

Non-residential building stages a comeback

A brighter outlook for non-residential building

Update: In an encouraging update, recently released ABS approvals data showed the value of non-residential building work approved in April this year increased by 5.5 per cent to a level that is some 26.8 per cent higher than a year ago.

Insight: At this juncture in mid-2017, the outlook for non-residential building is much brighter after the sector had been playing second fiddle to the residential construction sector for the last few years. It is actually the unprecedented boom in residential construction that is playing an important role in the sunnier disposition of non-residential building. That is, all those newly-built dwellings are now requiring appliances, equipment and furnishings, sparking strong demand in the retail and wholesale trade sector and consequently the need for more building in this sector. The value of work approved in the April 2017 'quarter' is 11.3 per cent higher than a year previously. Another key sub-sector driving the improved outlook for non-residential building is tourism, spurred on by the lower \$A. The value of work approved on short term accommodation buildings in the April 2017 'quarter' is nearly double what was approved in the same period in 2016.

Construction activity dips in Q1 2017

Update: The value of construction work done during the March 2017 quarter declined by 0.7 per cent, to a level 7.2 per cent lower than a year earlier. Engineering construction work done posted an increase in the March quarter (+2.2 per cent) which has been a rare occurrence in recent times, but was still down on a year earlier (-13.0 per cent). The value of residential building work done declined by a sizable 4.7 per cent in the quarter (-3.1 per cent YoY), while non-residential building provided a glimmer of light with an increase of 1.0 per cent (-0.1 per cent YoY).

Insight: In the context of the residential building cycle having progressed passed its peak, the unexpectedly large fall in work done on new residential buildings ignited speculation about whether the sector was heading for a hard landing. However, this type of concern is misplaced as there is still a huge amount of residential building work still under construction. In time, apartment projects underway in the east coast cities will progressively reach completion and the amount of work done each quarter will begin to ease. However, the large decline in the March quarter does not herald the beginning of a precipitous decline.

The preliminary estimate of the amount of construction work done provides an early indication of how construction industry activity contributed to economic

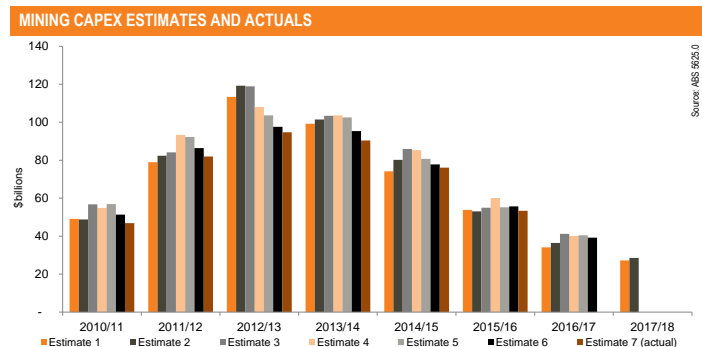
growth during the March quarter, ahead the Australian National Accounts later this week. Naturally, the overall decline in activity implies that the sector may have detracted from growth during the first quarter of 2017.

Has the mining CAPEX cycle reached rock bottom?

Update: Latest capital expenditure (capex) figures show that mining sector investment increased by 0.1 per cent in the March quarter. While a 0.1 per cent increase is nothing to write home about, it is worth noting that this is the first quarterly improvement in mining capex since mid-2014.

Insight: Since the mining boom began industry forecasters (including ourselves) have been speculating about when the mining investment cycle will reach its nadir. With the volume of capex at its lowest level since 2010, we are certainly getting close. However, early estimates of capex intentions for 2017/18 imply another year of decline, albeit a more modest one than has been the case in recent years.

Top of the charts: Mining CAPEX intentions



Foreign investment boosts construction

Update: The Foreign Investment Review Board recently released their annual report which highlighted the strong growth in the value of foreign investment approvals in 2015/16. A large share of the approved investment was in sectors with close ties to construction.

Insight: It must be noted up front that not all investment that is approved ends up going ahead, but the scale of growth in foreign investment can't be ignored. The total value of foreign investment approved increased by 29 per cent in 2015/16 to \$247.9 billion. The largest two destinations for investment were residential real estate (\$72.4b) and commercial real estate (\$49.7b), which increased by 19 per cent and 37 per cent, respectively over the year. Approved foreign investment in electricity and gas increased fourfold to \$42.1b during the year. Foreign investment in mineral exploration/development totalled \$27.6b (+4 per cent YoY) but was still down by 61 per cent compared with the level recorded in 2012/13.

The fortnight ahead – key dates and releases

Tuesday 6 June

Reserve Bank of Australia Board meeting. Interest rate decision, 2:30pm

Wednesday 7 June

AiG-HIA Performance of Construction Index (PCI), May 2017, 9:30am

ABS National Accounts, March 2017 quarter, 11:30am

Friday 9 June

ABS Housing Finance, April 2017, 11:30am

ABS Lending Finance, April 2017, 11.30am

Thursday 15 June

ABS Labour Force, March 2017, 11:30am

Key Construction Indicators:

Total value of non-residential building jobs approved - April 2017

	12 months to April 2017	12 months to April 2016	Annual Change	3 mths to Apr 2017 on 3 mths to Apr 2016
	\$,000	\$,000	%	%
Retail and wholesale trade buildings	7,499,073	6,435,122	16.5%	11.3%
Transport buildings	1,084,249	882,350	22.9%	5.3%
Offices	6,489,587	4,537,642	43.0%	42.8%
Commercial buildings n.e.c.	489,561	374,779	30.6%	151.8%
Commercial Buildings - Total	15,562,472	12,229,889	27.2%	26.3%
Factories and other secondary production buildings	690,501	787,779	-12.3%	-40.3%
Warehouses	3,211,252	3,014,401	6.5%	-9.6%
Agricultural and aquacultural buildings	554,540	604,685	-8.3%	52.3%
Other industrial buildings n.e.c.	582,386	418,310	39.2%	22.1%
Industrial Buildings - Total	5,038,679	4,825,168	4.4%	-7.7%
Education buildings	5,175,141	5,374,906	-3.7%	2.9%
Religion buildings	186,785	243,371	-23.3%	28.2%
Aged care facilities	2,013,131	2,165,578	-7.0%	10.8%
Health buildings	2,686,949	2,617,022	2.7%	-17.3%
Entertainment and recreation buildings	3,187,386	2,903,495	9.8%	7.5%
Short term accommodation buildings	3,434,071	2,704,081	27.0%	95.9%
Other non-residential n.e.c.	3,214,646	2,294,607	40.1%	-12.8%
Other Non-residential - Total	19,898,106	18,303,062	8.7%	10.0%
Total Non-residential	40,499,255	35,358,124	14.5%	12.7%

Source: ABS 8731.0, ACI

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