



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

27 January 2015

Dwelling Commencements Hit All-Time High

Dwelling Commencements

Update: New Dwelling Commencements hit an all-time high in Australia in the September 2014 quarter. Total seasonally adjusted commencements increased by 12.5 per cent in the quarter to a record level of 52,380. Over the 12 months to September last year dwelling commencements totalled just over 193,000, surpassing the previous annual record of 187,000 set back in 1994.

Insight: The achievement of a record level is impressive. Within the aggregate story there remains a high degree of geographical divergence, reflected in different stages of the building cycle that individual states and territories are at. Growth momentum is concentrated in non-detached housing, although detached house commencements are still around 5 per cent higher than their 25 year average volume.

ACI New Home Sales

Update: Our *New Home Sales Report* is a monthly survey of Australia's largest 100 builders as recorded by the *HIA-Colorbond steel Housing 100*. Total seasonally adjusted new home sales increased by 2.2 per cent in November 2014 following a 3.0 per cent rise in October. As with ABS building approvals, new home sales are portending further growth in new home construction in early 2015, a good sign for the broader economy.

Insight: New home sales (and building approvals) are both pointing to the growth momentum for new home construction being dominated by 'multi-units' through 2014/15. Detached house construction looks set to largely travel sideways, but at above average levels.

Non-residential building work commenced

Update: The value of non-residential building work commenced fell sharply in the September 2014 quarter to its lowest level in three and a half years. Over the 12 months to September 2014 the value of commencements fell by 3.5 per cent to \$32.6 billion. Significant declines occurred in sectors including offices, factories, education, and health.

Insight: Declines in non-residential building approvals, reported in the January 12 *Construction Brief*, suggest further weakness in construction activity. There are, however, bright spots and therefore areas of opportunity. A focus on growth sectors tends to get lost in the aggregate profile of non-residential building being an under-performing sector of the Australian economy.

Consumer Confidence

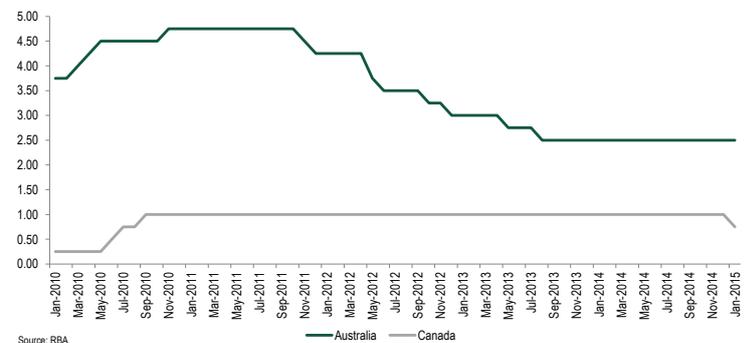
Update: Speaking of under-performance, the Westpac-Melbourne Institute (MI) Index of Consumer Sentiment

remained below the 100 threshold separating pessimists from optimists in January 2015. The headline index did, however, increase by 2.4 per cent in January this year, from 91.1 to 93.2, so that's better than it falling further!

Insight: There is a lack of confidence on the part of households (and businesses) in Australia's economic conditions and outlook; and that situation appears to be persisting into 2015. Note that the two Westpac-MI measures explicitly related to housing – 'Time to Buy a Dwelling' and 'House Price Expectations' both increased in January, which is a pleasing result.

Top of the Charts – interest rates on the move

Main Policy Interest Rates in Australia and Canada, 2010 to 2015



Update: Canada surprised global markets last week by cutting their official interest rate by 0.25 percentage points to 0.75 per cent. The circumstances don't exactly tally with the situation here in Australia. The move by our Canadian friends certainly added extra punch to calls for further rate reductions here in Australia, and these calls had already lifted in volume over 2015 to date.

Insight: Financial markets are expecting close to two 0.25 percentage point official rate cuts in Australia in 2015. Watch this space because rate cut momentum is growing; and watch the readings for the underlying CPI update released tomorrow - if they're 0.4 per cent or below, the rate cut odds will shorten further.

Major economic development

Update: China's GDP growth came in at 7.4 per cent in 2014. Shock horror, what "awful" growth! While being lower by all of 0.1 point compared to the official target, the result was actually 0.1 point higher than the market expectation.

Insight: There is a slow rebalancing of growth occurring, in favour of the services sector, and that is a good thing. However, concern will remain throughout 2015 about China's growth trajectory and downside risks - a close eye is warranted. Property will be a key focus.

The fortnight ahead – key releases

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

Wednesday 28 January – ABS Consumer Price Inflation, December 2014 quarter, 11:30am

Thursday 5 February – HIA/ACI New Home Sales Report, December 2014, 11:00am

Friday 30 January – *ACI Research Snapshot: Australia's Knock-down Rebuild Market*, January 2015, 11:00am

Friday 5 February – AiG/HIA Performance of Construction Index, January 2015, 9:30am

Monday 2 February – CoreLogic-RP Data Residential Property Prices, January 2015 10:00am

Tuesday 3 February – ABS Building Approvals, December 2014, 11:30am. RBA Board Meeting, monetary policy decision 2:30pm

Key construction indicators

Key Construction Indicators

	Dwelling commencements - houses Number seasonally adjusted	Dwelling commencements - other Number seasonally adjusted	Dwelling commencements - total Number seasonally adjusted	Non-residential work commenced \$ billions original
September 2014 quarter	28,207	24,173	52,380	6.95
Quarterly change (%)	0.8%	30.2%	12.5%	n/a
Q on Q, annual change (%)	14.3%	44.0%	26.3%	-28.6%
Latest 12 months	108,385	84,704	193,089	33.80
Previous 12 months	94,813	69,003	163,816	32.56
Annual change (%)	14.3%	22.8%	17.9%	-3.5%

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