Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

30 April 2018

Are we Dancing the Global Gangnam Style?

Australia isn't quite in step …

Update: … with the global economic dance, but that doesn't mean we aren't benefitting from the strongest conditions the world economy has enjoyed in a decade.

Over the last year to eighteen months the term 'synchronised global recovery' has reverberated around economic commentary. Frankly, we're a little over the frequent use of this reference, but it is accurate.

Insight: Indeed we've actually moved beyond the recovery phase and are in full trot on the stage. The US is enjoying a strong expansion, Europe is going quite well, emerging markets have yet to be hit by rising global borrowing costs, the U.K avoided recession, Asia ex-Japan is holding up, while Japan has displayed some positive economic gyrations.

What about Australia in all this?

Since the Global Financial Crisis (GFC), in Australia there has been a tendency to exaggerate bad economic news and to look hard at how positive economic news can be talked down. Against this backdrop it is true that Australia is not in full swing with the global economic party, but we are in attendance.

A strong global economy has kept commodity prices higher than they otherwise would have been – Australia's terms of trade (exports minus imports) rose by 2.7 per cent in the March 2018 quarter. This result provides a solid initial guide to growth in Gross Domestic Product (GDP) in Q1 of this year. While much of our strong employment growth is due to expansions in areas such as health and education, a strong global environment has boosted our fortunes. For example, the broader services sector has been a beneficiary; overseas student numbers are strong and dominate the temporary visa immigration category, while our international trade in goods has been healthy.

The most tangible example of this situation will be apparent in the Federal Budget being brought down on Tuesday 8th May. Revenue from individual tax receipts is running $1.2 billion higher than expected while the out-performance in company tax receipts sits at $3 billion. Australia isn't achieving that without global assistance.

2018/19: Global Dance 2.0

Update: As we enter a new financial year the Federal Reserve (the U.S. central bank) will be looking to raise interest rates further. Meanwhile market interest rates look set to be on an upward trajectory regardless.

Insight: What does that mean for us? Well, last week US ten year treasury yields exceeded the rate of our ten year bond yield for the first time in eighteen years, on the way to the U.S. yield popping its head over the crucial three percent threshold for the first time in over a decade.

A continuation of this trend will positively influence global interest rates and consequently negatively affect our borrowing costs. In the second half of this year keep a close eye out for any signs of tighter credit conditions emanating from two sources. Firstly, higher international borrowing costs. Secondly, our royally bashed banks falling over themselves to tighten lending criteria in a vain attempt to look more like Robin Hood than the Sheriff of Nottingham.

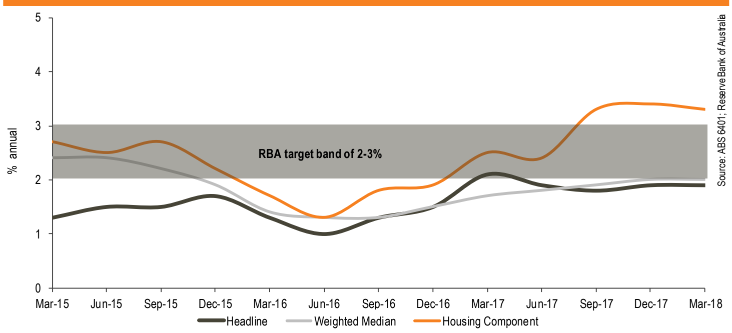
If the US ten year yield gets baked in to a 3+ rate (not, yet a foregone conclusion) then also be cognisant of the risk that equity markets, offshore and here, may weaken.

What won't happen is our official interest rate being increased in the second half of the year despite further rate hikes from the Fed. Here's why.

Top of the Charts: inflation – nothing to see here?

Last week we received the Consumer Price Index (CPI) update for the March 2018 quarter. Westpac Economics neatly summed up the result as '… still waiting for Godot!' and to be sure nothing much happened.

CONSUMER PRICE INDEX



Headline inflation came in at 1.9 per cent, the same rate as at the end of last year. Core inflation (that strips out volatile items – fruit and veg, for example) printed at 2.0 per cent, the same rate as in the December 2017 quarter.

While ever Australia's inflationary pulse is recording readings at the bottom of the Reserve Bank of Australia's (RBA's) 2-3 per cent inflation target range and wages growth is showing scant sign of picking up (we're still waiting for Godot there, too) the RBA ain't moving anywhere. That is comforting for our industry given housing markets are slowing and the growing risk of non-RBA induced hikes in borrowing costs in 2018/19.

The fortnight ahead – key dates and releases (AEDST)

Monday 30 April

HIA New Home Sales, March 2018, 11:00am

Tuesday 1 May

RBA Board Interest Rate Decision, May 2018, 2:30pm

ABS Labour Force, Australia, March 2018, 11:30am

Wednesday 2 May

HIA Trades Report, March 2018 quarter, 11.00am

Thursday 3 May

ABS Building Approvals, March 2018, 11.30am

Monday 7 May

AiG-HIA Performance of Construction Index (PCI), April 2018, 9.30am

Tuesday 8 May

Federal Budget, 2018/19, 7.30pm

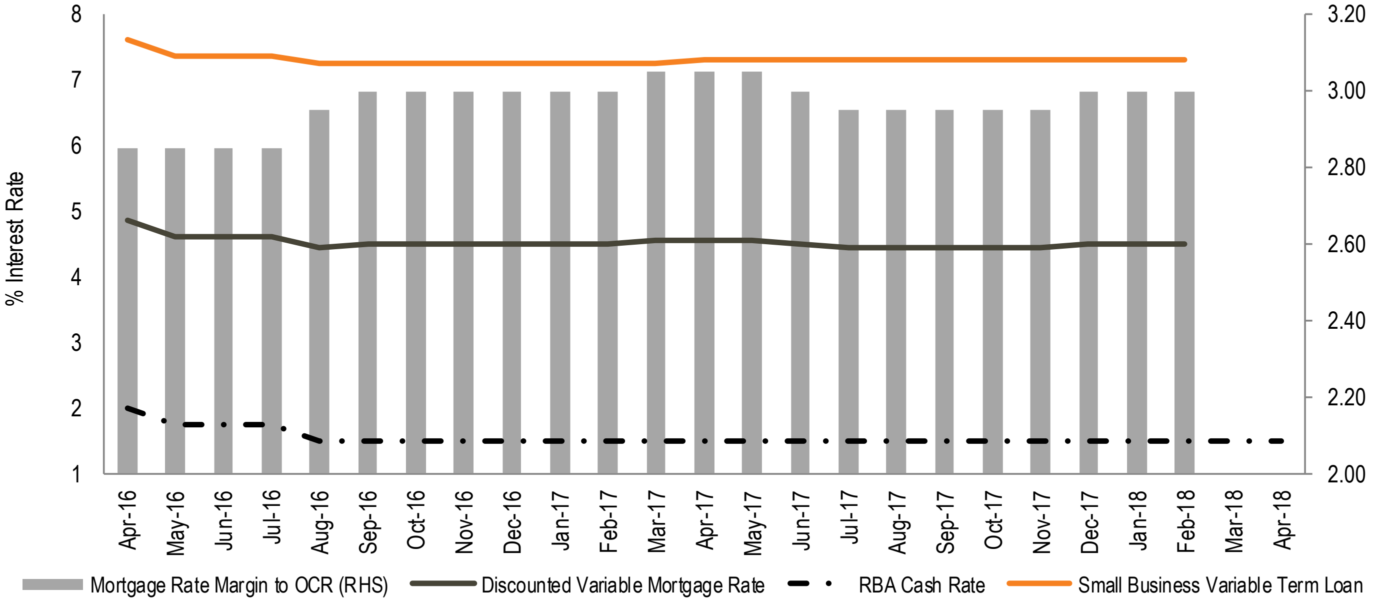
Wednesday 9 May

Westpac – Melbourne Institute Index of Consumer Sentiment, May 2018, 10.30am

Friday 11 May

ABS Housing Finance, March 2018, 11.30am

INTEREST RATES, AUSTRALIA



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