



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

# Construction Brief

2 November 2015

## The 'Will they, won't they' interest rate game ...

### No Melbourne Cup Day rate cut ...

*Update:* We think the RBA will leave the Official Cash Rate (OCR) on hold tomorrow at 2.00 per cent. There is heightened uncertainty out there, though, now that all four major banks have said they are about to lift variable mortgage rates. That was always coming, but now that it's here everybody has realised what a mood changer that lift in borrowing costs may represent. What does it mean for Construction? Well get to that shortly.

*Insight:* Some seasoned punters say that if there is one race on the calendar you shouldn't bet on, it's the Melbourne Cup. That's not a particularly accurate analogy for the November rate decision. The RBA Board should decide on Melbourne Cup day to hold the OCR steady. Nevertheless, for this meeting, but probably building in December and in the February and March 2016 meetings, there is once again an elevated degree of uncertainty as to how safe it is to bet on a rate on hold scenario. Plus the major banks may lift borrowing costs further early next year. Watch this space, but by gee confidence towards housing hasn't been done any favours recently.

### Where does that leave new home building?

*Update:* The new home building sector remains in very strong shape regardless. The ACI Research Note looking at the different type of dwelling approvals in the system (<http://aciresearch.com.au/en/Publications/Research%20updates.aspx>) highlights the very large pipeline of work yet to be commenced. That augers well for short term activity, following on from the record level of 212,000 odd new dwelling commencements for 2014/15 reported by the ABS nearly a fortnight ago.

*Insight:* Following the ABS update, we completed our quarterly forecasting review. An updated set of forecasts for new dwelling commencements and investment, together with renovations activity, can be found at <http://hia.com.au/BusinessInfo/economicInfo/housingForecasts.aspx>. The ACI Dwelling Forecasts by Type now also has an update available and finds further upward momentum in the semi-detached and medium/high density markets – see the table on page two and for more details contact Stuart at [s.hyltoncummins@aciresearch.com.au](mailto:s.hyltoncummins@aciresearch.com.au)

### So how is non-resi construction faring?

*Update:* Non-residential construction conditions remain very disparate, as the *ACI Construction Monitor* continues to highlight.

*Insight:* Regardless of the change in interest rate sentiment and conditions, the key positive factors for non-residential construction remain in play. Aged care is a key sector to watch, as we have previously noted. New South Wales and Victoria are key geographical markets – and that

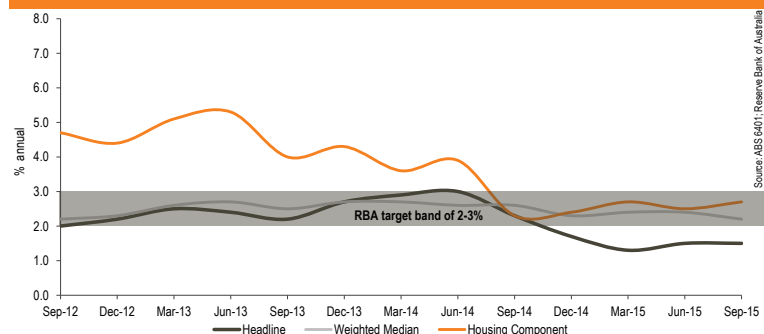
infrastructure potential for NSW we have mentioned before continues to gather traction ... for more information regarding the *ACI Construction Monitor* go to <http://aciresearch.com.au/en/Publications.aspx>

### Top of the charts – a soft inflationary pulse

*Update:* The CPI result for the September 2015 quarter was more of a no-show than expected. Headline inflation came in at sub 2 per cent (1.7 per cent), and the weighted median measure and the housing component were both within the RBA's 2 to 3 per cent target band – at 2.2 per cent and 2.7 per cent, respectively.

*Insight:* That may well give the RBA further room to lower rates again – markets priced in that prospect. Surely though, the main message is a lack of demand and pricing power in the Australian economy. That makes the duration over which new housing – the economy's kingmaker - holds up very well, the extent to which renovations activity continues to grind out a recovery, and the areas of potential in non-residential construction, all the more important.

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### A Fed rate hike back on the agenda?

*Update:* Speaking of a 'will they, won't they' interest rate game, we now have the Fed back in the short term frame. There is little chance that members of the central bank in the United States – the FOMC (Federal Open Market Committee) know much if anything of the fact that the cricket season is upon us in Australia. Granted, there has been some coverage of the Rugby World Cup just completed in the UK. It did appear as though the FOMC had taken their bat and ball and gone home for 2015, but now – following their meeting on October 28<sup>th</sup> – an interest rate hike in 2015 may be back in play!

*Insight:* This would be a good development, in our view, if it were to occur in December as now is being contemplated. Everybody knows that interest rates will rise again in the US. Let's just get on with it. Then at least there is one element of certainty in the global economy this side of Christmas.

**The fortnight ahead – key releases**

The fortnight ahead includes a number of major updates relevant to the construction industry:

**Monday 2 November:**

CoreLogic RP Data Dwelling Prices, October 2015, 9.30am

**Tuesday 3 November:**

RBA Interest Rate Decision, November 2015, 2.30pm

**Wednesday 4 November:**

HIA Research Note – *An Update on Australian Dwelling Prices*, 11:00am

**Friday 6 November:**

AiG/HIA Performance of Construction Index, October 2015, 9.30am

RBA Quarterly Statement on Monetary Policy, 11:30am

**Tuesday 10 November:**

ABS Housing Finance, September 2015, 11.30am

**Dwelling starts by type**

	June 2014 qtr	June 2015 qtr	Q on Q change	2014/15	2015/16 forecast	Forecast annual change	Short-term momentum
Houses	27,647	27,685	0.1%	113,903	109,729	-3.7%	↔
Semi-detached, row or terrace houses, townhouses - One storey	2,530	2,332	-7.8%	8,844	7,722	-12.7%	↓
Semi-detached, row or terrace houses, townhouses - Two or more storeys	4,164	4,598	10.4%	17,181	16,129	-6.1%	↔
Flats units or apartments - In a one or two storey block	1,301	1,290	-0.8%	5,984	4,739	-20.8%	↑
Flats units or apartments - In a three storey block	1,545	1,269	-17.9%	5,737	4,469	-22.1%	↓
Flats units or apartments - In a four or more storey block	8,658	14,804	71.0%	57,769	54,739	-5.2%	↓

Source: ACI, ABS

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