Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

19 December 2016

Weaker construction weighs on economy in September quarter

Construction's part in the Q3 GDP fall

Update: Gross Domestic Product (GDP) figures for the September 2016 quarter revealed an unexpectedly weak result. GDP declined by 0.5 per cent in the quarter, but remained 1.8 per cent higher than a year earlier. There had been an expectation that the result would be a weak one and a negative reading was considered possible. However, the magnitude of the decline exceeded the consensus.

Insight: In aggregate, activity in the construction sector declined during the quarter and thereby contributed to fall in GDP. Engineering construction work on mining related projects continued to contract (-5.6 per cent in the quarter) and this once again proved the major driver of the decline in construction activity. However, both residential building (-1.4 per cent) and non-residential building (-11.5 per cent) also contracted during the quarter after a number of major markets fell victim to particularly poor weather during the quarter. Aside from the ongoing contraction in mining investment, there is reasonable cause to expect that construction made a stronger contribution to economic growth in Q4.

Population growth aligns with construction hotspot

Update: Figures released by the Australian Bureau of Statistics last week show that Australia's population increased by 337,800 people in the year ending June 2016, reaching 24.1 million. This equates to growth of 1.4 per cent over the year. Net overseas migration contributed 182,165 people to the increase over the year ending June 2016, increasing by around 3.0 per cent over the year. Natural population growth added 155,656 people to the population over the year to June 2016, which was around 2.6 per cent higher than a year earlier.

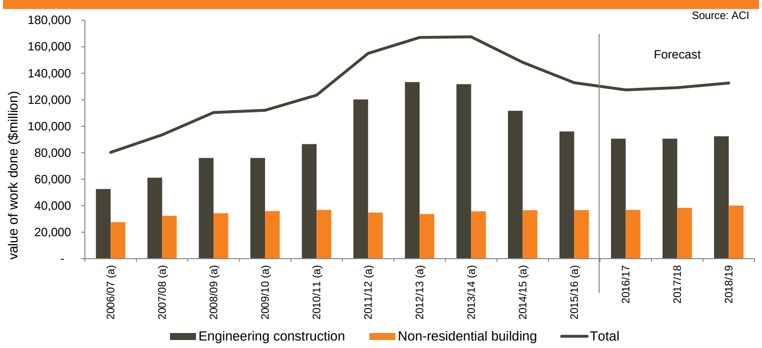
Insight: There is a naturally tight relationship between economic conditions, population, and the demand for construction. Victoria has hosted the fastest growing population in the country since 2014 and the latest figures show the rate of growth increased further, reaching 2.1 per cent in 2015/16. Victoria has been the strongest residential building market over the last few years, the state topped the ACI's construction league table in the latest ACI Construction Monitor, and labour force figures show the state had the largest trend increase in employment in November. Victoria is ticking more boxes than any other jurisdiction at the moment.

Top of the charts: Outlook for engineering and non-residential construction

Update: This current financial year could be the last year in which the substantial falls in mining related construction work eclipse all other developments within the non-residential building and construction industry. ACI has released our latest construction forecasts in the Summer Edition of the ACI Construction Monitor report.

Insight: Although the aggregate value of non-residential construction work declined by 10 per cent last financial year, there were green shoots of a recovery emerging from some non-mining parts of the industry: 11 of the 22 subsectors of the construction industry expanded in 2015/16. ACI forecast a further decline in non-residential building and construction work in 2016/17 which would see the value of activity in the industry drop to around $127 billion marking the bottom of the mining investment dominated slowdown. Mining related activity may still decline further beyond 2016/17, however the prospects for other parts of the construction industry are improving and growth in these sectors is expected to outweigh any further contraction in mining related work by that stage.

AUSTRALIAN CONSTRUCTION ACTIVITY OUTLOOK



US interest rates move higher: Australia to follow?

Update: In a widely anticipated move, the US Federal Reserve increased its benchmark interest rate by 25 basis points at its December meeting. The move was motivated by the desire to head off emerging inflationary pressures in a graduated fashion without endangering the steady recovery in the US economy. Current market expectations suggest that three more interest rate increases could occur in the US during 2017.

Insight: The benchmark US interest rate was last increased this time last year – the China-related market turmoil at the start of this year and the Brexit vote got in the way of further increases until now. US interest rates remain extremely low, meaning that further increases will be required at some stage to bring them back to more 'normal' levels. The increase in US rates does not mean that rate hikes from the RBA are at all imminent. With inflation here so low and economic growth decelerating, only a large and disorderly fall in the Aussie dollar's exchange would warrant a hike in the RBA's Official Cash Rate over the next year.

The fortnight ahead – key releases

Monday 19 December

Commonwealth Mid-year Economic and Fiscal Outlook

Tuesday 20 December

Minutes from RBA Board Meeting, December 2.30pm

Sunday December 25

Christmas Day, Merry Christmas!

The team at ACI wishes all our clients a safe and joyful festive season. We look forward to bringing you more insights into the economic issues driving construction activity in 2017!

The next edition of the ACI Construction Brief will be published on Monday 16 January 2017.

Key Construction Indicators:

Australian National Accounts - September 2016 quarter

(Seasonally adjusted chain volume measures)

	Jun Qtr 2016 to Sep Qtr 2016 % change	**Sep Qtr 2015 to Sep Qtr 2016** % change
Gross Domestic Product	-0.5	1.8
Final consumption expenditure	0.3	2.8
Gross fixed capital formation	-2.7	-2.5
Residential dwellings - new and used	-1.6	9.1
Residential dwellings - alterations and additions	-1.0	3.7
Non-residential - new buildings	-11.5	-12.6
Non-residential - new engineering construction	-5.6	-28.0
Terms of trade	4.5	1.5
Real net national disposable income	0.8	3.2

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