



AUSTRALIAN CONSTRUCTION INSIGHTS  
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# Construction Brief

23 May 2016

## Interest rates: more reductions on the way?

### Will the RBA move again?

*Update:* The RBA delivered another interest rate cut at the beginning of May, the eleventh such reduction since rates started coming down in late 2011. This brings the Official Cash Rate down to an all-time low of just 1.75 per cent, which is well below the 3.00 per cent trough reached during the depths of the GFC in 2008.

*Insight:* The weak inflation update for the March 2016 quarter prompted the decision – annual inflation was below the RBA's target band, while prices over the quarter actually declined. That said, the recently-released minutes of the RBA Board meeting indicated the decision was a close call which may cast some shadow over the prospects of further reductions. The closeness of the call largely reflects the competing factors at play. Namely while inflation weakened to be lower than expectations, the labour market and economic growth have outperformed expectations. At this juncture, it appears that ultimately the direction and timing of a change in the cash rate will depend on what happens with inflation. Some analysts are predicting an official cash rate of 1.25 per cent by Christmas.

### Major economic check-up ahead: GDP and CAPEX

*Update:* Key to the longer term economic outlook is non-mining business investment. ABS data on private capital expenditure (CAPEX) – both actual and planned – will be released this Thursday. The base of that outlook – GDP during this year's March quarter – will be confirmed in national accounts figures which will be released next Wednesday 1 June.

*Insight:* Both of these updates will be keenly watched. The previous, December 2015 quarter results for GDP showed strong growth in consumption expenditure. The key questions for this coming update is, was this a flash in the pan, or an early sign of consumers loosening their purse strings after quite a prolonged period of self-imposed austerity? The behaviour of consumers should have some bearing on businesses and their CAPEX intentions – particularly those that directly feed into consumption expenditure. These are dynamics that are especially pertinent to non-residential construction which we'll be exploring in greater detail in the upcoming winter edition of the Construction Monitor. For more details on this quarterly publication, see <http://aciresearch.com.au/en/Publications.aspx> or contact [infor@aciresearch.com.au](mailto:infor@aciresearch.com.au).

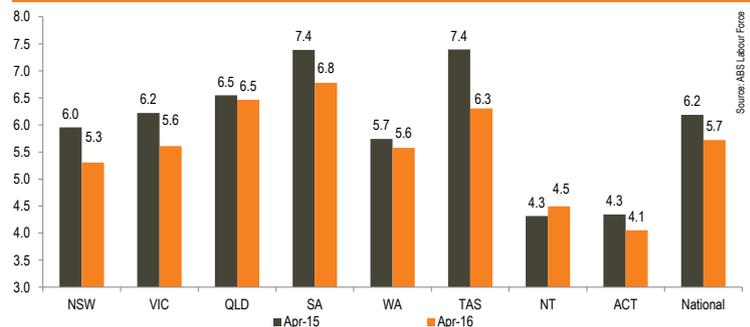
### Top of the charts: unemployment down across all states bar one

*Update:* ABS labour force figures for April came and went without much fanfare last week. The

unemployment rate held steady at 5.7 per cent. The total number of people employed increased by 10,800 (seasonally adjusted) to some 11.9 million. This was due to an increase in the number of people in part-time employment (an additional 20,200 people) while the number in full-time employment decreased by 9,300 persons.

*Insight:* Underneath this headline result, was a notable development. That is in April 2016, apart from the Northern Territory, all jurisdictions had a lower unemployment rate that a year previously. Prior to April, annual declines in unemployment were largely limited to the eastern seaboard states. To see a uniform trend of declining in unemployment rates across the country would certainly be a very good news story, but at this stage it's probably a bit premature to be heralding this to be the case just yet. Nevertheless, we'll still take at least this update as a positive.

Unemployment Rate by State - April 2016 vs April 2015



Oh, and the federal election.

*Update:* The federal election campaign has now been running for two out of (a historically long) eight weeks. Infrastructure spending is set to be a key item on this week's agenda, with both parties making separate commitments on either side of the country.

*Insight:* We'll be watching these election commitments closely. However, much infrastructure spending hangs in the balance at the state-level of government. Last year we noted NSW's major program of infrastructure expenditure, unveiled in the state's budget. Victoria has come to the party with its latest budget this year, also setting out a program of major infrastructure investment. Already NSW and Victoria have resumed their roles as major drivers of the country's economic conditions, with these states' economies performing strongly. Whether other states and territories will follow that lead will be instructive for the broader non-residential building and construction outlook across the country.

**The fortnight ahead – key releases**

**Wednesday, 25 May**

ABS Construction Work Done, Preliminary, March quarter 2016, 11.30am

**Thursday, 26 May**

ABS Private New Capital Expenditure and Expected Expenditure, March quarter 2016, 11.30pm

**Monday, 30 May**

HIA New Home Sales, May 2016, 11.00am

**Tuesday, 31 May**

ABS Building Approvals, May 2016, 11.30am

**Tuesday, 31 May**

ABS National Accounts, March 2016 quarter, 11.30am

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