Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

20 November 2017

Where would we be without the construction industry?

We'd be in far worse shape

Update: We were reminded last week of just how important the construction industry continues to be in driving Australia's economy – we'll come back to that point.

Insight: Beyond the construction industry there aren't many lights on in the Australian economy. Post the GFC, even allowing for the short term stimulus of large government spending and a rapid, substantial decline in interest rates, Australia's economic growth rate has been rather tepid. Australia's pre-GFC rate of economic growth averaged 3.4 per cent per annum and one could argue that Australia became somewhat complacent about that performance. In recent years economic growth has averaged 2.5 per cent and over 2016/17 the average was 2.0 per cent.

Imagine what Australia's growth profile would have been without the construction industry, especially new home building!

Residential construction to the rescue

Update: Over the last five years there has been over $270 billion worth of new home construction activity. The flow on boost to other sectors of the economy is worth that amount again, plus some cream on top.

Insight: Now that the residential building cycle has peaked (although activity remains historically very strong), non-residential infrastructure investment is flexing its muscle. This resurgence in non-residential construction activity is picking up the slack, as was accurately portended some time ago in ACI's *Construction Monitor*. The ACI *Construction Monitor* contains detailed analysis of Australia's non-residential construction sectors – for further information go to: http://aciresearch.com.au/Publications

Australia's wobbly wages growth

Update: Last week's reminder that we referred to at the outset came in the form of wages growth for the September 2017 quarter. Wages and wider household income growth is soft, we all know that, but there was an expectation that in Q3 the rate of growth would be really slow rather than anaemic. The result we got (for the ABS Wage Price Index) was anaemic.

The Wage Price Index grew by only 0.5 per cent in the September quarter (2.0 per cent y/y). Wages growth through the middle of 2017 is the slowest in 20 years.

Insight: The reaction of the Aussie dollar to the wages result was swift. Against the US dollar the Aussie fell from $0.7628 to around $0.7585 in the blink of an eye. While there had been widespread anticipation of the Aussie falling through the $0.76 mark at some point in late 2017, it certainly wasn't expected to crash through last Thursday.

The wages result is bad news for consumer spending, which isn't exactly bouncing off the walls as it is. Political uncertainty, particularly the citizenship saga which is dragging on longer than a John Farnham farewell, is weighing on consumer sentiment (which fell back in November). Private business investment is partially constrained by concerns over Australia's political malaise.

The bottom line is that the broader (weak) economic environment isn't going to change in a hurry. Consequently the outlook for construction is even more important than usual.

Where to for construction activity?

Update: We are currently undertaking our final residential forecasting review for 2017and the results of which will be released shortly.

Insight: Victoria and New South Wales will continue to look the goods in terms of a new home building cycle with a very long tale. That is hardly unexpected when Victoria's population growth rate is a stellar 2.4 per cent (NSW is running at 1.6 per cent per annum).

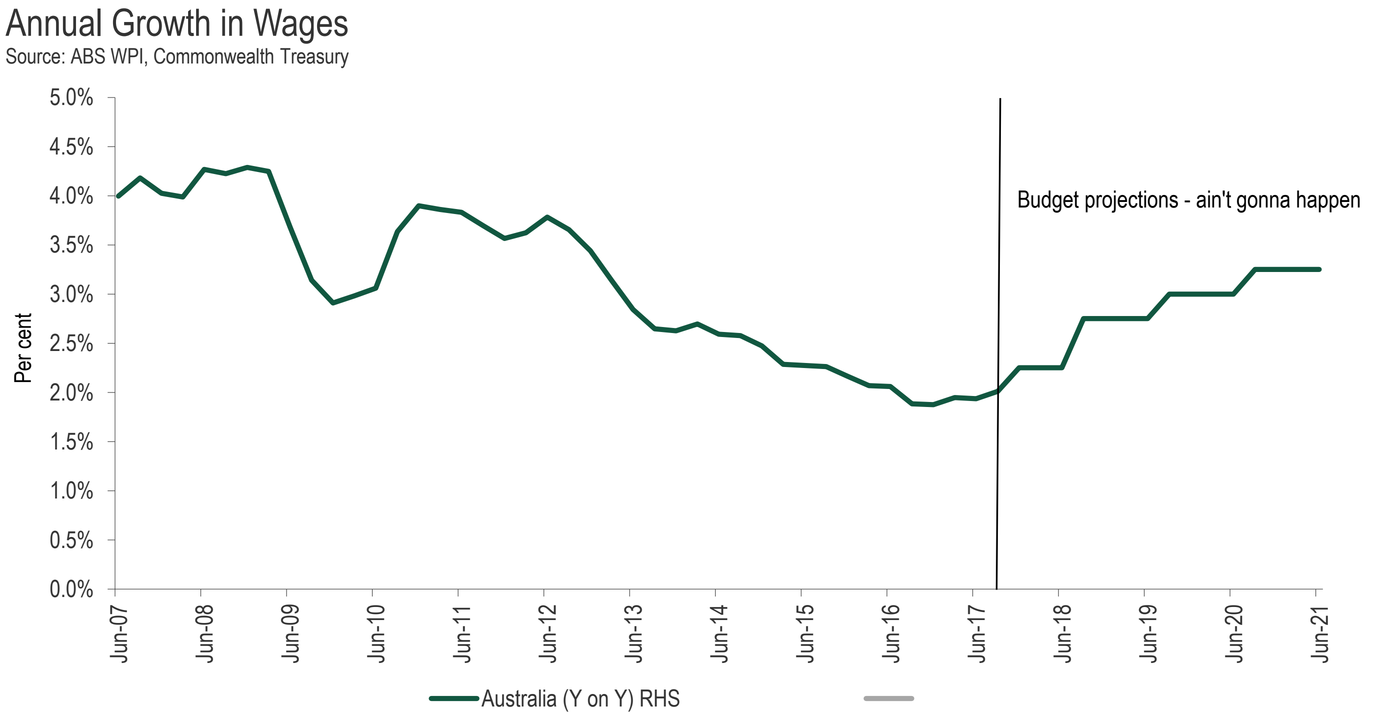
On the non-residential construction front, the latest ACI *Construction Monitor* released last month has a strengthening outlook for: transport buildings; offices; warehouses; agricultural and aqua cultural buildings; education; aged care; short term accommodation; roads, highways and subdivisions; bridges, railways and harbours; and water storage etc.

For further information on the suite of forecasts we have available, go to: https://hia.com.au/BusinessInfo/economicInfo/housingForecasts

Corporate tax cut anybody?

Update: The three most uttered words in American politics right now are 'corporate tax cuts'. This policy has become increasingly complex in recent weeks, confusing the outlook for the US dollar and therefore the AUD/USD.

Insight: The US House of Representatives passed the tax bill last Thursday (227 votes to 205), but the ride through the Senate Finance Committee's vote on tax reform will be bumpy and potentially drawn-out, fuelling uncertainty. The general trend in coming months should still be for downward pressure on the Aussie dollar against the US.



The fortnight ahead – key dates and releases (AEDST)

Monday 20 November

Speech by RBA Head of Financial Stability, Jonathan Kearns at the Aus-China Property Developers, Investors and Financers event, Sydney, 12:35pm

Speech by Marion Kohler, RBA Head of Domestic Markets at the Australian Securitisation Forum 2017, Sydney, 2:50pm

Tuesday 21 November

Panel participation by RBA Assistant Governor (Financial Stability), Michelle Bulloch at the Women in Payments Symposium, Sydney, 09:30am

ABS Producer Price Indexes, Australia, September 2017 quarter, 11.30am

Minutes of November 2017 Monetary Policy Meeting of the Reserve Bank Board, 11:30am

Wednesday 22 November

ABS Construction Work Done, Preliminary, Australia, September 2017 quarter, 11.30am

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