AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

11 September 2017

Global & Domestic Outlook for Construction Sector

Update: The Aussie dollar has experienced something of a roller coaster ride in recent weeks. A brief scan of market forecasts further mystify – with predictions ranging from the AUD declining over the medium term through to the AUD actually rising.

Insight: Our read of the situation – paring the analysis back to exchange rate fundamentals of official interest rates, inflation and economic growth – is that these fundamentals on net should weigh on the value of the AUD on currency markets over the medium term. Critically, Australia's official interest rate remains (where it has been for a historically prolonged period) at the cyclical trough, with a tightening cycle some way off compared with other major advanced economies that are now well on such a cycle of tightening monetary policy. Talk of domestic rate rises over the medium term has picked up in recent weeks, but this has been somewhat hosed down by the Governor of the RBA in a speech last Thursday.

It's difficult to foresee interest rates rises in the face of a downturn in residential construction weighing on the subdued pace of economic growth that is then sustained during rest of the year and in 2018 as well. Non-residential construction is certainly a bright spot, but whether it can plug the hole left by the residential and (to a lesser extent these days) the resources sectors is not so obvious. If however, the RBA's forecast of GDP growth of 3.5% is correct and unemployment remains around 6% - which appears ambitious at this time – then there is the scope for a rise in rates.

Finally while inflation has remained stubbornly at the lower end if not below the RBA's target range, while many other advanced economies US and UK in particular have seen greater inflationary pressures (save for the most recent read on CPI in the states). The recent appreciation in the AUD against the greenback looked to be rooted in secondary US-based factors weighing on the US dollar, rather than any material changes to the aforementioned fundamentals in Australia. These US-based factors include the progress of potential tax reform – which leads us to our next update for this fortnight's Construction Brief.

Update: News on policy coming out of Washington is focusing on the (lack of) progress of the repeal of Obamacare, drawing attention away from tax reform that is currently being devised for Congress to pass by the end of the year – a deadline now well insight**.**

Insight: The last time the US genuinely overhauled its tax system was under the Reagan administration some 30 years ago, so reform is well overdue. Little detail on the proposed reforms is available, but what we do know is that the overall aim is to reduce and simplify taxes – namely, lower both company and individual tax rates as well as reduce deductions and the number of tax brackets. In terms of specific rates, the White House has said it wants to cut the corporate rate from 35 per cent to 15 per cent. The key question however is whether reform can actually be achieved. The aforementioned goals sound very familiar to Australian ears but the experience in our own backyard is that it proved all too difficult.

The experience of Obamacare could be instructive. Despite bitter Republican opposition to this policy and (critically) a majority in both houses of Congress, the Republicans have been unable to repeal Obamacare. That said, the approach of the GOP in devising the plan for tax reform has been much more centralised – a small group (just six members) representing both houses of Congress is tasked with the job. This could prove far more effective than the approach to the repeal of Obamacare which has involved large and multiple groups. Moreover, tax reform may an issue that is less polemical and visceral than health care. If reforms actually pass, then the need for Australia to reform its tax system will become even more pressing in order to keep up and remain competitive with similar advanced economies. Overall, while there is every reason for tax reform to be passed, the Trump Administration has shown its inexperience in actually executing its agenda.

Update: Australian Construction Insights will release its quarterly report, Construction Monitor next week, which provides detailed analysis, commentary and forecasts for Australia's non-residential construction sectors.

In this quarters report will explain why we forecast that the mining downturn has now bottomed out and why we expect the impending slowdown in apartment building to be offset by further growth in public sector investment in infrastructure.

The combination of these factors will ensure the sector will provide a positive contribution to national growth.

Copies of the Report can be ordered from https://hia.com.au/en/BusinessInfo/economicInfo/EcoPublications.aspx

NATIONAL RANKING SUMMARY

Rank	State	State Score	Change in State Score	Change in Rank	Market Momentum*
1	NSW	35.0	0.1	Unchanged	→
2	VIC	34.3	5.9	Up 1	↑
3	ACT	29.6	5.7	Up 3	↑
4	TAS	28.4	-5.1	Down 2	↓
5	NT	26.9	-1.6	Down 2	→
6	QLD	26.6	0.0	Down 1	→
7	SA	24.3	2.7	Up 1	→
8	WA	16.3	-5.7	Down 1	↓

*A decline in a state score of more than three is considered to be indicative of declining momentum, an increase of more than three is considered positive momentum and any positive or negative movement of less than three is considered neutral.

Source: ACI Construction Monitor

The fortnight ahead – key dates and releases

Thursday 28 September

ABS Population update 11.30am

Friday 29 September

ACI Construction Monitor September 2017 11am.

Tuesday 3 October

HIA New Home Sales August 2017 11am

ABS Building Approvals August 2017 11am

ACI offers tailored industry analysis, forecasts and research on emerging trends, at a national, state and even regional/local level. If you would like to speak to ACI about a potential research project please email info@aciresearch.com.au

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