



**AUSTRALIAN CONSTRUCTION INSIGHTS**  
Research powered by HIA Economics

# Construction Brief

18 July 2016

## The results are finally in...

### Coalition returns to power with slim majority

*Update:* With the fate of all but one of the seats in the House of Representatives now known, the Coalition will return to power having won 76 or 77 of the 150 seats. The ALP won 68 seats, with one seat each for the Greens, Katter's Australia Party and the Xenophon Team. The new House of Reps will also contain two independent members from Tasmania and Victoria.

*Insight:* Given that a hung parliament looked likely in the immediate aftermath of the election, the fact that an overall majority has been achieved is welcome. However, the new administration will have to grapple with a rather fractious Senate the composition of which is likely to frustrate the passage of legislation. The already difficult process of delivering taxation reform is made more challenging in these circumstances.

### New home lending eases back in May

*Update:* During May 2016, the number of loans to owner occupiers for dwelling construction fell by 2.7 per cent in seasonally adjusted terms while loans for the purchase of new homes inched up by 0.5 per cent. In aggregate, total new home lending volumes weakened by 1.7 per cent during the month and were 2.1 per cent lower than in May 2015.

*Insight:* The reduction in loans for new homes during May came despite the RBA's decision to cut the Official Cash Rate by 25 basis points during the month. May was an eventful month, with the federal Budget for 2016/17 being delivered on the very same day as the RBA's interest rate cut. The pull back in household borrowing during the month may reflect a 'wait and see' approach from potential homebuyers in advance of the budget and the federal election. With the election now behind us, the interest rate cut may support stronger lending activity over coming months.

### RBA holds fire – for now

*Update:* At its meeting on 5<sup>th</sup> July, the RBA left the Official Cash Rate unchanged at 1.75 per cent for the third consecutive month. This was as expected, but most market participants anticipate at least one more reduction before the end of the year.

*Insight:* With such weak inflationary pressures, the RBA has plenty of room for manoeuvre on interest rates should it judge that the economy needs further support. At over 3 per cent in annual terms, GDP growth is very much moving in the right direction but there remains considerable slack in the labour market with unemployment edging up to 5.8 per cent in June, and part-time jobs dominating employment growth. It is also estimated that almost one third of part-time employees

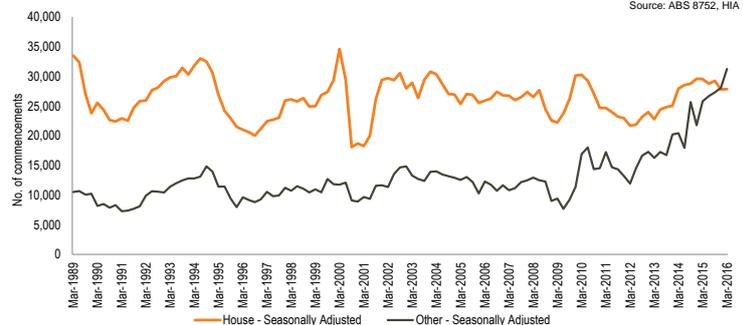
are underemployed. All of this is leading to slower earnings growth across the economy. The release of inflation data for the June 2016 quarter later this month will give us a good indication of whether there are any risks around price pressures in the economy. The RBA will also be keeping an eye on the Australian dollar's exchange rate which has strengthened in the weeks after Brexit and may justify a rate cut. At the time of writing, financial markets are pricing in a 60 per cent probability of rates being cut to 1.50 per cent at the RBA's August meeting.

### Top of the charts: New record for dwelling starts

*Update:* ABS figures on dwelling commencements for the March 2016 quarter show that a new all-time high has been reached with 59,684 starts being recorded in seasonally-adjusted terms. This is 5.7 per cent higher than the previous quarter and 6.9 per cent up on the same quarter last year. Over the year to March 2016, a total of 229,590 new dwellings have been commenced, easily the biggest number of starts in a 12-month period.

House vs 'Other' Dwelling Commencements - Australia

Source: ABS 8752, HIA



*Insight:* The March 2016 quarter was the very first on record to see more multi-units than detached houses commence construction. During the quarter, 31,260 multi-unit dwelling starts occurred, well ahead of detached houses (27,845).

Despite the very strong national figure, there is considerable variation in the pattern of activity nationally. The eastern states are driving growth with dwelling commencements increasing by 24.1 per cent in NSW, 13.1 per cent in Queensland and 11.6 per cent in Victoria during the 12 months to March 2016. However, new starts fell by 24.7 per cent in the NT and by 19.0 per cent in WA over the same period as the resources investment boom continued to unwind. Despite the strength of activity during the March 2016 quarter, we expect activity to ease back from these high levels during 2016/17 and 2017/18.

## The fortnight ahead – key releases

Tuesday, 19 July

HIA *Affordability Report* June 2016 quarter, 11.00am

Wednesday, 27 July

ABS Consumer Price Index, June 2016 quarter,  
11.30am

Thursday, 28 July

HIA-CoreLogic RP Data *Residential Land Report*, March  
2016 quarter, 11.00am

## Key Construction Indicators

	Dwelling commencements - houses Number seasonally adjusted	Dwelling commencements - other Number seasonally adjusted	Dwelling commencements - total Number seasonally adjusted	Non-residential work commenced \$ billions seasonally adjusted
March 2016 quarter	27,843	31,261	59,104	8.57
Quarterly change (%)	0.2%	11.5%	5.7%	12.2%
Q on Q, annual change (%)	-5.7%	21.1%	6.9%	18.0%
Latest 12 months	113,650	113,283	226,933	30.34
Previous 12 months	116,456	91,181	207,637	31.50
Annual change (%)	-2.4%	24.2%	9.3%	-3.7%

ACI produces a wide suite of publications and research which include the latest industry analysis, forecasts and emerging trends, at a national, state and even regional/local level. If you would like to order publications referenced in this brief please email [info@aciresearch.com.au](mailto:info@aciresearch.com.au)



**AUSTRALIAN CONSTRUCTION INSIGHTS**  
Research powered by HIA Economics

**CONTRIBUTORS:**

**Shane Garrett** Senior Economist

*Disclaimer: This document is produced by ACI based on information available at the time of publishing. All opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. Neither HIA nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.*