



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

29 August 2016

The residential building star continued to burn brightly in the June quarter

Residential and non-residential building up in Q2

Update: The ABS has released its data on Construction Work Done for the June 2016 quarter. The data are mixed: residential and non-residential building saw some growth, but engineering construction continues to weigh heavily on things overall. During the quarter, residential building work done increased by 0.8 per cent, with non-residential up by 2.1 per cent. Engineering construction work done fell by some 9.0 per cent during the quarter, however.

Insight: The last edition of the ACI Construction Monitor envisaged the decline in engineering construction continuing on into the 2016/17 financial year, and the latest ABS data appear to bear this out. The fact that residential work done eked out a small increase during the quarter suggests that activity there is close to its peak. Non-residential building appears to be gathering momentum. The Spring 2016 edition of the *ACI Construction Monitor* (due out on 9th September) will provide greater detail on developments in non-residential construction and outline the latest forecasts for activity. For further details see:

<http://aciresearch.com.au/en/Publications.aspx>

RBA: Stevens to bow out

Update: The RBA meets on Tuesday 6th September to decide on official interest rates, with financial markets betting heavily on 'no change' on this occasion. Assuming this outcome transpires, this meeting will be significant for the fact that it marks Glenn Stevens' final one as Governor, with Philip Lowe due to take the hot seat on 18th September.

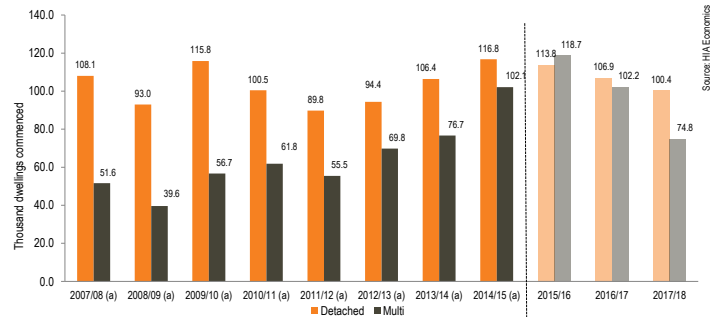
Insight: The RBA cut interest rates in August on the basis of the low inflationary environment, with the headline CPI sinking to 1.0 per cent in the June 2016 quarter. The Aussie dollar hasn't budged in the aftermath of the cut, and remains in the high 70s against the USD. The outlook for economic growth in the advanced economies has dimmed a bit in the aftermath of Brexit. All this means that the chance of another rate cut remains – we'll be watching closely for any hints in the RBA's statement accompanying its September decision. Those opposed to another rate cut fear that it will further deplete the monetary policy arsenal should a serious international crisis raise its head. Others argue that rate cuts from such low levels won't make much difference anyway – and that RBA interventions on rates just scare people. We'll watch with interest!

Top of the charts: what next for new home building?

Update: The Winter 2016 edition of the HIA National & State Outlooks have just been released and include the

latest forecasts for residential building. The aggregate forecasts indicate that new dwelling starts probably peaked at 232,500 during the 2015/16 financial year. Activity is projected to bottom out at 166,500 during the 2018/19 financial year.

Australian Housing Starts Forecasts



Source: HIA Economics

Insight: The 2012-2016 upturn in new home building will go down as the longest on record, in addition to the fact that a record high was reached. The 'multi-unit' segment has been a critical part of the story, and this segment has been the main engine of activity. However, the uncertainties for the medium/high density part of the market are now greater and these dwellings are likely to see the lion's share of the fall over the next few years.

The latest HIA regional forecasts are also due for release on 5th September. More information on residential building forecasts, as well as the HIA National & State Outlooks is available here:

<http://hia.com.au/BusinessInfo/economicInfo.aspx>

Negative interest rates: they're catching on

Update: The UK is the latest economy to be hit by negative interest rates on deposits, with large corporate depositors likely to be charged a percentage-based fee on funds held at major financial institutions. This follows the Bank of England's decision to halve its main policy rate to just 0.25 per cent in the aftermath of the Brexit vote, and pump another GBP70 billion worth of quantitative easing into bond markets.

Insight: The notion of negative interest rates would have seemed almost laughable a few years ago, but its prevalence has spread quite quickly and it has become the norm for organisations holding large balances on deposit in countries like Germany and several of the Scandinavian countries. It is a natural consequence of super low interest rate environment, where long term government yields in 'safe' countries have been yielding negative for some time. The thinking behind negative rates is that it will encourage investment in the real economy. Its critics fear that they will just scare people even more. In any event, Australia is a long way from joining this particular club.

The fortnight ahead – key releases

Monday 29 August

HIA New Home Sales Report, July 2016, 11.00am

Tuesday 30 August

ABS Building Approvals, July 2016, 11.30am

Thursday 1 September

CoreLogic Home Value Index, August 2016, 10:00am

ABS Private New Capital Expenditure (Capex), June 2016, 11.30am

Monday 5 September

HIA Regional Housing Forecasts, Winter 2016, 11.00am

Tuesday 6 September

RBA Interest Rate Decision for September 2016, 2:30pm

Wednesday 7 September

HIA-AiG Performance of Construction Index, August 2016, 9.30am

ABS National Accounts, June 2016 quarter, 11.30am

Friday 9 September

ACI Construction Monitor, Spring 2016, 11.00am

ABS Housing Finance, July 2016, 11.30am

Key Construction Indicators			
	Total Residential Building Work Done, \$ millions	Non-Residential Building Work Done, \$ Millions	Engineering Construction Work Done, \$ Millions
	seasonally adjusted, chain volume measures	seasonally adjusted, chain volume measures	seasonally adjusted, chain volume measures
June 2016 quarter	17,019	8,941	21,459
Quarterly change (%)	0.8%	2.1%	-9.0%
Q on Q, annual change (%)	9.4%	0.4%	-24.9%
Latest 12 months	66,255	35,382	95,192
Previous 12 months	59,937	35,842	111,565
Annual change (%)	10.5%	-1.3%	-14.7%

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