ACI AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

24 November 2016

Latest HIA Outlooks predict 2018 trough for new home building

Residential building to bottom in 2018

Update: The release of this Construction Brief was held back two days to incorporate the release of the HIA National Outlook. The forecasts are for starts of new residential building to fall from the current record levels to 172,000 starts in 2018/19.

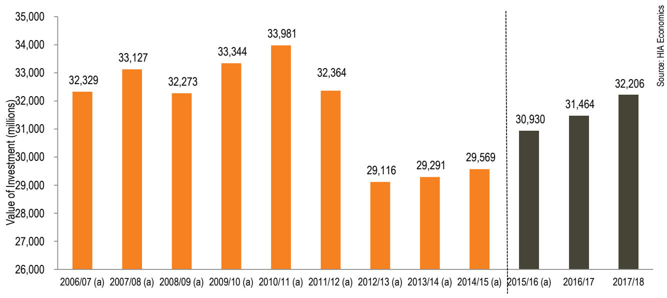
Insight: Given the unprecedented growth in the share of multi-units in the current cycle, it's no surprise that HIA is forecasting this sector to bear the brunt of the slowdown in new building that's coming. From the 2016 peak, multi-unit starts are forecast to decline by over 40 per cent by 2018/19. Detached home building is looking at a much softer landing with commencements forecast to fall by 9 per cent over the same period. The substantial amount of work currently under construction will see the level of activity on the ground wind back at a slower pace into 2017 and 2018 as these projects, particularly the larger apartment projects complete. Over $60 billion of work is expected to be done on new residential building this financial year falling to around $47 billion by 2018/19, the expected trough in the cycle. The extraordinary degree of uncertainty at the moment (around US economic policy settings in particular) adds an unusual element of risk to these forecasts. Unfortunately most of the current foreseeable risks are all on the downside. As always, time will tell.

Top of the charts: Renovations to defy the trend

Update: The HIA National Outlook is forecasting modest growth in the renovation market with 6.5 per cent growth expected to 2018/19.

Insight: Renovations are a very significant and often under-estimated component of the residential building industry and are usually a less volatile part of the market. However the GFC knocked the confidence out of the renovation market and it showed no sign of recovery as new residential building took off over the last few years. But in 2015/16 renovations showed signs of a long awaited uplift, growing by 4.6 per cent to be worth $30.9 billion. Reflecting the significant growth in dwelling prices over the last few years in many markets and an expectation of low interest rates continuing for some time, renovations will grow to a spend of nearly $34 billion in 2019/20. Over this time renovations will have grown from 35 per cent of all the work done on residential building to 41 per cent. This growth in renovations will soften some of the impact of the slowdown in new residential building.

Australia Renovations Forecasts

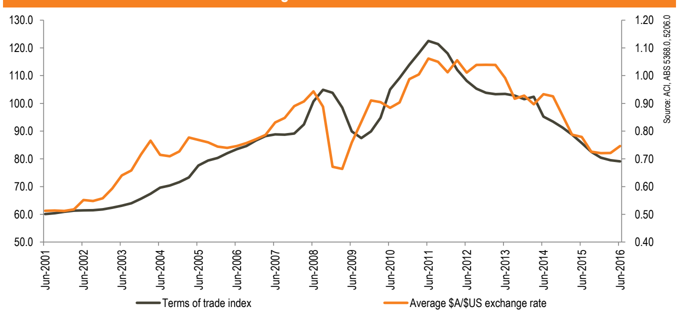


Whither the $A and interest rates

Update: Since the US election result the $A has fallen below 74 cents US and all the media chatter has moved on from when the Reserve Bank will lower interest rates next, to when will US rates rise and whether that will cause the RBA to lift rates here.

Insight: Short term predictions of currency markets are fraught. As we saw on the day of the US election there can be substantial movements up and down in the one day in stock and currency markets, mostly on the basis of uninformed speculation and the herd mentality. Over the medium term the value of the $A is very closely aligned to Australia's terms of trade (the relative price of our exports compared to our imports). If the growth in coal and iron ore prices that has happened over the course of 2016 continues then the $A could appreciate. Moreover the RBA's latest pronouncements suggest that interest rates are unlikely to go any lower due to the risk of further fuelling residential price increases, so there will be no offsetting of the upward pressures on the dollar from lower rates. Recent speculation about the Mid-Year Economic and Fiscal Outlook and the circling of Australia's AAA rating by the credit agencies also point to further upward pressure on interest rates. So why has the $A fallen against this background of upward pressures? It's all about uncertainty, no longer about the health of the Chinese economy and financial system (that was a story for the first half of the year), but about the economic policy settings in the US and the potential they may have sometime in the future for Australia's relations(economic and political) with its major Asian trading partners. In the longer term the economic pressures from the terms of trade will win over the short term uncertainties.

Terms of Trade and the AUD/USD Exchange rate



The fortnight ahead – key releases

Tuesday 29 November

HIA New Home Sales, October 2016, 10.30am

Wednesday 30 November

ABS Building Approvals, October 2016, 11.30am

Thursday 1 December

CoreLogic Home Value Index, November 2016, 10.00am

ABS Private New Capital & Expected Expenditure, September 2016, 11.30am

Friday 2 December

HIA Housing Scorecard, November 2016, 10.00am

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