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HD **Building boom likely to hit the buffers**

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Move over mining boom. Simeon Goldenberg, finance director of Icon **Group**, frets more about what will replace the wave of Asian capital chasing Melbourne and Sydney apartments.

Asian "safe haven" buying, fuelled by new limits on buying **property** in **China** and Canada, is holding up **residential** construction, despite a slowing economy and rising labour costs, he says.

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"There's a lot of talk about what replaces the mining boom. Well, there's this Asian boom going on as well, what's going to replace that?"

Construction and housing are likely to be among the sectors hit hardest by the expiry of the mining boom, work by economist Ross Garnaut and Victoria University's Centre of Policy Studies suggests. Fuelled by the boom, construction has grown at an annual rate of 4.3 per cent for a decade. But CoPS says the sector will hit the brakes and shrink at an annual 2.5 per cent from now to 2020, thanks to falling incomes and rising interest rates.

Icon builds apartments and offices in Melbourne, Sydney and Brisbane. Mr Goldenberg says **apartment** revenues in Melbourne have hit a ceiling, and while Sydney has been stronger, he expects revenues there to stall too. But labour costs continue to rise, Mr Goldenberg told The Australian Financial Review. Workers on Icon's sites earn more than his pharmacist wife, who studied for five years, or the teachers at his kids' school.

"There have been regulated wage rises in our sector year, on-year,on-year, on-year. It's basically half the construction contract going up regardless of what the economy's doing.

"I think we've got wage pressures, there's no doubt about it, so I think Garnaut is on the money with it."

Retail was also expected to take a hit. The CoPS modelling projects retail will grow at just 1.4 per cent a year until 2020, less than half the 2.9 per cent annual rate of the past decade.

But Myer chief executive Bernie Brookes is not losing much sleep over the warning. He says Australian retailers are already taking it on the **chin** from the surge in foreign entrants to our formerly isolated market, and on-line **purchases** from offshore e-tailers.

"I understand the modelling that you're quoting but I do think it is more a dismal view than an accurate view from my perspective." He said Australian non-food retailing grew 4.6 per cent a year since 2013, through the global financial crisis, some stockmarket corrections, and the Asian crisis.

In Britain, close to depression for several years after the financial crisis, non-food retail sales grew at an annual rate of 2.8 per cent in the same period.

"No matter what happens to wages, no matter what happens to mining booms [or] to the equity markets, you get some good years and some bad years," he said. "But generally, that 3 to 4 per cent net sales growth has been evident, and I don't expect that to change significantly going forward."

The CoPS modelling, presented to the inaugural meeting of the Melbourne Economic Forum on Monday, suggests real incomes will have to fall at 0.9 per cent a year until 2020 – and the dollar will have to drop by a fifth – for an orderly adjustment to the end of the mining boom.

David Gruen, chief Treasury forecaster, disputed the gloomy view on incomes, saying a productivity revival would keep wages growing slowly. But he agreed the dollar will fall, helping trade-exposed industries such as manufacturing, education and aviation.

Key points Construction predicted to shrink by 2.5pc a year for the next six years. Retail growth will be only 1.4pc a year, also to 2020.

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