over the coming decade. Regardless, world growth at 3.5 per cent is an improvement in activity over the past decade.

If these growth forecasts remain accurate our trading partners will help drag the Australian economy through this down-cycle in mining and housing investment. Other sectors of the economy – manufacturing, agriculture and services – will also be able to expand under a lower Australian Dollar.

In this time there is also a need for policy levers to be set to attract investment into the Australian economy. This means that settings for energy policy, interest rates and taxation policy must be clear, consistent and internationally competitive.

There is also a clear need to increase land supply for the construction sector to prosper, implement mutually reinforcing policies that boost productivity, improve labour market conditions that reduce underemployment as well as promote sustainable growth.

New home lending continued to increase for first home buyers

Update: Housing Finance data for May 2017 shows new home lending increased. This is because of a return of first home buyers to the market.

Insight: There was significant growth in lending to first home buyers in many parts of the country during the month which has coincided with an increase in lending for new homes. This is likely to be due to the ongoing uptake of apartments that have come onto the market this year.

Earlier lending figures also showed that the amount that first home buyers were borrowing remained relatively flat over the past year. An increase in first home buyers in the market in May is always welcome and we hope that this improvement can be sustained.

There was also some growth in lending to new home buyers more broadly, particularly on the east coast. A 28 per cent increase in lending in Queensland for the month (14.6 per cent for the quarter) is the strongest result.

Of interest, and an issue to monitor in the future, is the reduction in lending for investment properties for the second month in a row. This could be as a result of the APRA restrictions that were announced at the end of March impacting on the confidence of investors. This could also be due to the expectation that home price growth is likely to slow further.

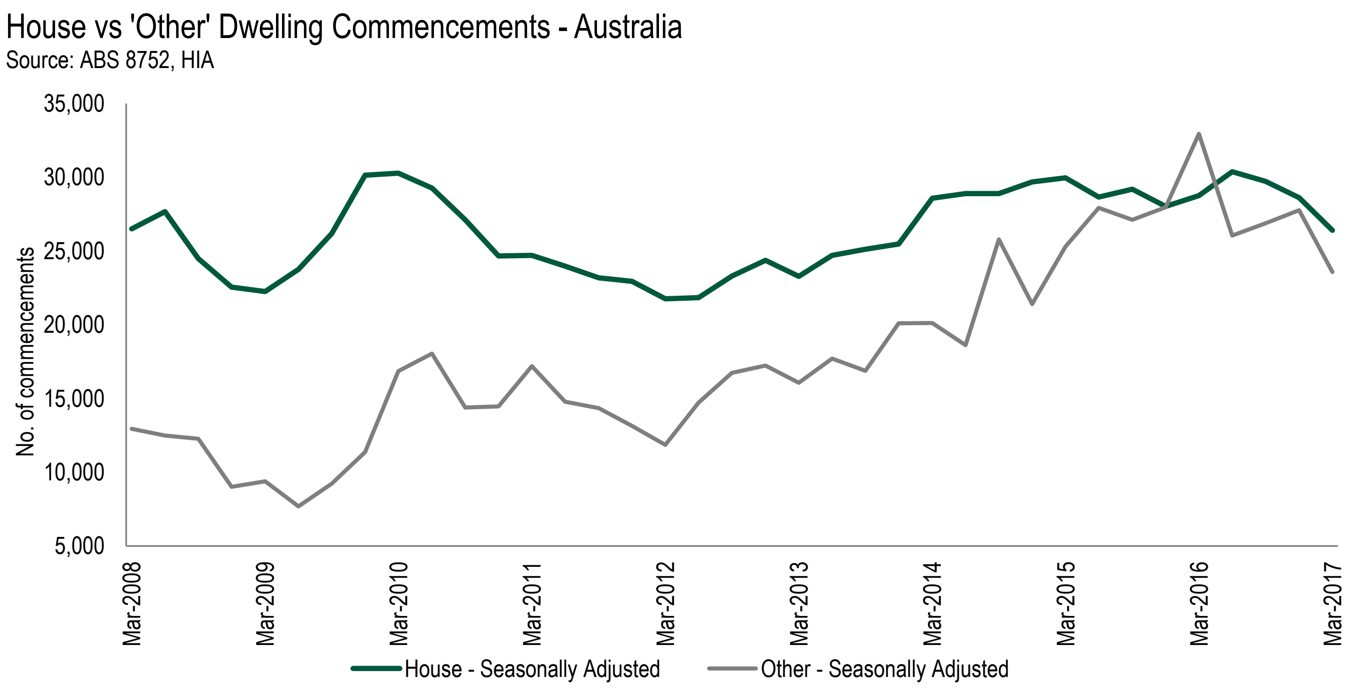
APRA guidance issued at the end of March with regard to interest-only loans restricted interest-only lending to a maximum of 30 per cent of the total value of new lending. While interest-only loans currently account for about 40 per cent of the total stock of outstanding loans, they are estimated to comprise about 64 per cent of all investor mortgages. Accordingly, the new guidelines are likely to have a much greater impact on the investor side of the market. This is likely to involve: tougher loan criteria for investors seeking interest-only; a greater focus on providing interest-only products to those with lower LVRs and; potentially higher borrowing costs for new interest-only loans. This would be in addition to the premium of 15-18 basis points already being applied to interest-only mortgages.

New home commencements continue to fall in 2017

Update: New home starts continue to fall in 2017. It is now clear that building activity in Australia peaked in 2016 and the steady decline HIA has earlier predicted to occur, is now the new norm.

Insight: Building activity has declined to levels last experienced in the middle of 2014, before the record peak in March 2016. At the core of this drop in activity is the slow-down in construction of new apartments and units, particularly on the east coast. A record number of apartments are due to come onto the market this year and the next phase of investment is now not likely to occur until the apartments currently under construction clear the market. Activity in detached low rise home construction also fell over the May 2017 quarter.

It's important to recognise that the downward trend is not cause for alarm. We are coming down off the back of record levels of activity in recent years, particularly in apartments. Policy makers should be alert to the changed trend in building activity and ensure that recent policy changes don't lead to unintended consequences.



The fortnight ahead – key dates and releases

Monday 17 July

HIA Housing Scorecard, Winter 2017 9.30am

Thursday 20 July

ABS Labour Force, June 2017, 11.30am

Monday 24 July

HIA Affordability Report June Qtr 2017, 11am

Wednesday 12 July

ABS Consumer Price Index, Australia, June 2017, 11.30am

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