

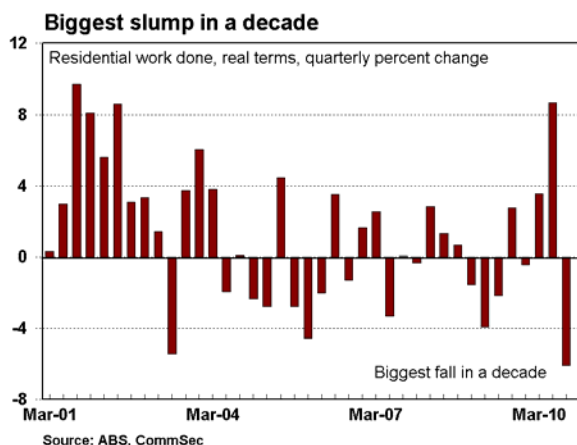
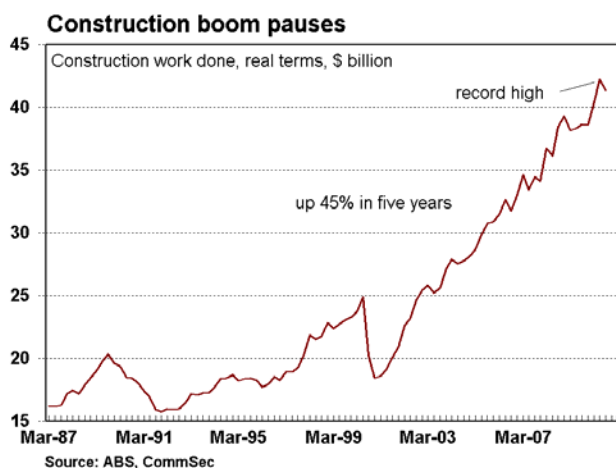
Biggest housing slump in a decade

Construction work done

- Construction work done fell from record highs, down by 2.1 per cent in the September quarter. In real terms the value of construction work done fell to \$41.4 billion in the September quarter.
- Residential building slumped by 6.1 per cent in the quarter – marking the biggest quarterly fall in nearly a decade. Private sector work fell by down 5.9 per cent CommSec estimates the slide in residential building will detract 0.2-0.3 percentage points to September quarter GDP growth
- The longer term outlook for commercial and residential construction is still positive. Construction work yet to be done stood at \$42.4 billion in the September quarter, down a modest 6.0 per cent from the record highs reached in the March quarter.
- CommSec estimates that overall construction costs rose by 0.7 per cent in the September quarter – marking the biggest rise in two years. In annual terms, construction costs are now up 1.4 per cent on a year ago.

What does it all mean?

- Well the good news could not last forever. After hitting record highs in the June quarter construction work has tapered off. It was only a matter of time given that the public sector propped up activity over the past year and is now easing back from the limelight. Looking forward the main question is when will the private sector step up to the plate?
- Residential construction was the clear driver of the weak overall result. Residential building slumped by over 6 per cent in the quarter – marking the biggest decline in just shy of a decade. The rapid fire rate hikes, hangover effect from the government stimulus coupled and considerable growth in property prices over the past year all contributed to the weakness in residential demand and activity.
- No doubt the improvement in economic conditions should support private sector activity in the medium term but at present it seems like businesses are happy to sit back and wait until the global recovery is confirmed. The anecdotal information suggests that businesses are dusting off investment plans that were mothballed during the global financial crisis but are unwilling to fully commit until further confirmation is evident of the recovery that is



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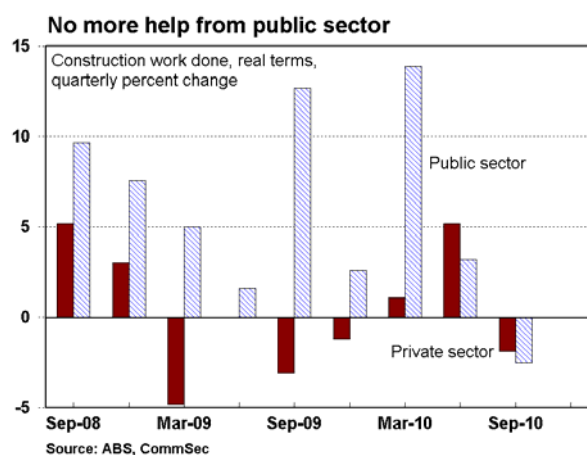
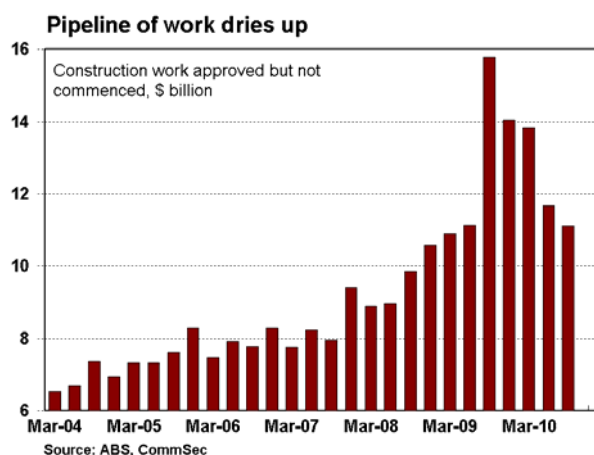
taking place.

- And that thought process has been confirmed in the latest round of data. Residential construction recorded significant weakness but it does not mean that going forward activity will fall in a heap. In fact there is a sizeable amount of work that has been approved but at present the private sector is unwilling to commit. Work yet to be done is holding at \$42.4 billion - only down six per cent from the record highs reached in the March quarter.
- Looking forward it is likely that private sector spending will continue to remain healthy over the coming year as businesses get back to focus on growth avenues and take on further investment. And more importantly the outlook for construction-dependent businesses is clearly buoyant with a near record \$44 billion of construction work remaining to be completed.
- Given the Reserve Bank is forward looking it is unlikely to be too concerned by the slide in construction activity especially because there is a healthy amount of work in the pipeline. However the recent rate rise is likely to put a dampener on activity in the near term. Given the slide in residential construction and overall weakness in activity it would be best if the Reserve Bank left interest rates on hold for a couple of months.
- The one area that will be closely watched by the Reserve Bank is the demand for labour and resources and if it does lead to higher costs, boosting inflation across the economy. Already construction costs are rising up by 0.7 per cent in the September quarter – the biggest increase in two years. In annual terms costs are up a modest 1.4 per cent on a year ago.



What do the figures show?

- **Construction work done** fell by 2.1 per cent in real (inflation-adjusted) terms in the September quarter. The June quarter result was revised higher from a rise of 3.5 per cent to a rise of 4.5 per cent. In real terms the value of construction work done fell from a record high of \$42.2 billion in the June quarter to \$41.4 billion in the September quarter.
- The slide in construction work was largely driven by the **public sector**. Public sector construction work fell by 2.5 per cent in the September quarter while **private sector** activity fell by 1.9 per cent.
- **Engineering** work fell by 1.4 per cent in the September quarter with private sector activity flat and public sector work down 3.7 per cent.
- **Commercial (non-residential) building** rose by 1.5 per cent with private sector work up 1.8 per cent **Residential building** slumped by 6.1 per cent in the quarter with private sector work down 5.9 per cent.
- Construction work rose the most in Tasmania (up 5.1 per cent), followed by ACT (up 3.0 per cent). Construction fell in the Northern Territory (down 11.5 per cent), South Australia (down 6.6 per cent), Western Australia (down 6.5 per cent), Victoria (down 2.5 per cent), Queensland (down 1.9 per cent), NSW (down 0.3 per cent)
- **The value of work yet to be done** eased by from record highs, down by 5.9 per cent to \$42.4 billion in the September.



- CommSec estimates that overall **construction costs** rose by 0.7 per cent in the September quarter – the biggest quarterly increase in two years. Construction costs are now up 1.4 per cent on a year ago.
- **Engineering costs** rose by 0.9 per cent in the September quarter (up 0.9 per cent annual). And **commercial and residential building costs** rose by 0.5 per cent in the September quarter, with costs rising by 1.9 per cent over the year.

What is the importance of the economic data?

- The Bureau of Statistics releases quarterly estimates of **Construction work done**. The estimates are based on a survey and cover around 80 per cent of the construction work done in the period. Revised estimates will be released in coming months. The data is useful largely for historical purposes but the work yet to be done estimates provide an early warning signal of future activity. The residential work figures give a good early guide to the strength of residential investment in the national accounts.

What are the implications for interest rates and investors?

- The outlook for construction industries is favourable – the key challenge being to keep cost pressures under control. Looking forward infrastructure projects, fast population growth and the booming mining sector will buoy activity in the longer term.

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