



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

12 January 2015

Residential Building Approvals Reach All-Time High in November

Residential building approvals

Update: New dwelling approvals rose by 7.6 per cent in November 2014 to reach 18,245 in seasonally-adjusted terms. Growth was concentrated in multi-unit dwelling approvals, with a much more modest increase in detached house approvals.

Insight: This is the highest number of approvals in one month since records began in 1983. Previously, August 1994 had recorded the largest number of approvals. These data suggest that new dwelling construction will remain at a high level during 2015.

Non-residential building approvals

Update: The value of non-residential building work approved in the three months to November 2014 declined by 15.8 per cent to a level 26.1 per cent below the level a year earlier. The total value of building jobs approved was \$7.14 billion during the quarter.

Insight: The continued decline in non-residential building activity is consistent with the reduced business investment activity taking place right across the economy. Despite low interest rates, firms are reluctant to invest given the weakening of the economy over the past year.

AIG-HIA Performance of Construction Index (PCI)

Update: The Australian PCI rounded off 2014 with a 1.0 point decline to 44.4 points in the month of December. This means that the index remained below the critical 50-points threshold, indicating that the national construction industry contracted.

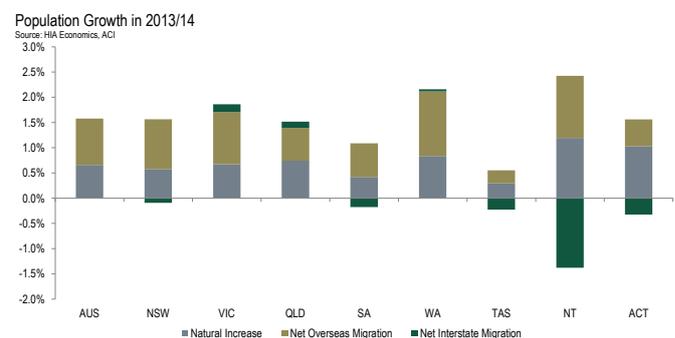
Insight: While the momentum of the PCI in much of 2014 was lost in the final months of the year, the latest results suggest residential construction will stabilise around elevated levels (even if a bit lower than what prevailed throughout 2014). The outlook for commercial and engineering construction is weak, with the latest results suggesting further declines to come.

Mid-Year Economic and Fiscal Outlook

Update: In mid-December, the Treasury's Mid-Year Economic and Fiscal Outlook (MYEFO) showed deterioration in the underlying budget position over the four-year forecast horizon and beyond. The deficit in 2014/15 is now projected to be \$40.4 billion, compared with the \$29.8 billion expected at the time of the Budget. The budget is not now expected to reach surplus until 2019/20, one year later than previously forecast.

Insight: The government's reluctance to engage in major cuts to expenditure in the face of the deteriorated outlook will help to avert a further dive in consumer confidence. The weaker than expected budgetary position strengthens the case for action to deal with the persistence of structural deficits over the medium term.

Top of the Charts – Population Growth



Update: Australia's population increased by 1.6 per cent to 23.49 million persons in the 2013/14 year. While this is slower than the 1.8 per cent growth recorded a year earlier, it remains well above the long term average. Despite easing back, Net Overseas Migration (NOM) was still the key driver of growth, contributing 0.9 percentage points to population growth. Natural population growth contributed 0.7 percentage points.

Insight: Australia's labour market conditions are the main determinant of NOM. The slowdown in migrant inflows to Australia during 2013/14 partly reflects increases in the unemployment rate over the past year. At the same time, labour markets continued to improve in the US and other advanced economies. *More insights can be found in ACI's most recent Research Snapshot.*

Major economic development

Update: Oil prices recently fell below US\$50 per barrel for the first time since early 2009, and have halved since mid-2014. The severe price decline is the result of increased supplies from the US, as well as weakening demand from emerging economies.

Insight: The reduction in fuel costs will help offset some of the effects of the drop in the Australian dollar, which is causing import prices to rise. Overall inflation will be kept in check, permitting the RBA to maintain a stance of very low interest rates.

The fortnight ahead – key releases

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

Monday 12 January – ABS Housing Finance, November 2014, 11:30am

Wednesday 14 January – ABS Lending Finance, November 2014, 11:30am; Westpac-Melbourne Institute Consumer Sentiment, 10:30am

Thursday 15 January – ABS Building Activity, September Qtr 11:30am; ABS Labour Force, December 2014, 11:30am

Thursday 22 January – HIA New Home Sales Report, November 2014, 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 November 2014	28,275	22,155	50,430	7.14
Quarterly change (%)	-1.2%	4.8%	1.3%	-15.8%
Q on Q, annual change (%)	8.7%	-9.5%	-0.1%	-26.1%
Latest 12 months	113,734	85,439	199,174	32.38
Previous 12 months	98,468	76,758	175,227	36.66
Annual change (%)	16%	11.3%	13.7%	-11.7%

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CONTRIBUTORS:

Shane Garrett Senior Economist

Diwa Hopkins Economist

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