



**AUSTRALIAN CONSTRUCTION INSIGHTS**  
Research powered by HIA Economics

# Construction Brief

23 February 2015

## Summer 2015 Outlook – Housing the Star

*HIA/ACI Outlook highlights healthy housing conditions*

**Update:** Our Summer 2015 edition of the National and State Outlook series highlights the diverse conditions at play across the Australian economy and between the four sectors of new home construction, renovations, commercial building, and engineering construction.

**Insight:** The construction profile ranges from fresh records being set for new housing to sharp declines for engineering construction. However, there are still wide geographical divergences across all four construction sectors, not to mention between Australia's multitudes of residential property price markets. Commercial building conditions appear soft, but patches of strength are clearly evident. Amidst a focus on current weakness in engineering construction it is sometimes forgotten that infrastructure projects may yet be gathering first stage steam in 2015/16. Looking below the national surface is important.

*Renovations activity set to gather momentum*

**Update:** Total renovations activity is only 2.5 per cent above a decade low reached at the end of 2013. Growth of 0.2 per cent is forecast for 2014/15. Following an increase of 0.5 per cent in 2013/14 that's barely anything, but better than nothing.

**Insight:** Demand for larger renovation projects is picking up and the level of enquiry is stronger than has been the case for some time. As economic growth returns to trend, the labour market will strengthen. Unemployment will fall and growth in household incomes will pick up. This will support greater demand for renovations. Growth in renovations activity is forecast to accelerate in 2015/16 and 2016/17.

*New dwelling commencements hit a record high*

**Update:** New dwelling commencements are forecast to increase for a third consecutive year in 2014/15, reflecting growth across five out of six states and five out of six dwelling types. Commencements hit a record of over 193,000 in the 12 months to September 2014 and will surpass that level this financial year. The previous high was 187,000 in 1994.

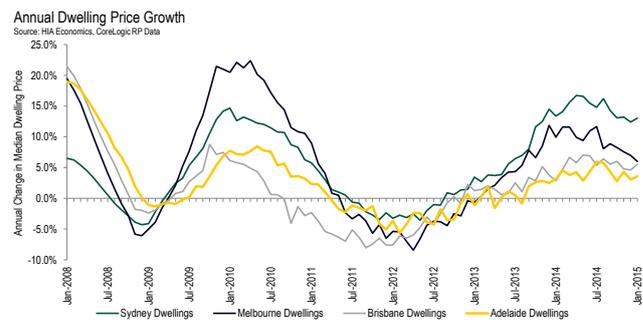
**Insight:** The 'record-breaking season' has coincided with an even greater share of the total number of new dwellings being apartments and other multi-unit dwellings. This creates a situation where there is much greater uncertainty about where new home building activity will go from here. Elevated levels of construction are almost certain again in 2015/16, within which the geographical and dwelling composition will change.

*Short term weakness for commercial construction?*

**Update:** The rate of growth in commercial building activity is slowing and momentum may well stall in the short term. The leading indicator of building approvals shows a decline across six out of seven commercial sub-sectors in CY2014.

**Insight:** The exception to the approvals profile was Hotels and Entertainment where the (real) value of approvals grew by 45 per cent in 2014. New South Wales was primarily responsible for that result. However, there are growth opportunities across states and territories, and different sub-sectors that can be masked by a 'headline focus'. There could well be some growth in the industrial category in 2015/16, for example.

*Top of the Charts – Dwelling Prices*



**Update:** As the strongest performing economy in the country there is little surprise that the rate of home price growth in Sydney is out pacing other state capitals. The annual rate of growth in Sydney is more than double that in Melbourne.

**Insight:** Outside of the eastern seaboard capitals, home price growth could be best described as 'ordinary'. In most instances prices are increasing at rates generally consistent with overall inflation, rental inflation and household income growth. Generalisation about housing prices hides vast differences across markets, sub-markets, and dwelling types, while transaction volumes are lower than during the early 2000's boom.

*Major economic development*

**Update:** Looking to home rather than perennial meetings in Europe about Greece, interest rates still dominate. It might be a few weeks since the RBA cut rates, but since then the indications from the Bank about timing around another cut have not been as clear as some presumed they might be.

**Insight:** There will be much talk this week about the potential for another cut in March and the link to the ABS capital expenditure update due out this Thursday. An unequivocal update on business investment (capex) intentions would be helpful.

*The fortnight ahead – key releases*

The fortnight ahead will see a number of key updates relevant to the construction industry:

**Wednesday 25 February:**

ABS Construction Work Done – Preliminary, September Qtr 2014, 11:30am;

**Thursday 26 February:**

ABS Private New Capital Expenditure & Expected Expenditure, December Qtr 2014 11:30am;

**Monday 2 March:**

CoreLogic-RP Data Residential Property Prices, February 2015 10:00am;

HIA/ACI New Home Sales, January 2015, 1100am;

**Tuesday 3 March:**

ABS Building Approvals, January 2015, 11:30am;

RBA Board Meeting, monetary policy decision 2:30pm;

**Thursday 5 March:**

ACI New Housing Forecast Update, 11am;

HIA Economics Discussion Paper: The Changing Composition of New Home Building, 11:00am;

**Friday 6 March:**

AiG/HIA Performance of Construction Index, February 2015, 9:30am

Note: The federal government's five-yearly *Intergenerational Report* is likely to be released in the fortnight ahead.

*Key construction indicators***Key Construction Indicators**

	Loans for Construction - Owner Occupiers Number seasonally adjusted	Non-Residential Building Approvals CVM \$m Original	Engineering Construction Commencements* CVM \$m Original
3 months to December 2014	18,850	6,745	13,348
Quarterly change (%)	1.1%	N/A	N/A
Q on Q, annual change (%)	9.8%	-34.7%	-33.7%
Latest 12 months	74,292	30,492	66,994
Previous 12 months	64,669	37,578	81,889
Annual change (%)	14.9%	-18.9%	-18.2%

\*Data to Sep Qtr 2014

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