



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

18 April 2016

Building activity: can ressie hand on the baton to non-res?

An all-time record of over 200,000 homes commenced construction in 2015...

Update: ABS building activity data released last week showed that in 2015 the residential construction industry commenced construction on 220,887 homes, a fresh record and 11.0 per cent more than in 2014. The growth came solely from the multi-unit segment of the market, where some 108,169 multi-unit dwellings commenced construction, while the number of detached house starts remain unchanged during the year, at 112,678 houses.

Insight: We expect this level of construction to represent the peak in activity in the residential construction sector. A range of leading indicators, have been suggesting for some time that the slightly tighter conditions facing participants in the residential construction sector will dampen bricks and mortar activity. As we've been saying for some time, we think that a still-very-strong pipeline is virtually locked in for the rest of 2016, with material declines likely to only fully emerge in 2017. For more information on our forecasts – including a detailed breakdown of forecasted activity by type of dwelling, please visit <http://aciresearch.com.au/en/what-we-offer/forecast.aspx>.

... while non-residential building continued to sag

Update: Last week's ABS building activity data also provided an update on non-residential building, although there was little to celebrate. The volume of total non-residential building work done during 2015 was 1.0 per cent lower than in 2014 and also 12.5 per cent lower than the previous peak (and also all-time high) level of building which occurred during 2010.

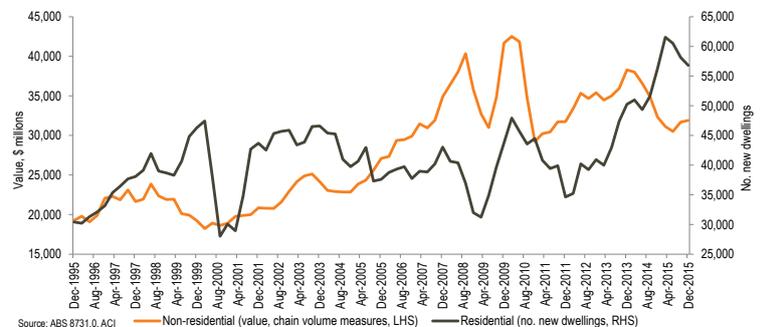
Insight: The key for not only the construction industry, but also the broader economy will be for non-residential building to grasp the baton of growth from residential construction. The latter subsector has been a crucial support to the industry and broader economy as the mining construction boom continues the process of winding down. In our quarterly publication, the *Construction Monitor*, we've been noting the green shoots of recovery in public sector engineering construction, driven mainly by strong infrastructure spending in New South Wales. However, we've yet to see private-sector demand for building and construction come to the table. Firms, despite favourable conditions, are still reluctant to invest into new capital for growth. Key developments that should provide more impetus for such investment include a further depreciation in the value of the \$A and stronger household sentiment and spending – we'll continue to monitor the relevant metrics, while the next *Construction Monitor* will provide a comprehensive update and analysis of the situation. Visit <http://aciresearch.com.au/Publications.aspx> for more info.

Top of the charts: what the leading indicators suggest about the transition between ressie and non-res

Update: Recently-released ABS building approvals data continue to suggest that the peak in new home building approvals has passed, despite a 3.1 per cent monthly boost in February. In annual terms, new dwelling approvals totalled 232,194 in the 12 months to February, down from what we think is the peak that occurred in the 12 months to October last year, when a record 239,250 new homes were approved for construction. Non-residential building approvals are tentatively showing that previous declines have at least found a floor. The value of approvals increased by 0.7 per cent in February 2016, reaching a level that is 2.3 per cent higher than the previous trough, back in June last year.

Insight: The chart below compares the chain-volume measure of non-residential building approvals with the number of new dwelling approvals out to December last year (latest data available). While we can be encouraged by signs that declining levels of approvals for non-residential building may have found a floor, any momentum toward actual growth is lacking. This will become problematic as declining new dwelling approvals have been in train since late 2015. So, in terms of bricks and mortar building activity across the broader industry, the signals from approvals aren't so auspicious.

QUARTERLY BUILDING APPROVALS - RESIDENTIAL VS NON-RESIDENTIAL BUILDINGS



Where it's hot and where there's momentum: population and residential building hotspots

Update: The 2016 edition of the HIA-ACI Population and Residential Building Hotspots will be released this week, showing where in the country has really ridden the wave of record levels of new home building. The new addition of the Building Momentum shortlist will also show the areas where there is building and population growth momentum – areas to keep an eye on for the future.

Insight: Last year we saw the then-resource powerhouse state of WA continue to dominate – having the most number of suburbs among the National Top 20 Hotspots, while NSW and Victoria were edging their way onto the list. Conditions have obviously shifted since then – with the south east of the country driving the national new home building boom, we should see the south east of the country feature more prominently. To order a copy of the report, visit: <http://aciresearch.com.au/Publications.aspx>.

The fortnight ahead – key releases

Wednesday, 20 April

HIA-CoreLogic RP Data Residential Land Report, December 2015 quarter, 11.00am

Friday, 22 April

HIA-ACI Population and Residential Building Hotspots, 2016 edition, 11.00am

Wednesday, 27 April

ABS Consumer Price Index, March 2016 quarter, 11.30am

Key Construction Indicators

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 February 2016	28,699	26,200	54,899	7.76
Quarterly change (%)	-0.1%	-7.7%	-3.9%	-6.5%
Annual change (%)	-2.6%	-15.2%	-9.1%	-12.2%
Latest 12 months	117,078	115,116	232,194	31.91
Previous 12 months	116,809	96,890	213,699	32.05
Annual change (%)	0.2%	18.8%	8.7%	-0.4%

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CONTRIBUTORS:**Shane Garrett** Senior Economist**Diwa Hopkins** Economist

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