



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

9 February 2015

Interest Rates Down to New Low & Set to Fall Further

RBA reduces interest rates by 25 basis points

Update: At its February meeting, the RBA reduced the Official Cash Rate by 25 basis points to 2.25 per cent. This was the first interest rate move in eighteen months, and brings Australian interest rates to a new all-time low.

Insight: Ahead of the RBA decision, expectations had been mixed as to whether rates would be further reduced in 2015. The RBA noted that below-trend economic growth is expected to persist for longer than previously expected, with the labour market recovery consequently being delayed. The reduction in inflationary pressures, due in part to weaker oil prices, also facilitated lower interest rates, with the RBA still regarding the Australian dollar exchange rate as being too high. At least one further rate cut will follow. In its statement, the RBA also reiterated its intention to keep a close supervisory watch on some mortgage lending.

Residential building approvals

Update: New dwelling approvals fell by 3.3 per cent during December 2014, totalling 17,753 over the month in seasonally-adjusted terms. The fall was driven by a 7.9 per cent decline in 'multi-unit' approvals, with detached house approvals actually increasing by 1.1 per cent during the month.

Insight: New dwelling approvals reached record levels during November, so the decline in December was not unexpected and meant little in the wider scheme of things. During 2014 as a whole, approvals totalled some 200,814 which represents a record for a single calendar year. The strong finish to 2014 means that the level of new home construction will be very high in the first half of 2015.

Non-residential building approvals

Update: During the December 2014 quarter, total non-residential building approvals totalled \$6.75 billion. This was 4.3 per cent lower than the previous quarter, and was a 34.7 per cent reduction on twelve months earlier.

Insight: Business investment has been one of the weakest components of domestic demand over the past year, with activity adversely affected by poor business sentiment and expectations that difficult economic conditions will persist. It's become a bit of a vicious circle, which commercial construction is caught up in, and the pipeline of approvals suggests that activity will remain weak over the short term at least.

HIA/ACI New Home Sales

Update: As with ABS building approvals, HIA/ACI New Home Sales fell in the month of December last year, but

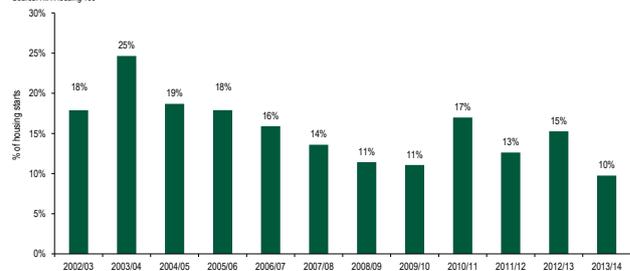
increased over the quarter. Total new home sales were up by 4.9 per cent during the December 2014 quarter. This represented an 8.3 per cent increase on the same quarter of 2013. During the December quarter, detached house sales rose by 3.5 per cent with multi-unit sales seeing growth of 12.0 per cent.

Insight: The quarterly result marked a strong finale for 2014. As with approvals, the multi-unit segment was the key driver. Despite the difficult economic backdrop, new home building is looking the goods, with the exceptionally favourable interest rate environment one major driver.

Top of the Charts – Knock-down Rebuilds

Knock Down Rebuild Activity - Percentage of Stock

Source: HIA Housing 100



Update: Knock-down Rebuilds (KDRs) are an important part of Australia's new home building market. It is estimated that 10 per cent of housing starts by large volume builders during 2013/14 were accounted for by KDRs.

Insight: A decline in KDR activity in 2013/14 was heavily influenced by soft consumer sentiment and weak household income growth. *More insights can be found in ACI's most recent Research Snapshot as well as the inaugural ACI 'Renovations Roundup' report released last November.*

Major economic development

Update: Australia's headline inflation rate declined to 1.7 per cent during the December 2014 quarter, the lowest since mid-2012. The fall was driven by the sharp decline in oil prices over the past six months, with soft economic conditions also contributing. The reduction in inflation came despite the weakening of the Australian dollar during the second half of the year. At 2.4 per cent, rental price inflation is at its lowest in almost a decade.

Insight: Easing inflationary pressures have provided the RBA with room for manoeuvre on interest rates. This extra room will almost certainly see a further interest rate reduction, probably in March. However, the weakness of the dollar has the potential to feed into higher inflation over the medium term.

The fortnight ahead – key releases

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

Tuesday 10 February:

- ABS Residential Property Price Indexes: Eight Capital Cities, December Qtr 2014, 11:30am;

Wednesday 11 February:

- Westpac-Melbourne Institute Index of Consumer Sentiment, 10:30am;
- ABS Housing Finance, December 2014, 11:30am;

Thursday 12 February:

- ABS Labour Force, Australia, January 2015, 11:30am;

Friday 13 February:

- Reserve Bank of Australia (RBA): Governor Glenn Stevens to appear before the House of Representatives' Standing Committee on Economics, 9:00am;
- ABS Lending Finance, December 2014, 11:30am;

Thursday 19 February:

- HIA–CoreLogic RP Data Residential Land Report, 11:00am;

Key construction indicators

Key Construction Indicators

	Residential building approvals - houses Number seasonally adjusted	Residential building approvals - other Number seasonally adjusted	Residential building approvals - total Number seasonally adjusted	Non-residential building approvals \$ billions seasonally adjusted
3 months to December 2014	28,368	24,791	53,159	6.75
Quarterly change (%)	-0.9%	20.4%	8.0%	-4.3%
Q on Q, annual change (%)	7.0%	7.5%	7.2%	-34.7%
Latest 12 months	114,503	86,523	201,025	30.88
Previous 12 months	99,929	78,532	178,462	37.60
Annual change (%)	14.6%	10.2%	12.6%	-17.9%

ACI produces a wide suite of publications and research which include the latest industry analysis, forecasts and emerging trends, at a national, state and even regional/local level. If you would like to order publications referenced in this brief please email info@aciresearch.com.au



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

CONTRIBUTORS:

Shane Garrett Senior Economist

Disclaimer: This document is produced by ACI based on information available at the time of publishing. All opinions, conclusions or recommendations are reasonably held or made as at the time of its compilation, but no warranty is made as to accuracy, reliability or completeness. Neither HIA nor any of its subsidiaries accept liability to any person for loss or damage arising from the use of this report.