

## Construction and the wider economy to have pulse checked

### CAPEX – Are non-mining sectors picking up the slack?

*Update:* Thursday this week will see the release of the next update from the survey of Private New Capital Expenditure and Expected Expenditure. This will give the full CAPEX result for the 2014/15 year and some additional information about business' capital investment plans for the 2015/16 year.

*Insight:* Recent results have clearly demonstrated the scale of contraction in capital expenditure by the mining sector and that there is little change in capital expenditure by non-resources sectors. Rightly or wrongly non-resources businesses remain cautious of soft demand and comments in the latest minutes from the RBA board's August meeting continue to note underutilisation of the economy's productive capacity. While excess capacity remains there is little incentive to invest. Markets will be looking for some clear evidence that non-resource investment is picking up, however there is not a great deal of confidence that this is likely to occur.

### GDP – the nation's economic pulse

*Update:* ABS national accounts data for the June 2015 quarter will soon be released and provide an important read on the pulse of the economy.

*Insight:* With new home building estimated to have peaked, in annual terms in the 2014/15 financial year, residential investment is likely to yet again be a major contributor to headline GDP growth, while mining investment is likely to continue to be a drag. Leading indicators for other sectors of the economy are certainly mixed. Retail sales finished the financial year on a strong note, which is a positive signal for the household consumption element of GDP. That said, weakness in the labour market could be a mitigating factor. Elsewhere, as we've been monitoring, non-residential building approvals suggest ongoing sluggishness in headline non-residential construction, which could again weigh on aggregate economic growth.

### Earnings and income data still weak

*Update:* ABS figures on both wages and earnings reflected ongoing weakness in the labour market in the middle of the year. Average weekly earnings increased by just 0.4 per cent in the six months to May 2015 to be 2.0 per cent higher over the year. In the June 2015 quarter, the ABS Wage Price Index grew by just 0.6 per cent during the quarter to be 2.6 per cent higher over the year. These readings are either at or around record lows.

*Insight:* With developments in the labour market tending to lag those in the broader economy, weak wages growth will likely be around for some time yet, thereby weighing on consumer confidence and spending. Furthermore, an emerging slowdown in population growth is revealing this phenomenon more clearly in official figures. That is, while

per-capita consumption has been weak for some time, the previous strong rate of population growth meant that the aggregate profile of spending was still relatively healthy. As noted above, household expenditure in the coming National Accounts update will highlight this dynamic.

### Top of the charts – consumer and business sentiment

*Update:* Consumer confidence lifted in August but remained below the critical 100-points threshold. Business sentiment in the June 2014 quarter also strengthened, with business confidence positive for all industries outside of the mining sector.

*Insight:* There has been an encouraging string of generally positive results in business confidence, largely concentrated outside of the mining sector. However, ongoing weakness in earnings growth will continue to weigh on consumer sentiment, which will in turn have consequences for business confidence, especially for industries with direct consumer engagement.

Business and Consumer Confidence  
Source: NAB Quarterly Business Survey, Westpac-Melbourne Institute



### Major economic development: Yuan devaluation

*Update:* The People's Bank of China devalued the country's currency against the US dollar by around 3 per cent.

*Insight:* The market also recalibrated the value of the Australian currency following the adjustment to the Yuan. Demand from Chinese investors is clearly an important pillar of support for sections of the Sydney and Melbourne housing markets. The devaluation of the Yuan makes Australian real estate slightly more expensive from the perspective of the Chinese buyer, and the turbulence in Chinese equity markets may reduce the financing capacity for some would-be investors. However, the difficulties in China may also enhance the attractiveness of Australia as a 'safe haven' in which to invest.

### ACI Construction Monitor

The winter edition of ACI's marquee report, *Construction Monitor*, will be released in mid-September. Organise your subscription today – for more information contact [info@aciresearch.com.au](mailto:info@aciresearch.com.au).

**The fortnight ahead – key releases**

The fortnight ahead is busy with a number of major updates relevant to the construction industry:

**Wednesday 26 August:**

ABS Construction Work Done, Preliminary, June 2015, 11.30am.

**Thursday 27 August:**

ABS Private New Capital Expenditure and Expected Expenditure, June 2015, 11.30am.

**Friday 18 August July:**

HIA Renovations Roundup, Winter 2015 edition, 11.30am.

**Monday 31 August:**

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

**Tuesday 1 September:**

ABS Building Approvals, July 2015, 11.30am.

RBA Monetary Policy Decision, September 2015, 2.30pm.

**Wednesday 2 September:**

ABS National Accounts, June 2015, 11.30am.

**Non-residential Building Work Done****Key Construction Indicators**

	Year to March 2014 (\$million)	Year to March 2015 (\$million)	Annual Change
Retail and wholesale trade buildings	\$5,942	\$6,320	6%
Transport buildings	\$1,042	\$1,251	20%
Offices	\$5,711	\$6,341	11%
Commercial buildings n.e.c.	\$305	\$298	-2%
<b>Commercial Buildings - Total</b>	<b>\$12,999</b>	<b>\$14,210</b>	<b>9%</b>
Factories and other secondary production buildings	\$908	\$799	-12%
Warehouses	\$2,497	\$2,826	13%
Agricultural and aquacultural buildings	\$179	\$306	71%
Other industrial buildings n.e.c.	\$1,726	\$919	-47%
<b>Industrial Buildings - Total</b>	<b>\$5,309</b>	<b>\$4,851</b>	<b>-9%</b>
Education buildings	\$4,867	\$4,742	-3%
Religion buildings	\$208	\$243	17%
Aged care facilities	\$1,041	\$1,215	17%
Health buildings	\$5,105	\$4,935	-3%
Entertainment and recreation buildings	\$2,168	\$2,163	0%
Short term accommodation buildings	\$1,118	\$1,493	34%
Other non-residential n.e.c.	\$2,235	\$2,179	-3%
<b>Other Non-residential - Total</b>	<b>\$16,742</b>	<b>\$16,971</b>	<b>1%</b>
<b>Total Non-residential</b>	<b>\$35,050</b>	<b>\$36,030</b>	<b>3%</b>

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**AUSTRALIAN CONSTRUCTION INSIGHTS**  
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