



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

27 July 2015

If at first you don't grow faster, well ... you're about average ...

A spotlight on Australia's growth potential

Update: RBA Governor Glenn Stevens' annual speech to the Anika Foundation tends to be thoughtful and insightful. The event itself is very important on Australia's annual fund-raising calendar. How fast Australia can grow received some attention in the Governor's 2015 speech. See www.rba.gov.au

Insight: Glenn Stevens has effectively posed the question – is trend GDP growth of 3+ per cent too high? In Australia trend (or average) growth is assumed to have a 3 in front of it and we have ourselves long talked about a 3.2 per cent rate. Perhaps that's not what the economy is capable of hitting in the future. Governor Stevens is simply putting a valid question out there to which, in our view, an answer is some distance off. It does generate food for thought in terms of the potential demand for residential and non-residential construction.

Residential forecasts – an update is on the way

Update: As the Australian economy continues to grow well below what we currently consider a trend rate – the annual pulse recorded for the March 2015 quarter was 2.3 per cent – new home building remains a stand-out star.

Insight: Following the release of ABS *Building Activity* figures in mid-July, we are completing our quarterly forecasting review. It's looking like a stellar short term outlook for national new dwelling commencements with enormous geographical divergences within, and a grind higher for renovations activity. ACI's headline forecasts will be released on Wednesday 29th July and are free to *Construction Brief* subscribers – contact Stuart on s.hyltoncummins@aciresearch.com.au for details. The geographical differences were highlighted in the HIA *Housing Scorecard* released on July 23rd – see table below for the state and territory rankings and contact Stuart if you require further details.

The composition of what we build is key ...

Update: There are not only wide divergences in new commencements across states and territories, but also between different dwelling types. In 2015 for example, detached house commencements look to have peaked, but semi-detached dwellings may not be in the same boat and there is clearly further momentum to medium/high density construction.

Insight: ACI will be releasing our updated *Dwelling Forecasts by Type* database and report on Tuesday 4th August, the same day the RBA will keep the Official Cash Rate steady for a third consecutive month. For

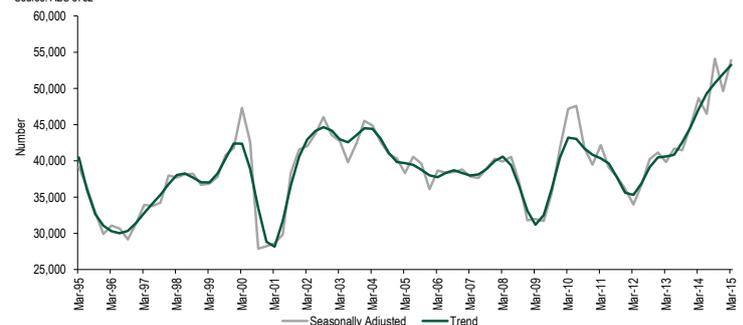
more information contact Stuart on s.hyltoncummins@aciresearch.com.au

Top of the Charts – how high can starts go?

Update: ABS *Building Activity* data show that new dwelling commencements (starts) in Australia increased by 16 per cent in the year to March to 2015 to a level of over 204,000. That's a massive record compared to the previous high of 187,000 achieved in 1994!

Insight: There is more to come and the question is how high can we go?! Maybe the peak is 210,000, or 215,000. Based on current information there could be upside risk from there. Where do we go after a peak? That's a key question deserving of close attention. Stay tuned for our forecast updates this week and next.

Total Dwelling Starts – Australia
Source: ABS 8752



Don't forget commercial building

Update: This same ABS data, released in mid-July, focussed some attention on the ongoing weakness in non-residential building.

Insight: This is not the case everywhere, as highlighted by the ACI *Construction Monitor* released in June. There are some sectors showing signs of upward momentum, while New South Wales is an example of a state with a positive outlook for non-residential construction activity. For more details regarding *Construction Monitor* see: www.aciresearch.com.au. Oh, and speaking of NSW, there may be a further announcement on Sydney light rail projects in the next couple of weeks ...

Hail the US recovery

Update: Amidst all the thunder and lightning around Greece and Europe, the economic updates for the United States continue to look bright and sunny.

Insight: Expectations have again moved to September being the month for a first interest rate hike in the US since 2006 (we never shifted our expectation of that). That's right, 2006! An economic recovery in the US is a positive story for the global economy.

The fortnight ahead – key releases**Wednesday 29 July:**

ACI Residential Forecast Update, Winter 2015, 11am.

Thursday 30 July:

RBA Governor, Glenn Stevens to give address to the Boao Forum for Asia Financial Cooperation Conference, Sydney, 10:30am

ABS Building Approvals, June 2015, 11.30am.

Monday 3 August:

ACI New Home Sales Report, June 2015, 11.00am.

Tuesday 4 August:

ACI Dwelling Forecasts by Type, Winter 2015 11am.

RBA Board Meeting, Monetary Policy decision, 2.30pm.

Thursday 5 August:

ABS Labour Force, July 2015, 11.30am.

Friday 6 August:

AiG-HIA Performance of Construction Index, July 2015, 9.30am.

ABS Housing Finance, June 2015, 11.30am.

Housing Scorecard**National Ranking Summary**

Rank	State	State Score	Change in State Score	Change in Rank	Market Momentum*
1	NSW	85	5	Up 1	↑
2	WA	81	-3	Down 1	→
3	VIC	77	0	Unchanged	→
4	NT	61	-7	Up 1	↓
5	ACT	59	-13	Down 1	↓
6	QLD	55	7	Unchanged	↑
7	SA	49	5	Unchanged	↑
8	TAS	37	6	Unchanged	↑

*A decline in a state score of more than five is considered to be indicative of declining momentum, an increase of more than five is considered positive momentum and any positive or negative movement of less than five is considered neutral.

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