



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

3 November 2014

Welcome to the ACI Construction Brief

Welcome to the first ACI *Construction Brief*, a fortnightly communication highlighting key updates related to Australia's construction industry.

Dwelling commencements

Update: ABS new dwelling commencements fell by 6.9 per cent in the June 2014 quarter. Over the fiscal year, dwelling commencements increased by 11.6 per cent to reach their second highest level on record.

Insight: a strong fiscal year result. The June quarter contraction was heavily influenced by a decline in 'other dwelling' (multi-unit) commencements in New South Wales. The cyclical peak for new dwelling commencements could be a fresh record.

Non-residential building

Update: the value of non-residential building work commenced fell by 10.3 per cent in the June 2014 quarter. Over the fiscal year, the value of non-residential building work commenced was \$33.7 billion, up by 7.2 per cent compared with the previous year.

Insight: a decent fiscal year result, representing a return to growth, but the recovery is still lacking compared with what has been experienced in the residential construction sector. A sustained recovery hinges on the willingness of businesses to invest for growth.

Engineering construction

Update: ABS-measured engineering construction work commenced fell by 28.4 per cent in the June 2014 quarter to be down by 39.3 per cent in 2013/14. That value is just over half the cyclical peak.

Insight: a weaker fiscal year result was a no-brainer. The extent of the 'hole' left by resources-related investment as broader infrastructure investment comes on stream remains unclear, but a considerable 2014/15 'dip' still appears likely.

Demographic research

Update: *Housing Australia's Future* was released on October 14. Based on a unique research project, this report analyses a range of scenarios for new housing demand out to 2050, for Australia and for each state and territory.

Insight: there is a vast array of possible scenarios, all of which can be captured in the underlying model. The report itself drills down to a narrower, but still extensive range, and highlights that the new home building

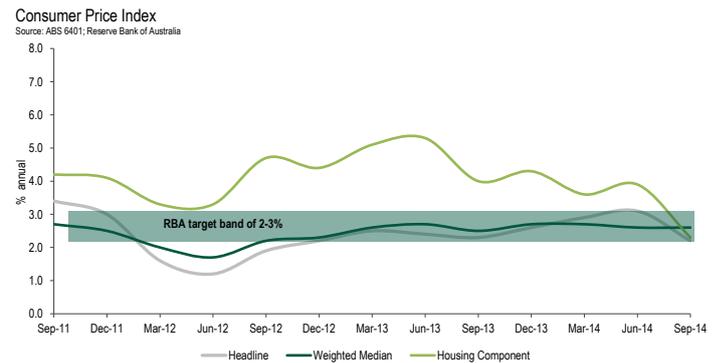
achievements of the last 20 years are highly unlikely to make the grade in coming decades.

RBA minutes

Update: the minutes for the October RBA Board meeting retained the crucial final sentence: 'Members considered that the most prudent course was likely to be a period of stability in interest rates'. Until this sentence changes, a short term rate move is highly unlikely.

Insight: the RBA still looks to be on hold until mid-2015, although the US situation (see below) will prompt some discussion of an earlier rate hike. 'Jawboning' regarding high investor interest in housing and the possibility of overt use of macro-prudential tools will continue.

Top of the Charts – CPI



Update: the headline rate of annual inflation eased back to 2.3 per cent in the September 2014 quarter, a significant drop from the 3.0 per cent rate during the previous three month period to June.

Insight: while economic growth remains below par, labour markets remain soft, governments maintain a firm grasp on to the purse strings and businesses lack an appetite to invest, inflationary pressures are unlikely to emerge and sway the RBA to commence a rate tightening cycle.

Major economic development

Update: the US Federal Reserve announced an end to its quantitative easing stimulus program, which had pumped trillions of dollars into the US financial system.

Insight: While this move was largely anticipated, the Federal Reserve's statement suggested that interest rates may rise earlier than originally expected. This will be a key point of discussion and conjecture and will drive some additional interest rate uncertainty here in Australia.

The fortnight ahead – key releases

The fortnight ahead will see a number of key updates for the construction sector:

Monday 3 November – ABS Building Approvals for September 11:30am

Tuesday 4 November – RBA Board Meeting, monetary policy decision 2:30pm

Thursday 6 November – ABS Labour Force for September 11:30am

Friday 7 November – AIG-HIA Performance of Construction Index for October 9:30am; RBA Statement on Monetary Policy 11:30am

Monday 10 November – ABS Housing Finance for September 11:30am

Tuesday 11 November – ABS Residential Property Price Index for September quarter 11:30am

Wednesday 12 November – Westpac-Melbourne Institute Index of Consumer Sentiment for November

Key construction indicators

Key Construction Indicators			
	Dwelling commencements, no.	Non-residential (commercial) building activity, value of work commenced, \$ millions	Engineering construction activity, value of work commenced by the private sector, \$ millions
	seasonally adjusted	seasonally adjusted, chain volume measures	original, chain volume measures
June 2014 quarter	45,527	7,958	13,862
Quarterly change (%)	-7%	-10%	-28%
Q on Q, annual change (%)	9%	-7%	3%
Latest 12 months	180,833	33,712	61,900
Previous 12 months	162,018	31,438	102,054
Annual change (%)	12%	7%	-39%



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