



ECONOMIC UPDATE **NOVEMBER 2019**

ONLINE VERSION



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Published 2 December 2019

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Overview

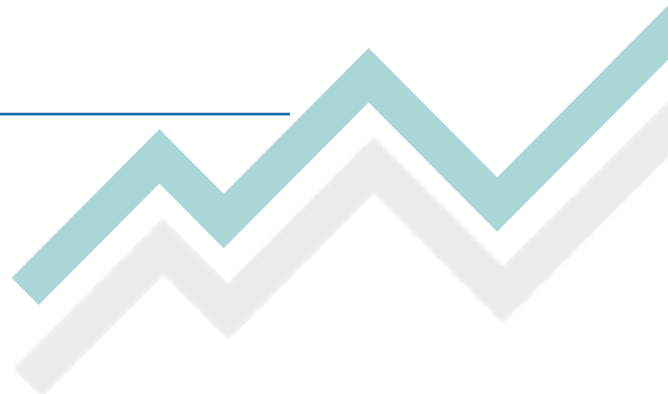
- The non-residential and civil sectors may not be able to absorb job losses in the residential sectors.
- The value of residential building approvals in South Australia has increased solidly over the year, but the number of approvals has fallen compared to a year ago. This divergence between the value of residential building and number of dwelling units being approved points to an increase in the average value of residential building approvals.
- Construction employment has held up well despite the downturn in activity, suggesting labour hoarding and diversification by employers.
- Access to finance remains a key barrier to activity in construction.

Positive Indicators

- South Australia has the lowest annual decline in building approvals of all states.
- Dwelling unit approvals have recorded their 8 consecutive monthly increase in trend terms.
- Non-residential building approvals in South Australia are 54% above their level of one year ago.
- Office vacancy rates are declining in South Australia.
- South Australia's big battery is being expanded by 50 per cent to help the state's electricity network transition to more renewable power sources

Negative Indicators

- Business confidence in South Australia has fallen to its lowest level on record according to the latest Business SA/William Buck survey.
- Economic growth in South Australia appears to be softening.





Building and Construction Indicators

Summary of ABS Indicators: South Australia

Monthly data (trend)	Latest month	Compared to previous month	Compared to a year earlier
Dwelling approvals (September 2019)	914	-0.4%	-2.8%
• Private houses	609	-1.3%	-3.5%
• Private 'other' dwellings	270	3.4%	-11.8%
Quarterly data	Latest quarter	Compared to previous quarter	Compared to a year earlier
Dwelling commencements (Jun qtr 2019, seas. adj.)	2,423	-0.9%	-18.6%
Construction work done (Sep qtr 2019, chain vol. seas. adj.)	\$2.9b	-5.0%	-6.1%
• Residential	\$0.8b	-1.3%	-8.8%
• Non-Residential	\$0.6b	0.7%	-5.4%
• Engineering	\$1.5b	-9.1%	-4.9%
Construction work in the pipeline (Jun qtr 2019, original)	\$6.4b	-5.9%	-29.6%
• Residential	\$2.7b	-3.1%	-3.2%
• Non-Residential	\$2.4b	-2.5%	-15.8%
• Engineering	\$1.2b	-16.8%	-63.2%
Construction industry employment (Year to Aug qtr 2019)	74,670	na	9.3%

Source: ABS data, various publications

ABS Building Approvals - September 2019, Cat. No. 8731.0 data - Analysis by CITB

South Australia Monthly data (trend)	Latest Month	Compared to a year earlier
Dwelling approvals (September 2019)	914	-2.8%
- Private houses	609	-3.5%
- Private 'other' dwellings ¹	270	-11.8%
Non-residential building approvals	\$270.5m	54.0%

Source: ABS Building Approvals data

- The total number of dwelling approvals in South Australia in September 2019 was 2.8% lower than a year ago. Nationally, the number of dwelling approvals was 21.1% lower than a year ago.
- The number of private sector houses approved for construction in South Australia fell by 1.3% during September to be 3.5% lower than a year ago.
- Private 'other' dwelling approvals in South Australia rose by 3.4% in September but were 11.8% lower than a year earlier.

¹ Other' dwellings includes semi-detached, town houses, units, and multi-storey apartments.

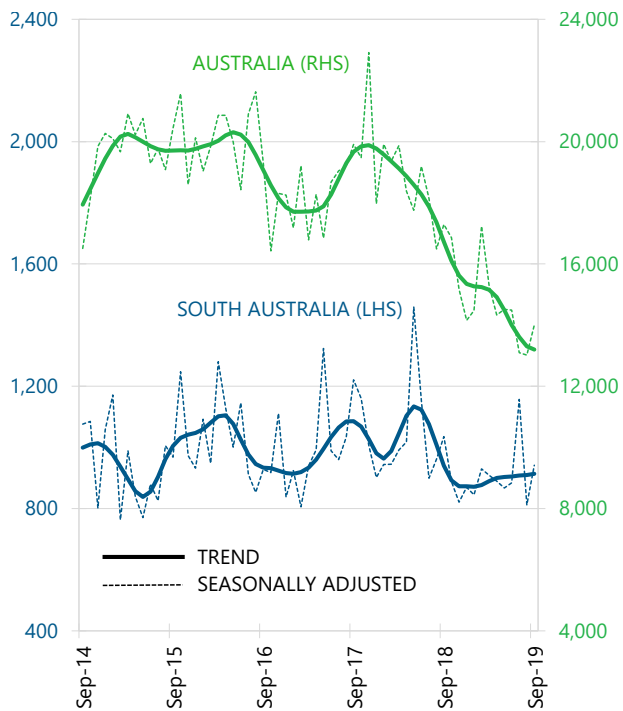
Table 1: Trend Dwelling Approvals by State

	Sep 19 (no.)	Sep 19 vs Aug 19 (% change)	Sep 19 vs Sep 18 (% change)
NSW	3,729	-5.4	-30.0
VIC	4,273	-4.0	-22.8
QLD	2,497	-2.3	-25.2
SA	914	+0.4	-2.8
WA	1,182	-2.4	-10.9
TAS	254	1.6	-4.5
AUS	13,199	-0.8	-21.1

Source: ABS Building Approvals data



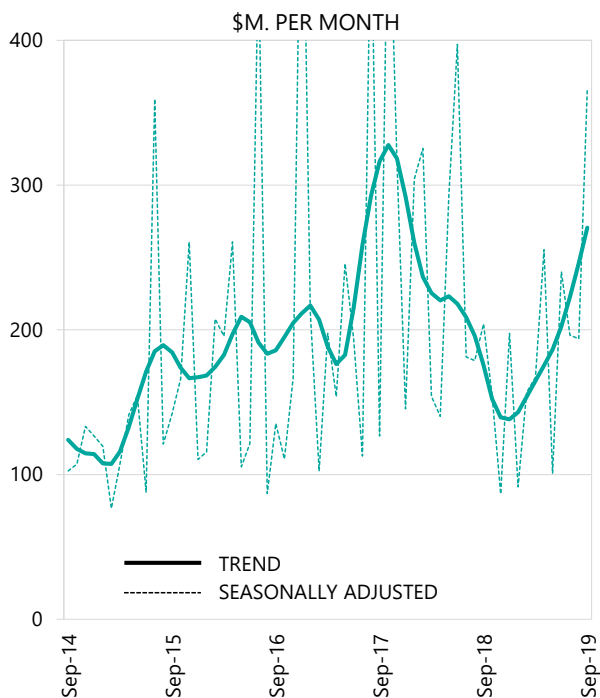
Chart 1: Total Number of Dwelling Approvals



Source: ABS Building Approvals data

- During September, the value of non-residential building approvals rose by 9.9% in South Australia, and increased 54% through the year.

Chart 2: South Australian Non-Residential Buildings Approved



Source: ABS Building Approvals data



Other Commentary on Building and Construction Indicators

- There is evidence of a “gentle turning point” in the national housing sector – see Chart 3 below:

Chart 3: Relationship Between Housing Finance and Building Approvals, Australia



Source: ABS, ANZ Research

South Australian Centre for Economic Studies Data Wrap 4 November 2019

- The value of building approvals for South Australia has rebounded strongly over the past year, although digging deeper into the latest ABS data reveals some **ongoing weakness** in the residential building sector.
- The **value** of total building approved rose by 6.1 per cent in September 2019, in trend terms, and was up 30 per cent compared to a year ago. However, the value of approvals was still 9 per cent below the previous peak reached in October 2017.
- The lift in building approval **values** over the past year was mainly driven by a strong rise in approvals of **non-residential buildings** (up 54 per cent), while approvals of residential buildings also rose solidly (up 14 per cent). It is worth noting that non-residential building tends to be quite lumpy in nature, so large ebbs and flows in non-residential approval activity are not uncommon.
- While the recent rise in the **value** of residential building approvals is heartening, such strength is not apparent in the **number** of dwelling units being approved. In spite of recording their eighth consecutive monthly increase in September 2019, the total number of dwelling units approved in South Australia was still down 2.8 per cent compared to a year earlier and remained at a below average level by the standard of recent years.
- The recent divergence in performance between the value of residential building and number of dwelling units being approved points to an increase in the average value of residential building approvals, which could in part be explained by compositional changes in the types of residential building structures being approved.

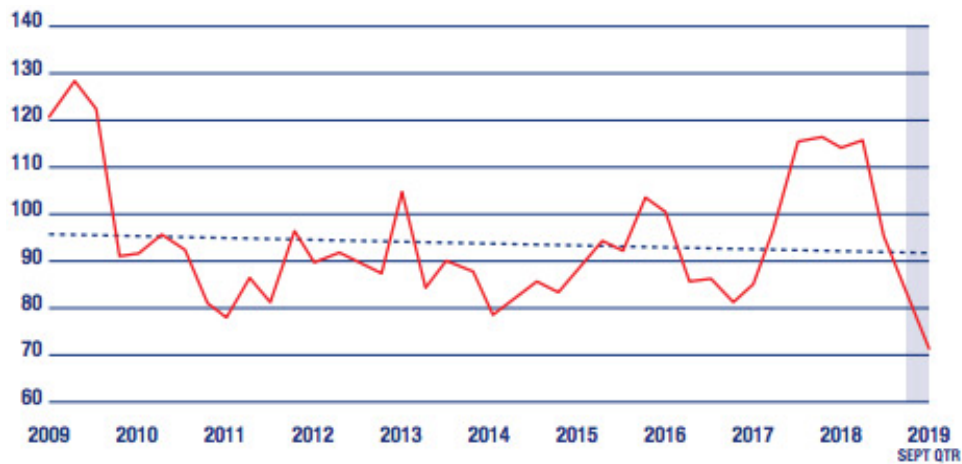


Business SA - William Buck Survey of Business Expectations

Source: [InDaily](#)

- Business confidence in South Australia has plummeted to a record low of 71.6 points in the three months to the end of September 2019.

Chart 4: 10 Year Business Confidence South Australia 2009 - 2019



Source: InDaily, from Business SA William Buck Survey of Business Confidence.

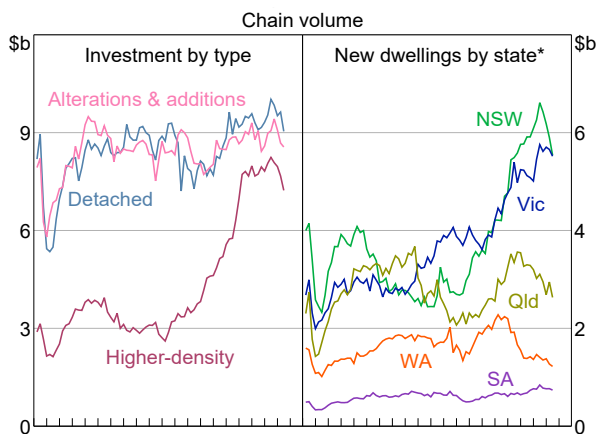




Reserve Bank of Australia - Statement on Monetary Policy November 2019 (Australia)

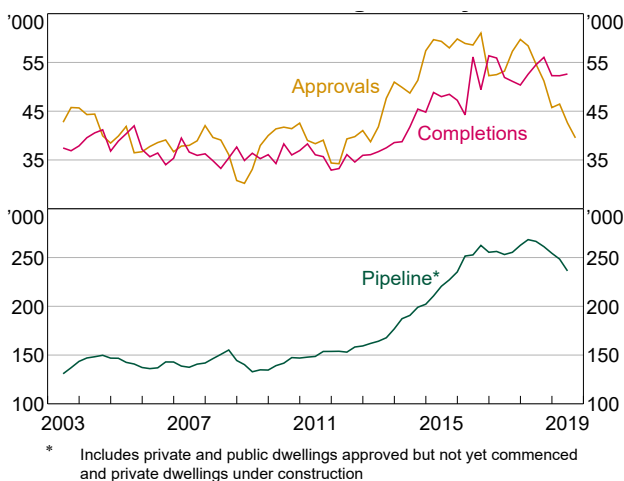
- To date, the decline in dwelling investment nationally has been much smaller than the decline in building approvals because a large volume of dwellings is still under construction.
- Completions of existing projects are expected to outpace approvals of new dwellings for some time.

Chart 5: Dwelling Investment Australia



Source: Chart reproduced from RBA, Statement of Monetary Policy, November 2019

Chart 6: Private Dwelling Activity Australia



Source: Chart reproduced from RBA, Statement of Monetary Policy, November 2019

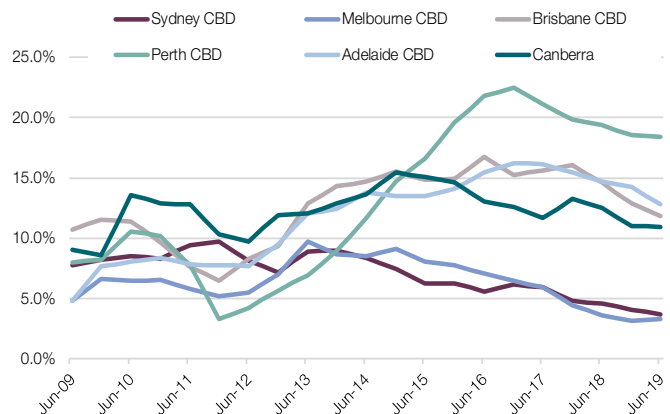
- There is little evidence of a pick-up in the early stages of residential development activity nationally. Developers in the Bank's liaison program report that improved market sentiment has yet to translate to much of an increase in sales. The trough in dwelling investment is expected to occur in late 2020, before a recovery in residential construction gets underway through 2021. The pick-up in dwelling investment over 2021 has been upwardly revised, partly reflecting the stronger-than expected increase in established housing prices.

Savills Research

Sourced from:

- [Savills Research - Quarter Time National Office Q3, 2019](#)
- [Savills Research - Quarter Time Industrial Q3, 2019](#)
- [Savills Research - Quarter Time Retail Q3, 2019](#)

Chart 7: Office Vacancy Rates by City



Source: PCA, Savills Research

- Adelaide vacancy rates are in decline with the biggest changes in the A grade sector and large tenant markets, whilst the C & D Grade sectors remain in limbo.
- Vacancy within the Adelaide CBD office market has been falling since mid-2018 and fell further over the first half of 2019, reaching a five year low of 12.8% (down from 14.3% in December 2018).
- Demand coming from the defence, information technology, education and mining sectors has helped to keep demand for quality office space healthy, combined with withdrawals of 7,074sq m over the first half of the year attributed to the decline in vacancy. Savills are now beginning to see national tenants consider Adelaide as a cost-effective base.
- Investment in Adelaide remains attractive to many funds due to its yields relative to the eastern states and the stable long-term capital growth. Adelaide does not experience the volatility of other boom or bust economies and coupled with the often government guaranteed rental income, it is seen as a safer haven at a time of global instability.

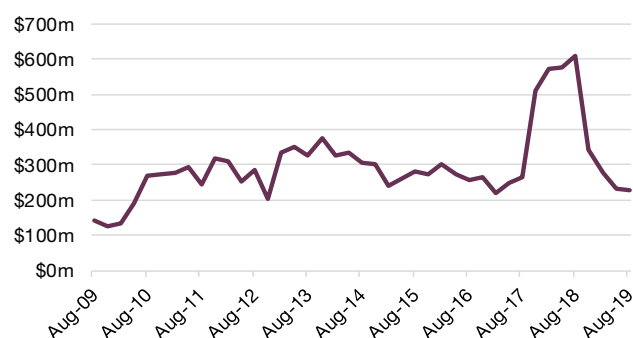


Table 2: Major Construction Projects (Office) — South Australia

Building Address	Dev Stage	NLA (sq m)	Exp. Comp	Precinct	Tenants
Precinct GPO, Tower 2, 2-10 Franklin St	UC	24,690	2019	Core	State Govt (Attorney Generals Dept.), BHP (Including naming rights)
42-56 Franklin St	DA	21,000	2021	Core	
73-85 Pirie Street	DA	30,000	2021	Core	
200 North Terrace	DA	25,635	2021	Core	Le Cordon Bleu
108 Wakefield St	UC	14,880	2021	Core	
Precinct GPO, Tower 1, 145-149 King William St	DA	15,307	2022	Core	
322 King William St	Deferred	11,550	2022	Core	
185 Pirie St	PS	6,300	2023	Core	
Festival Plaza, Station Rd	DA	40,000	2023	Core	

Source: Savills Research, Cordells; UC = Under Construction, DA = Development Approved, EP = Early Planning, PS = Plans Submitted

Chart 8: South Australian Retail Development Approvals



Source: Chart reproduced from Savills Research, Quarter Time Retail, Q3, 2019

- Excluding commenced projects such as the Port Canal Shopping Centre and Kaufland Prospect, South Australia has seen a considerable decline in retail development, with Development Approvals falling 62.5% from \$608 million in 2018 to September 2019 at \$228 million. Savills believe this lack of construction is due to low population growth rather than confidence in the market at present

Table 3: Major Retail Construction Projects — South Australia

The table below summarises some of the major upcoming and planned development projects in SA.

Centre	Centre Type/ Dev't Stage	Refurb./ Redev.	Addition	New	Estimated Completion
Port Canal Shopping Centre	NH / UC	13,361	-	11,712	2020
58 Commercial Street, East Mount Gambier	NH/UC	-	-	7,200	2020
The Promenade Shopping Centre Super	MU / DA	-	-	5,966	2020
Flagstaff Hill Neighbourhood Centre	NH / DA	-	-	9,317	2021

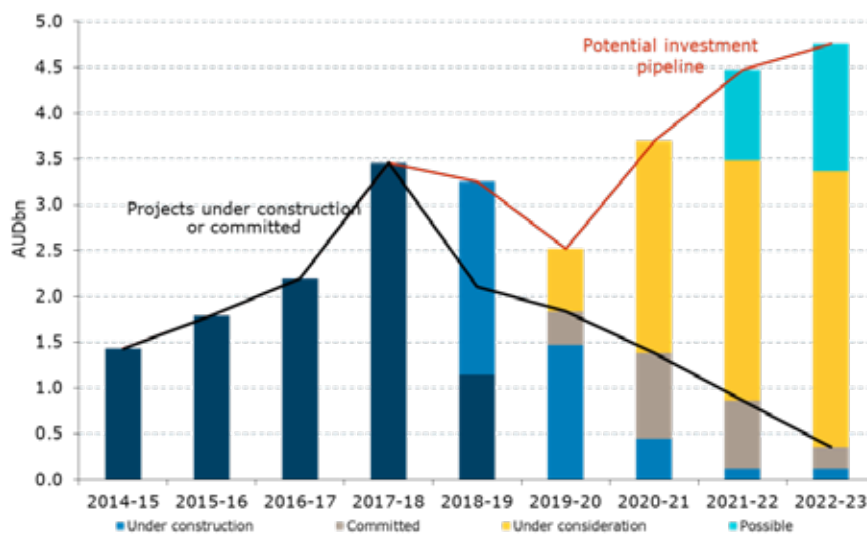
Source: Savills Research, Cordells; UC = Under Construction, DA = Development Approved, EP = Early Planning, * = Assumes 90% efficiency factor. LF = Large Format; NH = Neighbourhood; R = Regional; SR = Sub-Regional; CC = City Centre, F = Freestanding, S = Shops, MU = Mixed Use



ANZ Stateometer, September Quarter 2019

- There is a **short-term lull** in major project activity in South Australia: sections of the North-South Corridor have been completed, creating a soft spot in major project activity, but from 2022-23 the final two sections get underway.
- Further defence spending is also on the horizon and \$400 million in public road project funding has been brought forward. A new \$1.8 billion Women's and Children's Hospital is also planned.

Chart 9: South Australian Major Projects in Pipeline



Source: Chart reproduced from ANZ Stateometer, November 2019

Sourceable.net: [‘SA’s big battery set for 50pc expansion’](#)

- South Australia's big battery is being expanded by 50 per cent to help the state's electricity network transition to more renewable power sources.
- The project will receive \$50 million from the federal government's green bank, \$8 million from the Australian Renewable Energy Agency and \$3 million from the South Australian government.
- The Hornsdale Power Reserve – already the world's biggest battery – was built by Tesla and is owned by Neoen Australia.
- The expansion will increase the battery's size from 100 megawatts to 150 megawatts.
- Clean Energy Finance Corporation CEO Ian Learmonth says grid-scale batteries will be a critical part of the next wave of investment to help support the changing electricity network.

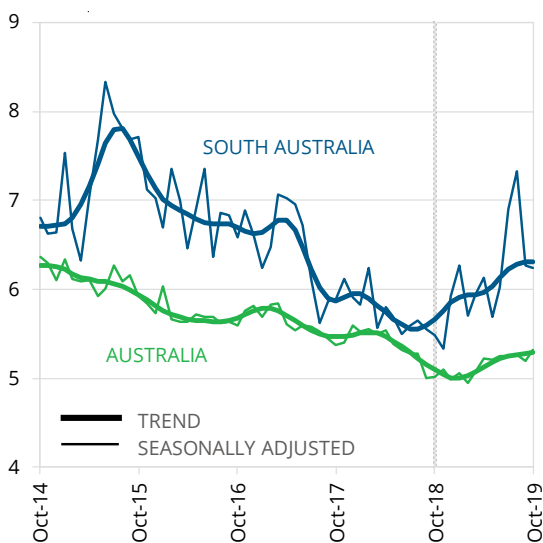


Employment and Unemployment Related Indicators

ABS Labour Force Australia, October 2019 – Cat. No. 6202.0 (analysis from Department of Treasury and Finance)

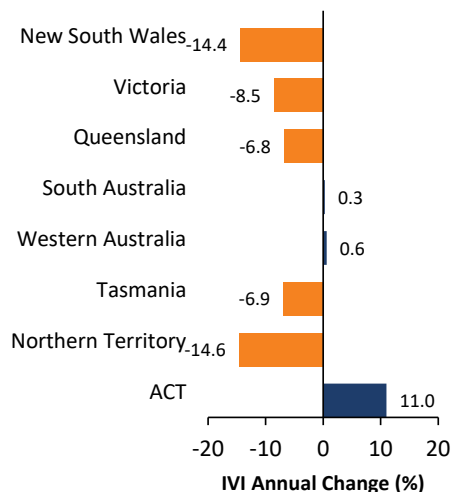
- During October, the unemployment rate: was 6.3% in South Australia in trend terms (5.3% nationally); and was 6.2% in South Australia in seasonally adjusted terms (5.3% nationally).
- Though the year trend employment growth was 0.8% for South Australia and 2.1% nationally.

Chart 10: South Australia: Unemployment Rates (1%)



Vacancy Report – October 2019, Australian Government Department of Employment, Skills, Small and Family Business

Chart 11: IVI Annual Change by State/Territory (%)



- Nationally, in trend terms, the Internet Vacancy Index (IVI) decreased by 8.5% over the year to October 2019. For South Australia, there was a slight increase over this period of 0.3%

Source: Chart reproduced from [Labour Market Information Portal, Australian Government](#)



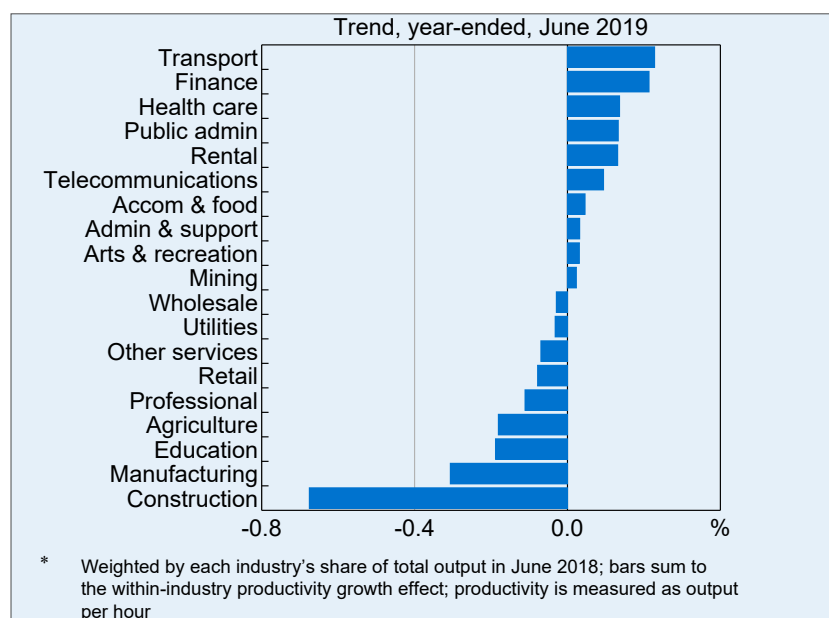
Reserve Bank of Australia – Statement on Monetary Policy November 2019 (Australia)

- Employment grew by around 90,000 in the September quarter 2019 nationally. Employment has increased at an annualised rate of around 2½ per cent over the past three years, and the employment-to-population ratio is at its highest level since 2008.
- Both full-time and part-time employment have contributed in roughly equal parts to employment growth over the past six months, although full-time employment has accounted for most of the growth over the past few years.
- Strong employment outcomes have occurred **despite weaker growth in economic activity** from mid-2018 as well as softer signals from leading indicators of labour demand.
- Construction employment vacancies declined a little over the three months to August and information from the Bank's liaison program shows that employment intentions for firms exposed to residential construction **are weak**.
- The noted fall in productivity growth in the construction industry reflects larger-than-expected declines in dwelling investment at the same time as hours worked in the

industry have increased, though at a slowing pace. Since its peak in the September quarter of 2018, residential building investment has fallen by almost 10 per cent.

- A possible explanation here is that there has been more than the usual degree of labour hoarding in the construction industry. For example, in the most recent cycle, larger construction firms may have decided to hold onto employees in the expectation that residential construction activity will pick up again in the near future as underlying demand outstrips new home building.
- At the same time, small businesses (0–20 employees) in the construction sector – which comprise 70 per cent of the industry's total employment – may have opted to focus on other aspects of the business in response to the cyclical downturn in residential construction rather than exiting the industry altogether

Chart 12: Weighted Change in Productivity Growth, **Australia**



Source: Chart reproduced from RBA, Statement of Monetary Policy, November 2019

Commentary on General Economic Conditions

Savills Research –Quarter Time National Office Q3, 2019

Table 4: Summary of State Economic Indicators

Key State Indicators (%)	Latest	NSW	VIC	QLD	WA	SA	ACT	AUS
SFD / GDP Growth	Jun-19	2.2 (2.9)	3.4 (3.3)	1.1 (1.8)	-1.1 (1.2)	1.6 (1.9)	3.0 (2.7)	2.0 (2.6)
Population Growth	Mar-19	1.4 (1.4)	2.1 (2.1)	1.8 (1.7)	1.0 (1.6)	0.9 (0.9)	1.7 (1.9)	1.6 (1.6)
Employment Growth	Aug-19	3.3 (2.0)	3.2 (2.4)	2.0 (1.4)	1.3 (1.5)	1.5 (0.8)	1.9 (1.6)	2.5 (1.8)
Unemployment Rate	Aug-19	4.4 (5.2)	4.7 (5.6)	6.2 (6.0)	6.1 (5.2)	6.2 (6.1)	3.5 (3.9)	5.1 (5.5)
CPI (Inflation)	Jun-19	1.7 (2.2)	1.3 (2.2)	1.7 (2.1)	1.6 (1.8)	1.4 (2.1)	1.7 (2.0)	1.6 (2.1)
Job Ad Growth - Total	Aug-19	-6.2 (0.4)	-0.3 (0.7)	-3.5 (-3.3)	3.2 (-2.3)	0.0 (-4.2)	5.1 (2.1)	-2.5 (-0.9)
Job Ad Growth - Office	Aug-19	0.2 (0.6)	4.2 (1.5)	7.0 (-2.4)	9.4 (-3.2)	10.0 (-1.2)	3.7 (1.5)	4.0 (-0.2)

Source: ABS, DEEWR, RBA. Note: 12 month change shown in brackets. Source: ABS, Savills Research

Savills Research – Quarter Time Retail Q3, 2019

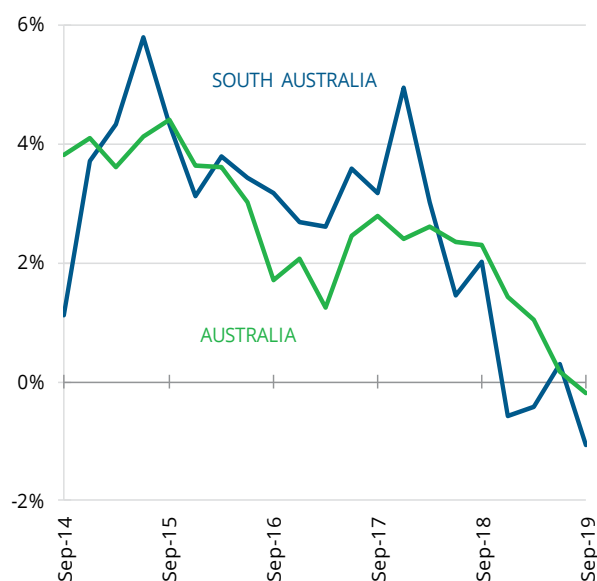
Source: [Savills](#)

- Both the Australian Government and the Reserve Bank of Australia are providing stimulatory economic conditions to promote business and consumer sentiment.
- From a retail turnover perspective, recent ABS data shows that tax refunds from the government are only slowly being put to work, and are not having a meaningful impact, with evidence that debt is being repaid instead.
- Higher levels of owner-occupier mortgage debt is impeding household spending. This has impacted retail spending and highlights the RBA's stance on an aggressive rate cut policy.
- Recent tax cuts are yet to be felt through the economy, but as with interest rate movements, the lag can take up to 2 years.

ABS Retail Trade Data – September 2019, ABS Cat. No. 8501.0 (analysis by Department of Treasury and Finance)

- In addition to the monthly release of nominal retail turnover data, the ABS has this month also released chain volume retail turnover data for the September quarter 2019. Chain volume ('real') data removes the effect of price movements, and therefore provides a measure of the volume of retail trade.
- Compared with a year earlier, seasonally adjusted real retail turnover was 1.1% lower in South Australia and 0.2% lower nationally.

Chart 13: Through Year Growth in Real Retail Turnover — Seasonally Adjusted



Source: Chart reproduced from Department of Treasury and Finance, Economic Briefs.



Reserve Bank of Australia – Statement on Monetary Policy November 2019 (Australia)

- Over the past year, growth in the Australian economy has been slow because of soft consumption growth and declines in housing activity and business investment.
- Conditions in the established housing market have improved and employment growth has remained strong. Recent monetary policy easing and the tax offset will support growth in household disposable income in the second half of 2019.
- The outlook for the Australian economy is little changed since the August Statement. Gross Domestic Product (GDP) growth over the first half of 2019 was stronger than it was over the second half of last year and recent data have been consistent with a continuation of moderate growth. The labour market and inflation forecasts are also little changed although wage growth is no longer expected to pick up.
- Recent partial indicators point to moderate GDP growth in the September quarter and a similar outcome is forecast for the December quarter, resulting in year-ended growth of 2¼ per cent over 2019.
- One near-term downside risk to the Australian economy is housing construction activity. A larger-than-expected contraction in dwelling investment could delay the gradual improvement in GDP growth. Further out, the outlook is more balanced. A lagged response to rising housing prices and a period of low building activity means that dwelling investment would be stronger in the medium term than currently expected.
- Year-ended growth is forecast to increase to 2¾ per cent over 2020 and around 3 per cent over 2021, supported by the low level of interest rates, recent tax cuts, ongoing spending on infrastructure, the upswing in housing prices in some markets and a brighter outlook for the resources sector.
- Dwelling investment is expected to subtract from GDP growth for several quarters, though this drag is expected to diminish through 2020, and subsequently return to making a positive contribution to growth.

ABS Gross State Product 2018-19, ABS Cat. No. 5220.0 (analysis by Department of Treasury and Finance)

- During 2018-19:
- South Australia's gross state product (GSP) rose 1.4% in chain volume (real) terms (nationally, gross domestic product (GDP) rose 1.9%).
- This followed upwardly revised GSP growth of 2.3% in the previous financial year (2.9% nationally).
- South Australia's GSP growth of 1.4% in was the equal fifth highest rate of growth of the states and territories.
- In terms of Industry Gross Value Added (GVA), construction experienced growth of 2.3% over the year in South Australia, compared with a decline nationally of -3.4%. Across all industries, annual growth in GVA in South Australia was 1.1%.

ANZ Stateometer, September Quarter 2019

- The ANZ Stateometer showed a turn in the economies of many of Australia's states and territories in the September quarter, marking a positive – albeit mild – change. New South Wales, Tasmania, Western Australia and the Northern Territory all shifted from the left to right of the Stateometer grid, indicating a move from deceleration to acceleration for half of the national economy. Only the small states of South Australia and the Australian Capital Territory (together contributing 8% of GDP) recorded above-trend growth. So, overall, Australia continued to grow at a below-trend pace.
- South Australia remained above trend, but momentum waned in the quarter. Housing and trade were strong points. Business was slightly less negative. The consumer component weighed, and the labour market weakened.

NB: Population Estimates

No updates available since last report. Next update: 19 December 2019

Notes



THE FUTURE IS YOURS TO BUILD

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