AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

26 April 2017

The IMF and Australia's growth drivers

Australia's transitioning economy

Update: We have chosen to focus our attention in this *Construction Brief* on the changing growth drivers of the Australian economy. The new home building cycle has reached a peak. Regulatory controls on the cost and availability of credit to residential investors have been ramped up further in 2017, as we noted in the last Brief. We are approaching yet another stage of Australia's resources cycle, at the same time as public infrastructure investment will expand further.

Insight: Against this backdrop, the International Monetary Fund (IMF) released its latest economic forecasts last week. They aren't crash hot. There are, however, considerable opportunities for Australia's construction industry as the nation's growth drivers evolve: a long tail to new home building; growing opportunities in parts of commercial construction; a wider range of demands for engineering construction; and a further recovery in renovations activity. We need to keep these positives in our line of sight even while being surrounded by the more negative aggregate focus that is almost certain to develop. Opportunities for non-residential construction will be analysed in detail in the ACI *Construction Monitor* released on May 1st. For more information go to: http://aciresearch.com.au/en/Publications.aspx

International and domestic factors affecting Australia's growth sectors

Update: Australia's two major growth sectors are set to slowly shrink in the future. The simultaneous deceleration of the two major contributing sectors, mining and housing, will put a huge responsibility on other growth sectors to 'step up to the plate'.

***Insight*:** The IMF projects slower growth rates into the future for the economies that constitute Australia's major trade partners. China slows to a growth rate of 5.9 per cent between 2019 and 2021 against a growth rate of 6.7 per cent in 2016. The United States slows to 1.7 per cent between 2019 and 2021, as against 2.3 per cent expected in 2017. Japan stagnates at 0.7 per cent between 2019 and 2021. (See table 1 on page 2.)

Admittedly the IMF does change their mind on growth forecasts rather too frequently. The IMF's outlook does still carry considerable weight, despite a seemingly persistent stream of forecast updates.

To continue with the 'bleak' IMF-based tirade before looking up, steel production in China that generates demand for Australian iron ore is expected to decline over the next five years. Plus, climate change policies in different countries are reducing demand for Australian coal. These factors, along with the increase in low cost resource supplies from other countries will lower iron ore and coal prices for Australian exports, according to the Australian commodity forecaster. Also, the rise of trade protectionism has the potential to have a negative impact on Australia's resources and energy exports. Overall, mining's contribution to economic growth is projected to remain strong in the short term, but is projected to fade over the medium term.

At the same time, Australia's new home building sector, a major contributor to the economy over the last four years, has peaked. The number of national new dwelling commencements peaked in 2015/16, but at this juncture in the Brief we'll move back away from the dark side of the story.

During 2016, total dwelling investment accounted for 5.8 per cent of GDP, with housing services amounting to an additional 17.6 per cent of the total (making a grand total 23.4 per cent share of the GDP in investment, rent, owner-occupied imputed rent, and utility payments). That's an almighty economic contribution.

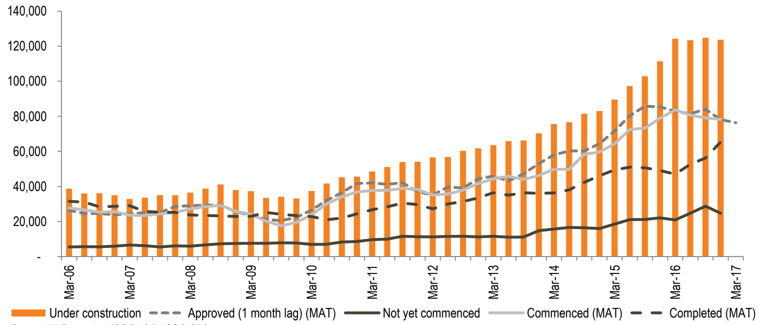
This contribution may ease, but new home building isn't about to fall in a hole. We have a very long tail to this cycle and strong underlying demand, so there will be plenty of opportunities throughout 2017/18.

Top of the charts: Oh what a pipeline!

***Update*:** The pipeline for new home construction is still very impressive. This is particularly the case for medium/high density units, but is also evident for detached and 'semi-detached' housing.

Insight: We are currently reviewing our commencements forecasts post the release of ABS data on April 12th. It does look increasingly likely that the 2017/18 year will be stronger than initially expected for new home construction. For further information on the future outlook for different types of new dwellings contact Kirsten Lewis on k.lewis@aciresearch.com.au or go to http://aciresearch.com.au/en/premium-products.aspx

Snapshot of the Building Activity Pipeline - Flats, units and apartments



Source: HIA Economics, ABS 8752.0, ABS 8731.0

The fortnight ahead – key releases

Tuesday 25 April

ANZAC Day

Wednesday 26 April

HIA-CoreLogic Residential Land Report, December 2016 quarter, 11:00am

ABS Consumer Price Index, March 2017 quarter, 11:30am

Friday 28 April

HIA Trades Report, March 2017 quarter, 11:00am

Monday 1 May

ACI Construction Monitor, Edition 1 2017, 11:00am

Tuesday 2 May

Reserve Bank of Australia Board meeting. Interest rate decision, 2:30pm.

Thursday 4 May

HIA New Homes Sales Report, March 2017, 10:00am

Friday 5 May

AiG/HIA Performance of Construction Index (PCI), April 2017, 9:30am

Latest IMF Forecasts:

Economic Growth Forecasts (% change)

	2016	2017 f	2018 f	2019 f	2020 f	2021 f	2022 f
Economic growth							
United States	1.6	2.3	2.5	1.9	1.7	1.6	1.6
Japan	0.9	0.8	0.5	0.7	1	0.6	0.6
China*	6.7	6.5	6	6	5.9	5.8	5.8
Australia	2.5	3.1	3.0	2.9	2.8	2.8	2.7

Notes: f - forecast; * Excludes Hong Kong

Source: IMF (2017) World Economic Outlook; Resources and Energy Quarterly, Department of industry, Innovatin and Science, March 2017

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