

Wages growth is the biggest economic issue for political leaders

The ALP and Libs target slow wage growth

Update: As both major political parties launched their election campaigns last week you could be mistaken for thinking that 2018 is going to be an election year. It was more likely that each leader was preaching to their own party to ensure that they themselves remain leaders of their respective parties at the start of the 2019 Federal Election campaign. Regardless, their Stump Speeches have set the narrative for next year's election.

Insight:

Bill Shorten used his stump speech to mimic the UK Labor Party by targeting the 'left-behind society' and to get the economy to 'work for working Australians'. This last reference to our slow wages growth is probably one of the bigger economic/political issues for 2018 and not just Australia, as it's affecting a range of economies. This rhetoric from Shorten also sets up the divide between the financial position of the Prime Minister Turnbull and the average Australian.

Turnbull on the other hand launched his 2019 election campaign in a more subdued forum in Toowoomba. Turnbull focused on jobs and the economy and also promised better paid jobs, again a reference to slow wages growth.

Lacklustre growth in wages was the greatest weight on consumer confidence in 2017. Households generally have a more positive disposition when they feel like their standard of living is improving and real growth in household incomes is what is required to achieve this.

Consumption expenditure by households represents around 60 per cent of expenditure in the economy and therefore plays a pivotal role in determining the nation's economic performance. In light of this, it is unlikely that annual growth in real GDP will be getting back towards the pre-financial crisis average of 3.4 per cent without households coming along for the ride which means wages need to grow and the economy will follow.

There are two factors contributing to the slow wage growth: Firstly, global completion for goods and services is putting downward pressure on Australia's income level. This is essentially bringing the domestic income level back into line with the global economy after domestic wage growth outpaced other nations (some of which recorded declines in real wage levels) in the years immediately following the GFC. Secondly, there has been excess capacity within the labour market. The national unemployment rate has been stuck at around 5.5 per cent and a larger share of those in employment wanted more work than they had. In this environment workers are

typically more concerned about job security and less inclined to demand higher wages.

There is also speculation that a third factor, technological innovation, has been a contributing factor to slow wage growth whereby increasing prevalence of automated processes are reducing demand for human inputs. Technological innovation is often used as a catch-all to explain anomalous economic outcomes.

The good news is that there are signs that the labour market conditions may be progressing towards an environment that is more conducive to wage growth. Over 400,000 jobs were created in 2017 with growth dominated by full-time employment (up by around 300,000 jobs).

These jobs are being created because businesses have become more optimistic.

Update:

In the early 1990's, 5 per cent of new housing supply was accounted for by apartments. This share now sits at around 30 per cent.

Insight:

As highlighted in the chart on the next page, the new home building cycle has been driven by extraordinary growth in multi-unit commencements.

A key result was the share of apartment commencements increasing from 5 per cent in the early 1990's to a peak of 30 per cent in 2016. Based on the latest available data (for the September 2017 quarter) the share is 27 per cent.

Detached house commencements increased by 31 per cent from 89,748 in 2011/12 to 117,497 over the 12 months to September 2016. The record high for detached house commencements is still a level of 132,000 achieved in 1988/89.

The latest Census results also reveal that the fastest growth in dwelling type has been for 'semi-detached' dwellings and 'apartments'.

A compositional shift of this magnitude obviously has a large structural element to it, but there is also a cyclical element that is hardly surprising finding in the context of deteriorating housing affordability driven by substantial increases in residential land prices together with broader increases in fees, taxes and regulations on housing.

The mix of dwelling types has direct impacts on the type of materials and labour that will be needed in the future and, importantly, the infrastructure needed to supply appropriate and affordable land to the industry and its

clients. State and Federal government policy makers generally fail to recognise this fact. In the process, governments reduce the probability that Australia's decline in housing affordability will be reversed.

In order to assist you plan your week, listed below are meetings HIA Economics will be attending and/or the

publications and media releases the HIA Economics team will be issuing, together with wider events of note, over the following 7 days.

Please note this is an indicative release timetable and is only for internal HIA use.

The fortnight ahead – key dates and releases (AEDST)

Tuesday 6 February

RBA Interest rate decision, 2.30pm

Thursday 8 February

ABS Regional Building Approvals, December Qtr 2017, 11.30am

Friday 9 February

ABS Housing Finance, December 2017, 11.30am

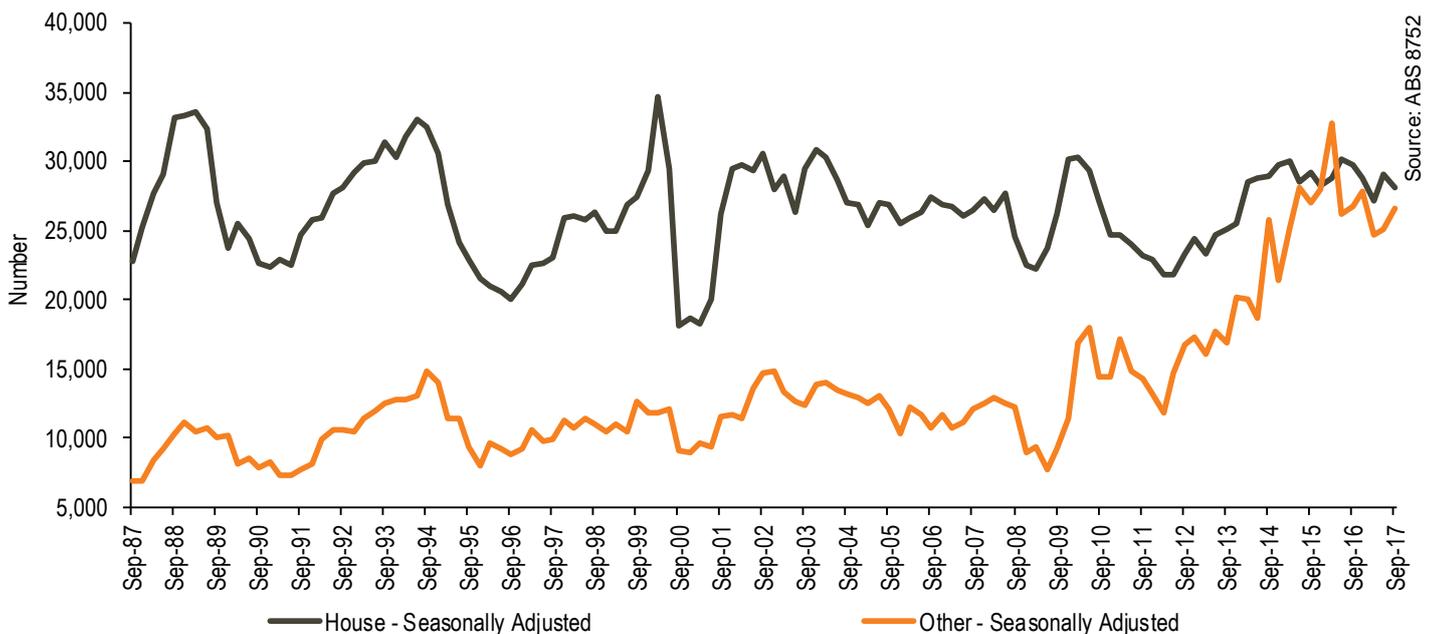
Tuesday 13 February

ABS Lending Finance, December 2017, 11.30am

Wednesday 14 February

HIA-CoreLogic Residential Land Report

HOUSE VS 'OTHER' DWELLING COMMENCEMENTS - AUSTRALIA



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