



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

30 November 2015

Recalibrating our expectations?

Do we now grow by less?

Update: The biggest economic release left for 2015 isn't the Gross Domestic Product (GDP) figures out on Wednesday, which, while important, tell us only about the September 2015 quarter. The MYEFO – that sounds very much like a dry propeller head-type report, doesn't it? – is the key. The Mid-Year Economic and Fiscal Outlook (MYEFO) will be released next month and provide us with the federal government's outlook for the economy and the budget.

Insight: As portended last week, it may well be that the trend rate of growth for the Australian economy is given a downgrade in the 2015 MYEFO. Economic growth in Australia has long been assumed to track a little over 3 per cent. If we end up landing on a refreshed number of, say 2.75 per cent for economic growth, then that has obvious repercussions for the construction industry.

So, what would a growth downgrade mean for Australia's construction industry?

Update: Not much to begin with. The national new home building story remains a very healthy one, as analysed in detail in the *HIA National Outlook* released last Monday. Go to <http://aciresearch.com.au/en/Publications.aspx> for further details. Meanwhile, the non-residential construction industry looks weak in aggregate – as reinforced by ABS construction work done figures released last week for the September quarter (see the table on page two) – but the *ACI Construction Monitor* demonstrates that non-residential conditions look very good in markets such as New South Wales. As we have highlighted all year, it's important to look below the surface. The Summer (yes, it's nearly summer again) 2015 edition of our *Construction Monitor* will be available on Wednesday 8th December – get in touch with Stuart Hylton-Cummins if you would like further details: s.hyltoncummins@aciresearch.com.au

Insight: In the short term, the residential construction industry will continue to run its own race, regardless of any reassessment of the Australian economy's long term growth rate. Peering out beyond this cycle, a slower pace of economic growth implies a requirement for fewer new dwellings to be built on average than would otherwise be the case. Our unique research – *Housing Australia's Future* – provides detailed analysis of a range of scenarios related to Australia's potential future new housing demand. Go to <http://aciresearch.com.au/en/Publications.aspx> for more details.

An update ahead for the growth we've already had

Update: The ABS National Accounts for the September 2015 quarter will be released on Wednesday 2nd December. This is an important update, but ...

Insight: ... people sometimes get carried away with what they find out regarding a quarter that is already two months old. Having a clear insight into the pulse of economic

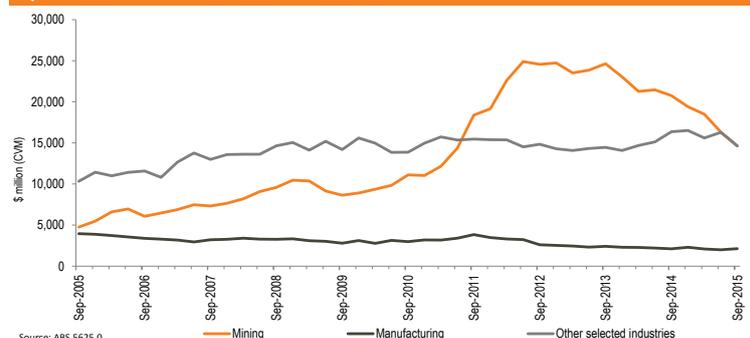
activity for last quarter and therefore a read on current and future momentum (or lack thereof) is undeniably important, don't get us wrong. However, we learnt more from the future capital investment component of CAPEX released last week, and are about to learn more from the impending release of the 2015 MYEFO.

Top of the charts – captured by Capex?

Update: Total ABS capital expenditure (CAPEX) fell by 9.2 per cent in the September 2015 quarter, taking expenditure to a level 20 per cent lower than 12 months previously. The publication also included a fourth estimate for planned CAPEX for the full 2015/16 financial year. The previous (third) estimate of planned CAPEX for the year was very weak, with this fourth estimate only receiving a negligible upgrade.

Insight: People do get a little captured by CAPEX and over-analyse the results. Not all business investment is covered by the CAPEX survey and the latest result for investment intentions didn't materially change the short term outlook. It is still a very important set of information on the economy and the results fell below the expectations bar – so the 'vibe' around short term business investment has weakened. What we need though is a handle on what firms think about 2016/17 – and those intentions will harden up over next calendar year. Some brighter news would be welcome!

QUARTERLY CAPITAL EXPENDITURE BY INDUSTRY



Back to Living in America ...

Update: As we noted in early November, the US Federal Reserve may well be about to lift interest rates. It's beginning to feel a lot like Christmas ... and December may well be the month.

Insight: The problem is that in the first couple of weeks in December, conjecture will reach fever pitch. Any additional source of uncertainty in late 2015 is not helpful when geopolitical risks are at a historically very high level. At least we'll know the US interest rate decision, one way or the other, at 6am AEST on Thursday 17th December.

The fortnight ahead – key releases

The fortnight ahead is fairly busy with updates relevant to the construction industry:

Tuesday 1 December

ABS Building Approvals, October 2015, 11.30am.

RBA Interest Rate Decision, December 2015, 2.30pm.

Wednesday 2 December:

ABS National Accounts, September 2015 quarter, 11.30am.

Thursday 3 December:

HIA-ACI New Home Sales, October 2015, 11.00am.

Monday 7 December:

AIG-HIA Performance of Construction Index, November 2015, 9.30am.

Wednesday 8 December:

ACI Construction Monitor, Summer 2015 edition, 11.00am.

ABS Housing Finance, October 2015, 11.30am.

Thursday 10 December:

ABS Labour Force, November 2015, 11.30am.

Friday 11 December:

ABS Lending Finance, October 2015, 11.30am.

Key construction indicators

Construction work done			
	Residential building	Non-residential building	Engineering construction
	\$ millions	\$ millions	\$ millions
	seasonally adjusted, chain volume measures	seasonally adjusted, chain volume measures	seasonally adjusted, chain volume measures
September 2014 quarter	13,813	8,897	28,193
September 2015 quarter	15,523	8,633	24,884
Annual change (%)	12.4%	-3.0%	-11.7%

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