

Everybody has a view, but ...

... nobody knows!

Update: Global equity markets roared ahead in early 2018 amidst extremely low volatility. That all came to an abrupt end in the week beginning February 5th when markets experienced a sharp drop and volatility went through the roof. For some share markets (the S&P500, for example) there was a technical correction over the week, which is defined as a fall of 10 per cent.

Insight: This situation is like paradise for economic and financial commentators because everybody wants to know what will happen next and everyone has an opinion on that. Nobody knows!

Update: Equity markets have been on a bull (rising) run for more than nine years. In the current environment of heightened uncertainty and nervousness some people think the recent correction marks the end of the bull market. Others believe that when the dust settles markets will resume their upward march through the remainder of 2018.

Insight: For the record, we're in the latter camp, although as economists perhaps we should be pitching a tent on both sides! What we and everybody else doesn't know is how long it will take for markets to settle down and some form of pattern to re-emerge. In our view you probably need to wait until the US Federal Reserve Board (America's central bank) decision on interest rates in mid-March, when it is widely expected that the Fed will raise interest rates.

Update: Whatever happens, the key point is that the events of early February mark the beginning of a new economic era.

Insight: As Australia was coming out of the GFC (or the Great Recession as it is referred to in the US and Europe) in mid-2009 we spoke about it being the end of the beginning. The biggest economic collapse since the Great Depression wasn't just going to reverse overnight.

As it turns out it has taken ten years and extraordinary measures by governments around the world to stimulate their economies. The world has been awash with liquidity, developing economies have loaded up on cheap debt, but precious little productive business investment occurred, until now.

Now we have the first synchronised global economic recovery in more than a decade and as of mid-January this year the US treasury (government bond) market has been selling off (i.e. interest rates are rising).

Once the US ten year treasury yield breached 2.65 per cent (the key threshold we identified a year ago now) and

shot to 2.90 per cent, equity markets didn't stand a chance.

Now the focus is on when and by how much central banks will unwind their monetary stimulus and what that will mean for the global economy. As a result of the extraordinary and unprecedented methods adopted by central banks to resurrect economic fortunes, nobody has a guide book to follow as to what happens next.

The events of early February sharpened peoples' attention and highlighted that 2018 marks the start of a different economic era. In other words more than eleven years after significant cracks emerged ahead of the Great Recession, we are at the beginning of the end.

Update: Australia is chugging along reasonably well in this synchronised global recovery, benefitting from strong demand for commodities, a still buoyant housing sector and a recovery in private business investment driven by large infrastructure projects on the eastern seaboard.

Insight: We were reminded of a brighter light shining for business investment in 2018 when the first NAB business survey for the year was released last week. Business confidence is holding its own and business conditions are the second most favourable since the GFC.

We also received an update on consumer confidence last week. Confidence dropped, but remained above the 100 threshold signalling optimists outweigh pessimists. The Westpac-Melbourne Institute Index of Consumer Sentiment has now been above 100 for three consecutive months.

Update: So don't automatically buy into doom and gloom projections for Australia's economic prospects in 2018. There are a few challenges, number one being finding a way to lift wages growth. With unemployment below 6 per cent this situation will eventually correct.

Insight: Meanwhile housing, principally new home construction is continuing on its merry way. That's another factor to like about 2018.

There is no evidence of an impending sharp contraction in new home building activity. This is reflected in our latest housing forecasts which are included in the National and State Outlooks due for release on Tuesday 20th February. For further information visit <https://hia.com.au/business-information/economic-information> or contact Kirsten Lewis at k.lewis@hia.com.au

The fortnight ahead – key dates and releases (AEDST)

Tuesday 20 February

HIA National and State Outlooks, Summer 2018, 11:00am

Wednesday 21 February

ABS Construction Work Done, Preliminary, December Qtr 2017, 11.30am

ABS Wage Cost Index, November 'qtr' 2017, 11:30am

Thursday 22 February

ABS Average Weekly Earnings, November 'qtr' 2017, 11:30am

Tuesday 27 February

HIA Trades Report, December qtr 2017, 11.00am

Thursday 1 March

HIA-CoreLogic Residential Property Price Indices, February 2018, 9:30am

HIA Affordability Report, December qtr 2017, 11:00am

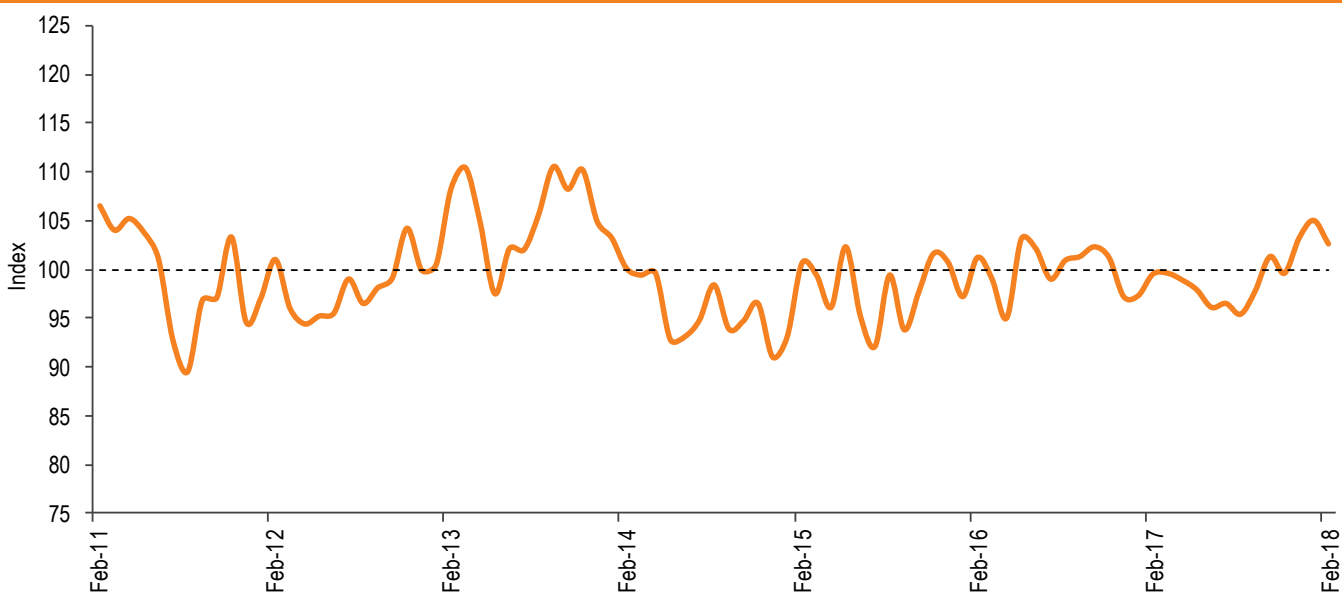
ABS Private New Capital Expenditure and Expected Expenditure, Australia, Dec qtr 2017, 11:30am

Friday 2 March

HIA New Home Sales Report, January 2018, 11.00am

Consumer Confidence

Source: Westpac-Melbourne Institute



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