

## ABS: Record year for new dwelling construction in 2014/15

### Has new home building peaked?

**Update:** ABS building activity data for the June 2015 quarter show that total new home starts declined by 3.2 per cent compared with the previous three month period. Dwelling commencements during the 2014/15 financial year are now estimated to have totalled 211,976, easily the highest amount of activity in any 12 month period.

**Insight:** Despite the record year enjoyed during 2014/15, the indications are that the cycle for new home starts has peaked, or is close to doing so. In addition to the reduction in starts during the June 2015 quarter, latest building approvals data also suggest the pipeline of new home building activity could be easing. A detailed discussion of the latest developments in residential building approvals will be presented in a HIA-ACI Research Note to be released tomorrow.

ACI will be releasing the latest quarterly update regarding residential building forecasts on the 27th of October

### Labour market remains steady during September

**Update:** Australia's labour market remains on an even keel despite some of the pessimism. ABS data indicate that the unemployment rate fell slightly to 6.2 per cent during September, and was unchanged on the same month last year. Over the past year, total employment growth across Australia was 2.0 per cent, equivalent to an additional 230,000 jobs. The quality of job creation is reasonably positive, with full-time jobs accounting for just over half of the growth in employment.

**Insight:** Most forecasters believe that unemployment in Australia is at or around its peak, and will start to slowly decline over the next couple of years as economic growth returns to trend. The geographic variations are very telling, with rip-roaring job creation in NSW and Victoria, and a much weaker pace of job creation in states like Queensland, the ACT and South Australia. Clearly, Australia is not a 'one size fits all' economy.

### RBA holds rates steady – for the moment

**Update:** At its October meeting, the RBA held the Official Cash Rate steady at 2.00 per cent for the sixth consecutive month. This decision had been widely anticipated, with the RBA noting in its statement that a 'wait and see' approach is being adopted with respect to potential changes in the rate over the coming months.

**Insight:** There is a growing consensus that we will get another interest rate reduction in time for Christmas. Annual GDP growth in the June 2015 quarter of just 2.0 per cent, as well as the environment of low inflation means that the RBA may soon consider the benefits of another rate cut to

outweigh the costs. The unilateral mortgage interest rate hike from Westpac (discussed below) may prompt the RBA to cut rates in order to counter the effects of similar moves from other banks.

### Top of the charts – land sales expand

**Update:** The HIA-CoreLogic RP Data Land Report for the June 2015 quarter shows that residential land sales increased during the quarter, while prices continued to rise.

**Insight:** The inadequate pipeline of new residential land is the single biggest factor behind deteriorating housing affordability in key markets around Australia. Over the past two years, land market turnover has fallen while prices have climbed, classic signs of insufficient supply. During the June 2015 quarter, the median lot price nationally increased by 0.6 per cent to \$216,727 while turnover in the land market saw growth of 17.6 per cent.

Residential land sales and median lot price - Australia

Source: Source: CoreLogic RP Data, HIA Economics



### Banks tighten on mortgage lending

**Update:** Westpac recently announced that its interest rate on all variable mortgages would be increased by 0.2 points next month. The move is the latest in a series of restrictions announced by various lenders over recent months. Tighter conditions have been concentrated on the investor side of the market, with LVR caps being reduced and residential investor interest rates being increased by most lenders.

**Insight:** There are essentially two things going on here. First, APRA's so-called 'speed limit' for investor lending has resulted in attempts by most banks to nudge their lending towards the owner occupier side of their books. Hence, interest rates have been increased for investors and simultaneously cut for owner occupiers. There is also a push by banks to beef up their balance sheets in line with regulatory considerations. This is largely being achieved through equity raising, but Westpac's interest rate increase represents an attempt to ensure that its customers also chip in to shore up its balance sheet. Who will follow Westpac, and when, is a crucial question ...

**The fortnight ahead – key releases**

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

**Tuesday 20 October:**

HIA-ACI Research Note: Building Approvals Update, 11.00am

**Tuesday 27 October:**

ACI Residential Building Forecasts, October 2015, 11.00am

**Wednesday 28 October:**

ABS Consumer Price Index, September 2015 quarter, 11.30am

**Thursday 29 October:**

HIA New Home Sales Report, September 2015, 11.00am

ACI Dwelling Type Forecasts, October 2015, 11.00am

**Friday 30 October:**

HIA Affordability Report, September 2015 quarter, 11.00am

**Building Activity****Annual Building Activity - Value of work done (\$million)**

	Non-residential			Total	Residential			Total
	Commercial Buildings	Industrial Buildings	Other		New Houses	Other New Dwellings	Alts and adds (including conversions)	
2013/14	13,390	5,055	17,021	35,466	27,815	17,982	7,361	53,158
2014/15	14,253	4,868	17,016	36,137	31,605	21,247	7,797	60,649
Annual Change	6.4%	-3.7%	0.0%	1.9%	13.6%	18.2%	5.9%	14.1%

Source: ABS 8752.0

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