



AUSTRALIAN CONSTRUCTION INSIGHTS  
Research powered by HIA Economics

# Construction Brief

8 February 2016

## The RBA is in wait and see mode

### **RBA optimistic, but also flexible in its approach to the year ahead**

*Update:* While there was something of a roller coaster ride on international financial markets between RBA Board meetings on monetary policy (November 2015 and February 2016), the board left the official cash rate on hold at 2.00 per cent at the second meeting. In the accompanying statement, the RBA was to some degree sanguine on the economic outlook and this was also reflected in its *Statement on Monetary Policy*, released last Friday, 5 February. Nevertheless, the RBA has noted the elevation in risks to the global (and therefore domestic) economic outlook.

*Insight:* The RBA has flagged a readiness to reduce the official cash rate further if required, but is in wait and see mode. The key to whether interest rates fall to a fresh low will be global financial turbulence and further economic weakness – particularly the *effects* of any such developments on domestic growth prospects as well as the performance (ongoing improvement) of our labour market. If the economic or labour market outlook deviates downwards from the RBA's current expectations then the official interest rate will reach 1.50 per cent in 2016.

### **Looking back to look ahead: the final figures for 2015**

*Update:* The final figures for various indicators of the construction industry are just about in. The total value of work approved in the 2015 calendar year was 11.8 per cent greater than in 2014, a result almost entirely due to residential building (+17.7 per cent). The growth in non-residential building work approved was negligible in comparison (+0.9 per cent).

*Insight:* The number and value of building approvals signals that new residential construction experienced a strong, probably record year of activity in 2015. More importantly, however, these approvals have recently displayed evidence of the beginning of a downturn. We think the first half of 2016 will still be supported by the strong pipeline of work, but beyond the short term activity looks set to decline and the global and domestic risks lie to the downside. Our headline forecasts for residential construction will be released in the coming fortnight, including the detailed breakdown of forecasts by type of dwelling. Our latest non-residential construction forecasts can be found in the summer edition of the ACI *Construction Monitor*. For more information regarding our residential and non-residential forecasts contact Stuart Hylton-Cummins at [s.hyltoncummins@aciresearch.com.au](mailto:s.hyltoncummins@aciresearch.com.au).

### **A domestic data run ahead**

*Update:* Over the coming fortnight we receive economic updates including HIA-ACI New Home Sales, ABS Housing

Finance (and Lending Finance), Westpac-MI Consumer Confidence, ABS Labour Force, and HIA-CoreLogic RP Data Residential Land Sales.

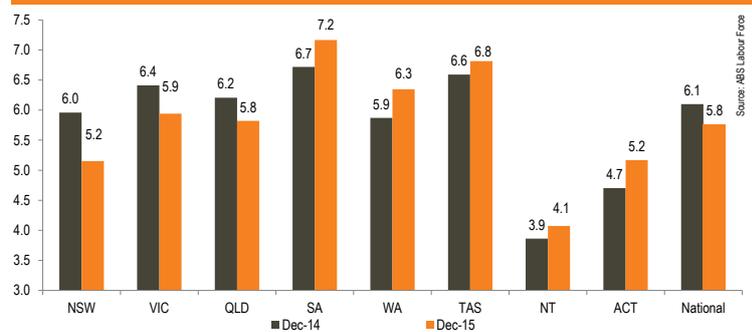
*Insight:* This is an important fortnight for economic updates in terms of setting the mood post the first formal RBA communications for the year. The RBA isn't expecting anything stellar from the Australian economy in 2016, but it is expecting the economy to hold up and the labour market to post further improvement. Signs of short term health in new residential construction activity will be crucial.

### **Top of the charts: unemployment rate divergence**

*Update:* As noted earlier, the labour market (specifically, its continued improvement) is a key variable that the RBA will be watching closely. A first look at conditions in early 2016 will become available next week, with the ABS releasing labour force figures for January 2016.

*Insight:* Latest labour force figures (out to December 2015) show that a strong improvement in the market occurred throughout 2015. The chart below highlights the national improvement, clearly led by the eastern seaboard states, while the rest either struggled to adjust to post-mining boom conditions (WA and the NT), a general economic malaise (SA and to a lesser extent, Tasmania) and ongoing federal fiscal restraint (the ACT). We'd expect this dynamic to continue into early 2016.

Unemployment Rate by State - December 2015 vs December 2014



### **The China Choke?**

*Update:* In 2015 we dubbed any complete falling over of the Chinese economy as the 'China choke'. This outcome would have devastating consequences for our construction industry and the broader Australian economy.

*Insight:* We are nowhere near that, but there is a widespread perception of on-going deterioration in the Chinese economy. There may be some exaggeration to that, but it's too early to tell. Chinese New Year will distort financial and economic data in the short term, but China updates over March – April will be very important to Australia's economic mood.

**The fortnight ahead – key releases****Wednesday 10 February**

HIA-ACI New Home Sales, December 2015, 11.00am.

**Friday 12 February**

ABS Housing Finance, December 2015, 11.30am.

**Tuesday 16 February**

ABS Lending Finance, December 2015, 11.30am.

**Wednesday 17 February**

Westpac – Melbourne Institute Index of Consumer Sentiment, February 2015, 10.30am

HIA-CoreLogic RP Data Residential Land Report, September 2015 quarter, 11.00am.

**Thursday 18 February**

ABS Labour Force, January 2016, 11.30am

**Key construction indicators**

## Key Construction Indicators

	Residential building approvals - houses	Residential building approvals - other	Residential building approvals - total	Non-residential building approvals
	Number	Number	Number	\$ billions
	seasonally adjusted	seasonally adjusted	seasonally adjusted	seasonally adjusted
3 months to December 2015	28,918	26,938	55,856	8.12
Quarterly change (%)	-0.5%	-7.5%	-4.0%	-0.1%
Annual change (%)	-0.1%	1.3%	0.6%	8.0%
Latest 12 months	116,323	115,755	232,078	31.94
Previous 12 months	115,219	88,913	204,132	32.22
Annual change (%)	1.0%	30.2%	13.7%	-0.9%

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