



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

30 January 2017

Further signs that peak in new dwelling starts has been passed

New Dwelling Starts Ease Back Again

Update: Preliminary data on dwelling commencements for the September 2016 quarter were released by the ABS and provide further evidence that the peak in new home building has been passed. During the September 2016 quarter, new home starts fell by 2.8 per cent compared with the previous quarter and were 4.0 per cent lower than the same period a year earlier. However, commencements still totalled 229,336 over the year to September, a very high level by historic standards.

Insight: New dwelling starts declined for the second consecutive quarter during September 2016 and it now looks like the March 2016 quarter marked the peak for new dwelling commencements. The reduction was driven by the fall on the multi-unit side which was down by 3.9 per cent, compared with the 1.8 per cent reduction in detached house starts during the September 2016 quarter. Despite recent reductions in starts, actual activity on the ground will remain elevated during 2017 as projects currently underway are worked through to completion. For further details of ACI's detailed forecasts by dwelling type see:

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

Inflationary pressures remain weak

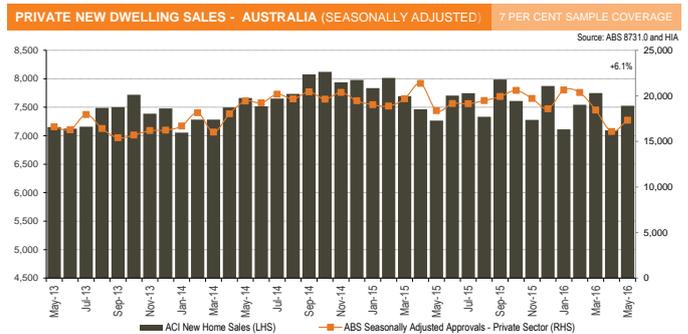
Update: The annual rate of inflation rose for the second consecutive quarter to 1.5 per cent during the last three months of 2016. Inflation had bottomed out at 1.0 per cent during the June 2016 quarter, and inflationary pressures remain very low by historic standards. Measures of underlying inflation continue to remain well below the RBA's target band of 2-3 per cent.

Insight: December's inflation result was a slight surprise to market watchers who had expected it to be a little higher – the dollar dipped as a result. In advance of the RBA's first interest rate decision of 2017, continued low inflation is will allow for a 'steady as she goes' interest rate policy for the foreseeable future. There is a good chance that the official cash rate will remain unchanged during 2017 – economic growth is being supported by a strong export performance, although business investment has yet to find its feet.

Top of the charts: New Home Sales

Update: HIA New Home Sales bounced back during November 2016, with a 6.1 per cent increase compared with October. This was made up of a 5.2 per cent rise in detached house sales with new multi-unit sales increasing by 9.3 per cent during the month. Detached house sales rose in four of the five mainland states, with the strongest increases occurring in Queensland and

Victoria. NSW was the only state to experience a reduction in new detached house sales during November.



Insight: HIA New Home Sales are a key leading indicator and offer a good insight into the direction of new dwelling commencements over the coming quarters. Even though we saw growth during November, the broader trajectory has been one of decline for two years – new detached house sales actually peaked around mid-2014, with multi-unit sales reaching an all-time high about a year later. The direction of new home sales over the past year supports our view that new dwelling starts reached a peak of 231,970 during 2016 and are likely to bottom out at around 173,000 during 2018. More detailed discussion of these forecasts is provided in the HIA National & State Outlooks. See:

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

President Trump settles in

Update: What seemed unthinkable only a year ago became a reality on 20th January last, with Donald Trump being sworn in as 45th President of the United States. Trump's lack of experience, unconventional approach and record of unpredictability will surely make for a colourful few years for the global economic system and international affairs.

Insight: The tone of Mr Trump's inaugural address suggests that the stance adopted during the bruising election campaign is not likely to be watered down anytime soon. President Trump has already been making heavy use of executive orders in order to implement changes: pulling the US out of the Trans-Pacific Partnership (TPP) trade deal and teeing up Barack Obama's healthcare reforms for dismantling. Mr Trump has proposed low-tax, high spending fiscal policies but it remains to be seen how far they will get amongst some hostility from his own party. The US-China economic relationship is also worth watching closely, particularly the degree to which the new President can attract large companies 'back' to the US.

The fortnight ahead – key releases

Tuesday 31 January

HIA Affordability Report, December 2016 quarter, 11.00am

Wednesday 1 February

CoreLogic Home Value Index, January 2017, 10:00am

Thursday 2 February

ABS Building Approvals, December 2016, 11.30am

Tuesday 7 February

HIA-AiG Performance of Construction Index, January 2017, 9.30am

RBA Interest Rate Decision for February 2017, 2:30pm

Thursday 9 February

HIA New Home Sales, December 2016, 10.30am

Friday 10 February

ABS Housing Finance, December 2016, 11.30am

Key Construction Indicators				
	Dwelling commencements - houses	Dwelling commencements - other	Dwelling commencements - total	Non-residential work commenced
	Number	Number	Number	\$ billions
	seasonally adjusted	seasonally adjusted	seasonally adjusted	seasonally adjusted
September 2016 quarter	29,634	25,436	55,070	8.43
Quarterly change (%)	-1.8%	-3.9%	-2.8%	-8.1%
Q on Q, annual change (%)	1.4%	-9.6%	-4.0%	8.0%
Latest 12 months	115,953	113,383	229,336	34.70
Previous 12 months	117,157	103,960	221,117	30.07
Annual change (%)	-1.0%	9.1%	3.7%	15.4%

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