

## Fresh cyclical high for detached house starts!

### Highest number of detached house starts in 6 years

*Update:* The latest ABS Building Activity figures reveal a fresh cyclical peak for detached house starts in the June 2016 quarter. In seasonally-adjusted terms, detached house starts (commencements) increased by 6.9 per cent in the quarter.

*Insight:* The increase was primarily driven by a jump in starts in Victoria, however all three of the large east coast states recorded strong results which contributed to this being the strongest quarter for detached house starts since early 2010. The latest ABS figures show there were a total of 115,503 detached houses commenced during the full 2015/16 financial year. This is 1.0 per cent lower than the previous year, but there is still a reasonable chance that this estimate could be revised higher next quarter.

### Hiccup for multi-unit starts...maybe

*Update:* Starts of 'other dwellings' (primarily multi-unit dwellings) had a contrasting experience in the June 2016 quarter. Starts in this part of the market declined quite sharply, falling by 23.6 per cent in the quarter. While this was certainly a large decline in the quarter, the fall occurred from the all-time record high reached in the March 2016 quarter. In addition, an upward revision to previously reported figure for the March quarter now shows there were around 32,600 starts which is 13 per cent higher than the next strongest quarter on record.

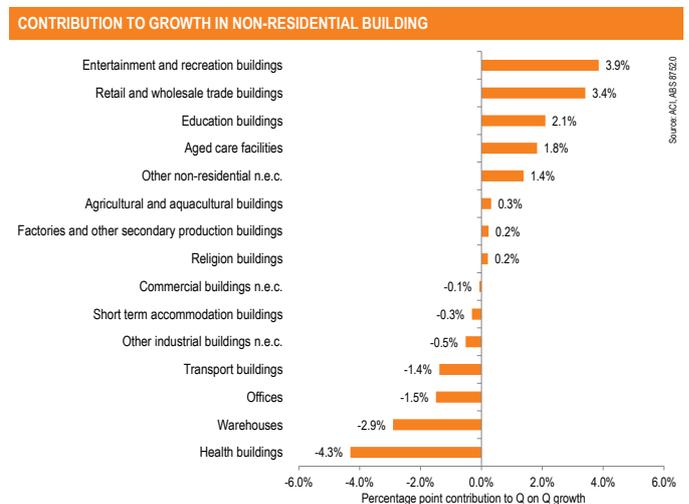
*Insight:* We've grown wary of the preliminary estimate of multi-dwelling starts as this series has been subject to some substantial revisions of late. Nevertheless, it is likely that the recent data is capturing the peak of the apartment building cycle. We saw some slowing in this part of the market earlier in the year, but then somewhat of a resurgence around the middle of the year. It is likely that the gap between the date that the Victorian and Queensland governments announced tax hikes for foreign investors and the date the changes took effect enabled some projects to be brought forward.

### Top of the charts: What is contributing to non-res?

*Update:* In aggregate, the value of non-residential building work done in the June quarter of 2016 was 2.4 per cent higher than the corresponding period a year earlier. However, not all parts of the sector are pulling their weight. The amount of work done declined in seven of the fifteen sub-sectors that make up the non-residential building sector.

*Insight:* With the various sub-sectors of parts of the non-residential building industry exposed to such divergent determinants of demand, it always useful to dig below the aggregate to find out how each part is tracking. The latest figures show that growth in work done on

entertainment and recreation buildings was the biggest contributor to growth over the last year, followed by work done on retail and wholesale trade buildings, and education buildings. Not surprisingly, these three sectors make the biggest contributions because they rank as three of the largest five sub-sectors on non-residential building (ranked first, third and fourth, respectively). The other two large sub-sectors ranking in the top-five, offices (ranked second) and health buildings (ranked fifth), were amongst the largest detractors from growth over this period.



### Commodity prices on the up

*Update:* The prices of Australia's key commodity exports have risen well above their respective costs of production. The spot price of coking coal used in steelmaking has leapt from US\$76 a tonne at the beginning of 2016 to US\$230 a tonne currently. Prices of thermal coal have also risen about 50 per cent, and the price of Iron Ore have risen to US\$58 a tonne.

*Insight:* These three commodities constitute around 50 per cent of Australia's resource exports – expected by most Australian commodity forecasters to be worth around \$170 billion in 2016-17. The main reasons for this hike include the resurgent demand from China's construction sector which has seen a surge in steel production. In addition, there have been unforeseen production disruptions in a number of major suppliers, including Australia. Higher resource prices are likely to improve Australia's terms of trade and see net exports make another positive contribution to GDP growth. In addition, it is also possible that this could have a positive impact on tax revenues. Depending on the duration and extent to which commodity prices remain above expectations, there is a possibility that the additional tax revenue could result in a smaller budget deficit than had been projected in May.

## The fortnight ahead – key releases

**Wednesday 26 October**

ABS Consumer Price Index, September 2016 quarter, 11.30am

**Friday 28 October**

HIA New Home Sales, September 2016, 11.00am

**Tuesday 1 November**

CoreLogic Home Value Index, October 2016, 10.00am

ABS Building Approvals, September 2016, 11.30am

RBA Monetary Policy Decision, November 2.30pm

## Key Construction Indicators

## Snapshot of the Residential Building Pipeline - Australia

Source: HIA Economics, ABS 8752.0, ABS 8731.0

	Approved (1 month lag) Original	Not yet commenced Original	Commenced Original	Completed Original	Under construction Original
Sep-14	52,761	29,650	56,573	47,650	170,068
Dec-14	56,310	28,197	53,396	49,393	173,375
Mar-15	54,155	29,478	51,100	41,921	181,981
Jun-15	61,145	34,181	55,322	49,572	187,326
Sep-15	59,384	34,175	58,917	50,617	194,660
Dec-15	61,941	36,706	57,742	52,006	199,270
Mar-16	52,477	33,602	57,338	38,260	217,610
Jun-16	59,968	38,898	52,546	58,100	212,035
Sep-16	60,951				

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