



AUSTRALIAN CONSTRUCTION INSIGHTS  
Research powered by HIA Economics

# Construction Brief

7 April 2015

## Iron ore tumble to force RBA's hand?

### Commodity price tumble

*Update:* Well, iron ore has slumped to below \$50 per tonne and kept going to below the 47 mark. We portended this sub-50 level in our last *Construction Brief*, but it's happened a little faster than we expected! Prices of other major commodities have also fallen in the first quarter of 2015, including nickel and coking coal.

*Insight:* This development may be a game changer for the Reserve Bank Board meeting today. The iron ore price has now slumped by 10 per cent in a week. That's a big slice of revenue and a poor update for growth. We're going to experience a big hit to national income this year. Iron ore accounts for over 20 per cent of Australia's exports and 4 per cent of GDP.

### A rate cut today?

*Update:* The odds have probably shortened for a rate cut today, but gee it still seems to be a very close call. Heading into Easter, markets were pricing in close to an 80 per cent chance of a cut, but less than 25 per cent of economists surveyed were predicting one. A sub USD\$0.76 Aussie seems to suggest a cut is expected today.

*Insight:* The rate of decline in the iron ore price is rapidly shifting the sands from under our national income and may force the RBA's hand today. The RBA has clearly signalled that it is going to cut the Official Cash Rate again and if that doesn't happen today, then markets will just say 'oh well, next month it is then'. That's unnecessary, just get on with it.

### Engineering construction continues to slide

*Update:* In keeping with the end of the resources investment boom, engineering construction work commenced in the December 2014 quarter was worth \$10.77 billion, a level that is 15.4 per cent lower than in the December 2013 quarter.

*Insight:* That's a weak, but not surprising result, which came and went last week with little focus. We need non-resource sector infrastructure investment to kick in, but that's proving slow in the current federal and state budgetary environment. Watch New South Wales, though, now that the election has come and gone ...

### Non-residential building approvals

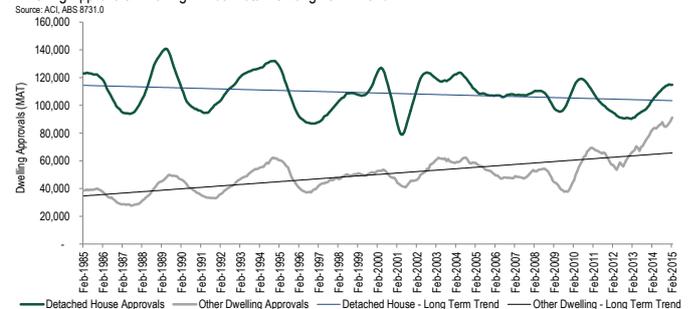
*Update:* The total value of non-residential building jobs approved in the three months to February 2015 was \$8.16 billion. This represents a 12.7 per cent increase

on the value in the previous three months, but a level that is still 16.8 per cent lower than the value in the three months to February 2014.

*Insight:* While the three-monthly lift is a welcome result, the broader picture of non-residential building approvals continues to indicate weakness in business investment conditions. The overall downward trend in non-residential building activity is likely to continue in the near to medium term.

### Top of the Charts – changing trend for approvals

Dwelling Approvals - Moving Annual Total vs Long Term Trend



*Update:* In February 2015, new dwelling approvals totalled 18,768 in seasonally-adjusted terms. This was 3.2 per cent lower than in January, but still the second highest level on record! During the month, detached house approvals inched up by 0.2 per cent, while there was a 6.6 per cent reduction in multi-unit approvals.

*Insight:* This is another very strong result for residential building approvals, but there is huge monthly variation across states and territories, driven largely by highly volatile multi-units. Not all markets are in healthy shape, but there is no doubt that at a national level the volume of new home construction will set a fresh record in 2015.

### A tide of Federal Government Reviews

*Update:* Last week, with short warning – notwithstanding the tip in the previous *Construction Brief* – the Federal Government released a Tax Discussion Paper to formally start the Tax White Paper process. Also during the week, the final report on the Competition Policy Review (The Harper Review) was released.

*Insight:* The Tax Discussion Paper forms the blueprint for taxation reform that the federal government will take to the 2016 election. There will be much discussion and debate, which will now occur against the backdrop of concern over Australia's economic growth outlook and the current federal political dynamic.

**The fortnight ahead – key releases**

The fortnight ahead will see a number of key updates relevant to the construction industry:

**Tuesday 7 April:**

RBA Board Meeting, monetary policy decision, 2.30pm.

**Thursday 9 April:**

AiG/HIA Performance of Construction Index, March 2015, 9:30am

ABS Labour Force, March 2015, 11.30am.

**Friday 10 April:**

ABS Housing Finance, February 2015, 11.30am.

**Tuesday 14 April:**

ABS Lending Finance, February 2015, 11.30am.

**Wednesday 15 April:**

Westpac-MI Index of Consumer Sentiment, April 2015, 10.30am

ABS Building Activity, December 2014 qtr, 11.30am.

**Thursday 16 April:**

HIA-CoreLogic RP Data Residential Land Report, December 2014 qtr, 11.00am.

**Key construction indicators – construction approvals and commencements**

	Key Construction Indicators				
	Residential building approvals - houses	Residential building approvals - other	Residential building approvals - total	Non-residential building approvals	Engineering construction work commenced*
	Number	Number	Number	\$ billions	\$ billions
	seasonally adjusted	seasonally adjusted	seasonally adjusted	seasonally adjusted	original
3 months to February 2014	28,858	27,628	56,486	8.16	10.77
Quarterly change (%)	1.1%	24.9%	11.5%	12.7%	
Q on Q, annual change (%)	1.2%	25.4%	11.7%	-16.8%	-15.4%
Latest 12 months	114,747	91,183	205,929	31.00	53.50
Previous 12 months	103,834	82,633	186,463	38.21	64.74
Annual change (%)	11%	10.3%	10.4%	-18.9%	-17.4%

\*Data goes out to December 2014, values and percentage changes apply to the quarter and year to December 2014, respectively

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