Your window into the future of the construction industry

AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

Construction Brief

23 July 2018

Unemployment flirts with 6-year low

Labour market figures for June 2018 released by the ABS indicate that the unemployment is close to its lowest in six years. During June Australia's unemployment rate clocked in at 5.4 per cent which is the lowest rate since November 2012, a time when the mining boom was in full swing.

The reduced rate of unemployment is driven by a very strong rate of job creation: over the year to June, the ABS estimates that 339,000 additional jobs were created in the Australian economy, equivalent to a very healthy growth rate of 2.8 per cent.

Dig below the surface a little and some signs of softness can be found. A disproportionate number of the jobs created in the past 12 months were of the part time rather than full-time variety. Of the jobs created over the past year, just over half were part time positions. Undoubtedly, some of this is down to the desire of some employees to work only on a part-time basis. However, it is also likely to reflect an element on behalf of employers in pockets of the economy where conditions are still underwhelming.

The regional variation in labour market conditions is considerable. The environment remains difficult in those markets where the mining slump is still playing out.

Unemployment was highest in WA (6.1 per cent) followed by Queensland. The rate of joblessness is lowest in the ACT (4.1 per cent) and NSW (4.7 per cent). Both economies are benefitting from an internationally-driven recovery.

Interest rates: where to?

When the RBA held its official cash rate at 1.50 per cent at its July meeting, it represented the twenty third consecutive month of no change in Australia's key interest rate.

It had been expected by many that Australia would by now be following the US Fed's lead in hiking its key interest rate. This hasn't happened - and the likelihood of it doing so is retreating. There are a few reasons for this. First, wages growth has still not gathered legs despite the fact that job creation is so strong. Second, the general rate of inflation across the economy is subdued and steady. Next Wednesday's figures on inflation will confirm that this remained the case during the June 2018 quarter. Perhaps most significant of all, house prices are now falling in Australia's two largest cities after five years of significant growth. Since July 2017, house prices in Sydney are down by 6.4 per cent while those in Melbourne have eased back by 2.7 per cent. House price developments pack quite a punch in terms of confidence and demand in the economy. It's hard to see the RBA lifting rates before some sort of stability returns to home prices.

Further improvements in housing affordability

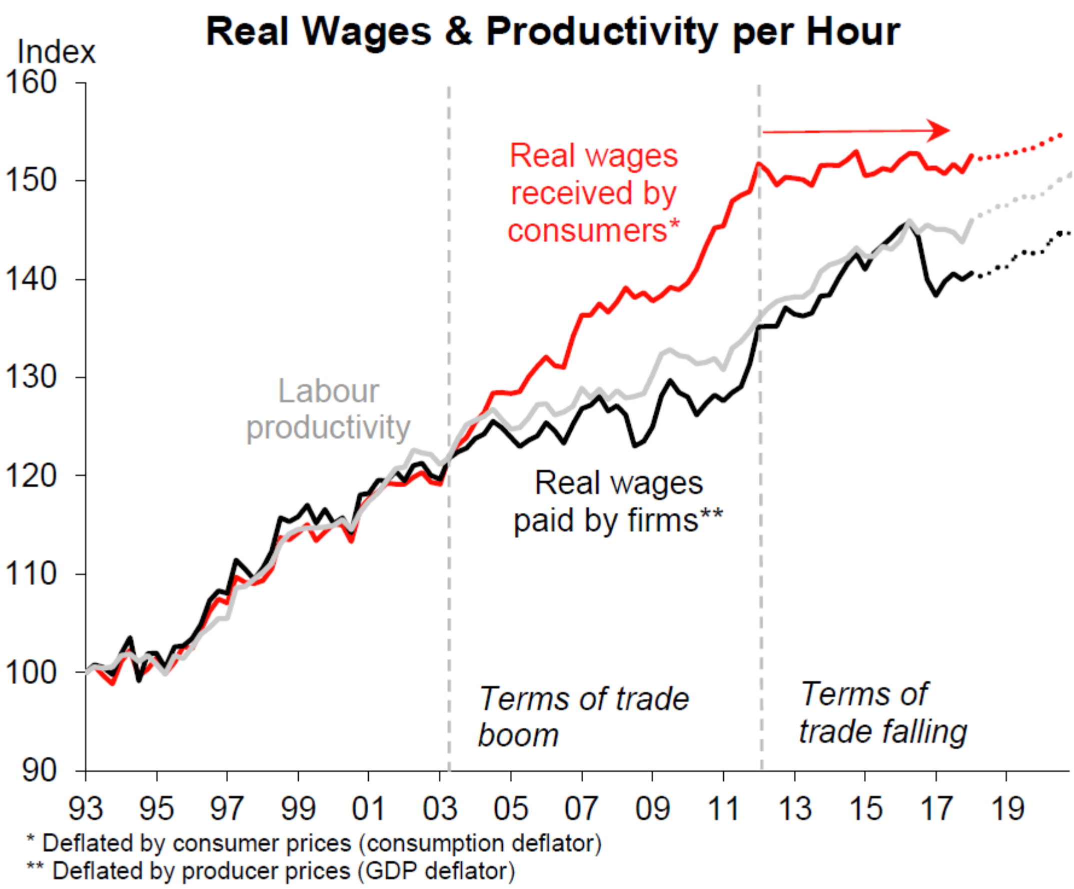
HIA's latest Affordability Report has just been released and the key take-away from it is that a small improvement occurred in this respect during the June 2018 quarter.

Housing affordability can best be gauged by assessing how much of the typical pay packet is eaten up by mortgage repayments. Across Australia, the mortgage on a dwelling purchased during the June 2018 quarter absorbs 40.1 per cent of average earnings. This represents a very slight improvement on a year earlier, when the mortgage repayment burden peaked at 40.4 per cent.

The slight improvement in affordability was driven by a few factors. Dwelling prices have been falling in both Sydney and Melbourne since last year. This obviously makes home purchase more financially accessible for those entering the market today. In addition, average earnings across the economy are estimated to have increased by 2.4 per cent over the past year. This is quite a subdued pace of wages growth by historic standards. Even so, a rise of any magnitude in pay packets helps affordability and this is also a positive.

Also in affordability's favour has been the interest rate environment. The RBA's official cash rate has been static at 1.50 per cent since August 2016 - the longest period of stability in decades.

As with the labour market, the situation with affordability varies from state to state. Over the past year affordability has improved in several key markets including Sydney (+3.3 per cent), Melbourne (+1.6 per cent) and Brisbane (+3.1 per cent). Perth is now the capital city where affordability is most favourable, followed by Darwin. This represents quite a turnaround: at the height of the mining boom, the cost of housing in both cities was more challenging than nearly everywhere else.



The fortnight ahead – key dates and releases (AEST)

Wednesday 25 July

ABS Consumer Price Index, Australia, June 2018 quarter, 11.30am

Thursday 26 July

HIA-CoreLogic Residential Land Report, March 2018 edition, 11.00am

Monday 30 July

HIA New Home Sales Report, June 2018, 11.00am

Tuesday 31 July

ABS Building Approvals, June 2018, 11.30am

Wednesday 1 August

CoreLogic Home Price data, July 2018

Trades Report, June 2018 quarter, 11.00am

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