



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

21 March 2016

Is non-res construction set to take over from new home building?

Can non-res construction assume the growth mantle?

Update: The monthly Performance of Construction Index (PCI) produced by the Australian Industry Group and the HIA is one metric that in recent years has shown the clear demarcation between a strong new home building sector versus much weaker conditions for the commercial and engineering construction sectors. On the topic of non-residential construction, the autumn 2016 edition of ACI's flagship publication, the *Construction Monitor* will be released this Thursday 24th March. Containing Australia's most comprehensive analysis of commercial building and engineering construction activity, by industry sub-sectors and across states and territories, it would be telling (and also very pleasing) if our *Construction Monitor* provided encouraging news.

Insight: Maybe! The unique state-rating system in the *Construction Monitor* will highlight any particular geographical strength. Also, in terms of opportunities for non-residential construction businesses and benefits for the economy, we need to see considerable breadth to any strength across sub-sectors of the industry. That may still elude us in 2016. That doesn't mean things aren't improving. Updated forecasts for non-residential construction will be available in the *Construction Monitor* and will reflect our view that we think the bottom is nigh, particularly as the declines in engineering construction find a floor. For more information visit <http://aciresearch.com.au/en/Publications.aspx> or contact Kirsten Lewis at infor@aciresearch.com.au.

What about new residential construction?

Update: Coming off a record year of new dwelling commencements in 2015, this year will be another strong one for new home building. We are of the view that the cycle in new dwelling commencements peaked at around 220,000 in 2015. We won't quite reach those dizzy heights again, but 2016 will be a healthy year in aggregate.

Insight: This home building cycle is even more about the 'devil below the national detail' than ever before. Where you build and what type of dwelling you focus on will remain important in the national down cycle, and vast differences in conditions across states and territories will persist. We recently released our latest forecasts for new commencements by different type of dwelling across states and territories. Again, visit <http://aciresearch.com.au/en/Publications.aspx> or infor@aciresearch.com.au for further information.

Let's not forget about renovations activity

Update: While we think we've just passed the peak in new home building, renovations activity will provide a source of growth this year and next. We also think we will see large geographical differences, plus varying demand across different types of renovations jobs.

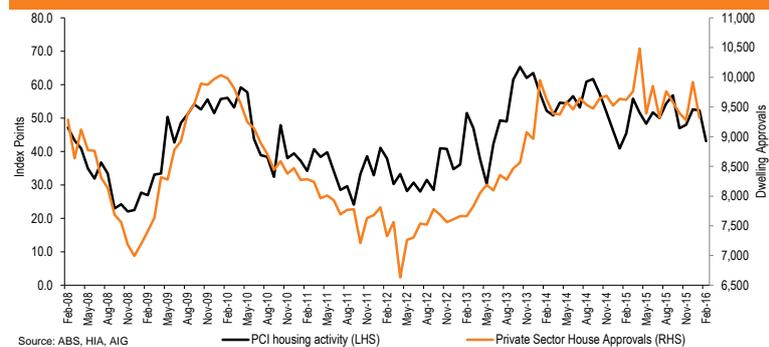
Insight: We try to drill down into the detailed 'world' of renovations with our quarterly *Renovations Roundup*. The latest report is out this Wednesday 23rd March – get in touch if you have any queries.

Top of the charts: the AiG-HIA PCI

Update: That's quite a few letters piled together for one measure! This index has generally shown in recent years that new home building has been the only construction game in town.

Insight: Hopefully as the 2016 year progresses we see evidence of new home building holding up well at the same time as conditions in the commercial and engineering construction sectors are improving.

PERFORMANCE OF CONSTRUCTION INDEX - HOUSES



Source: ABS, HIA, AIG

The world around us: Iron ore snakes and ladders

Update: The price of iron ore – Australia's largest commodity export – rocketed up the charts as we all know. Then it fell, partially recovered, then plummeted to around USD\$40 per tonne in December last year. We got that forecast right – not that we wanted to. We have since seen a price recovery of more than 50 per cent. Indeed at one point iron ore was fetching USD\$66 per tonne again, before settling in the late 50's. American cars were pretty cool in the 50's.

Insight: As we note in our first *National Outlook* for 2016 (see below for further details), released last Wednesday 16th March, it has been a rather chaotic world at times this year and we're still only in March! The price of iron ore has been part of the ride. As we also note in the latest *National Outlook* there has recently been some focus on why the iron ore price has been recovering – a refreshing change from a focus on how far below 40 bucks it may fall!

In some ways the iron ore price is acting as a proxy for global economic conditions (and concerns). One driver of a price recovery in the red metal may be a resurgent residential property sector in China – as outlined, for example in a recent article (March 11th) in the AFR. We're not quite sure another residential property and construction boom in China is what the world needs, even although it is good for the price of iron ore. Keep a closer 'China watch' in 2016 than last year.

The fortnight ahead – key releases

Tuesday, 22 March

ABS Residential Property Price Indexes, December 2015 quarter, 11.30am

Wednesday, 23 March

HIA Renovations Roundup, autumn 2016 11.00am

Thursday, 24 March

ACI Construction Monitor, autumn 2016, 11.00am

Thursday, 31 March

CoreLogic RP Data Home Values, March 2016, 9.00am

HIA New Home Sales, February 2016, 11.00am

The HIA National Outlook for summer 2016

Just as the *Construction Monitor* is ACI's flagship report, the *National and State Outlooks* (nine reports in total) are the leading publication for HIA Economics – the HIA member service and policy research team which powers Australian Construction Insights. For further details regarding the latest suite of *Outlook* publications please contact info@aciresearch.com.au.

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



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