Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

17 September 2018

Insights into the GFC and Australia's construction sector 10 years on

The weekend just passed marked a decade since the collapse of Lehmann Brothers and the culmination of the Global Financial Crisis – arising out of the US's subprime mortgage crisis in late 2007.

Australia avoided much of the catastrophe that plagued North America (which ultimately had a contagion effect across the Atlantic). Our policy makers took decisive action – the RBA moved ahead of quite a number of other central banks to slash the official cash rate by 100 basis points, from 7 per cent to 6 per cent in October – its first opportunity after the collapse of Lehmann Brothers to do so. Meanwhile the Australian government guaranteed bank deposits. Australia's relatively low exposure to the US housing market and US banks was also significant in helping the economy avoid recession.

Economic growth did grind to a very slow pace – down to 1.4 per cent per annum in the September quarter of 2009 and GDP per capita growth dipped into negative territory. Unemployment jumped to 5.9 per cent in the June quarter of 2009 – largely a result of Australian expats returning to the economic safe haven they still called home, alongside the international labour force looking further afield for job opportunities that just weren't available amidst the prevailing uncertainty across the North Atlantic.

Critically in late 2009 and into 2010, China's response to the GFC – a massive stimulus package of government investment into housing, rural infrastructure, transportation, health and education, environment, industry, you name it! – was starting to take effect. The world's most populous economy was demanding our resources (coal and iron ore) as their energy and building needs ramped up.

Cue the start of Australia's record-breaking mining construction boom. This would span around four years before starting to pull back (materially) in late 2013. To the envy of developed economies the world over, economic growth in Australia accelerated to reach a peak annual rate of 4.6 per cent in early 2012. The mining construction boom was obviously a critical element in keeping a lid on unemployment.

While mining-related construction was booming, housing construction had deteriorated to recessionary levels despite record population growth. From hindsight and from the perspective of the wider economy, this could be (contentiously) considered as something of a blessing in disguise. Because, by the time housing construction finally did start catch up (from around late 2013) with population growth, it did so just as the mining investment boom was winding down.

The upswing in new home building - to eventually reach historical highs over consecutive years - cushioned the effects of the winding down of mining-related construction. Mining construction workers in the West and in the North headed back to the major population centres in the South East of the country to build a record number of much needed homes that had accumulated as pent up demand, again playing a critical role in keeping economic growth ticking over and keeping a lid on unemployment.

Only in late 2017 did housing construction start to pull back materially, but the very nature of housing construction means that this boom will have a much longer tail than what was experienced of the preceding mining construction boom. Much of what has been commenced are apartments which naturally take many months to complete. At this stage in late 2018 there are also a very large volume of apartment projects in the pipeline yet to be commenced.

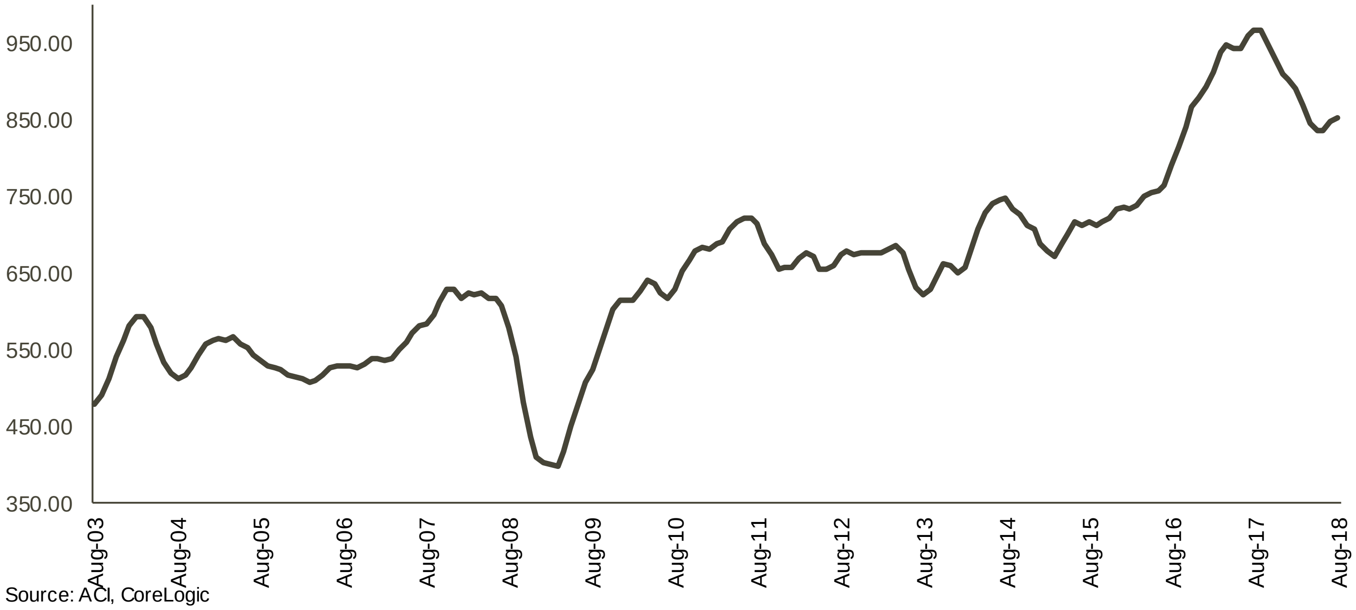
From this perspective of 10 years since the onset of the GFC we can now fully process the critical role that the construction sector has played in keeping the domestic economy afloat.

The world is now a very different place since the onset of the GFC. For developed economies in particular, consumers are a much more cautious lot, partly due to real wages growth remaining persistently weak in this new, post-GFC era.

While Australia avoided much of the calamity, a full recovery in the household sector has been somewhat delayed. For example, Australia's unemployment rate never soared to the same terrible heights seen in comparable advanced economies, but it is yet to grind back down to pre-GFC levels. This contrasts with the experience in the UK and the US, where unemployment rates are not just below Australia's but around if not well below pre-GFC levels.

Looking ahead though, we can still expect Australia's construction sector to do much of the heavy lifting. As housing construction winds down – notwithstanding the long tail of this housing cycle – there is a massive pipeline of expenditure waiting in the wings. State governments around the country are seeking to rectify the decades of underinvestment in transport infrastructure. Westconnex, Sydney metro rail, a second airport for Sydney, the Inland Rail project, Melbourne metro rail, the Bruce Highway upgrades – these massive projects are only some of a large list that will be critical in the level of demand for the services and output of the construction industry over the medium term.

SYDNEY HOUSE PRICES (INDEX, YUAN ADJUSTED)



Source: ACI, CoreLogic

The fortnight ahead – key dates and releases (AEST)

Tuesday 18 September

ABS Residential Property Price Indexes, June quarter 2018, 11.30am

Thursday 20 September

Australian demographic statistics, March 2018 quarter 11.30am

Wednesday 26 September

HIA COLORBOND® steel Housing 100 2017/18, 9.30am

Thursday 27 September

HIA Housing Scorecard, Spring 2018 edition

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