



ECONOMIC UPDATE **OCTOBER 2019**

ONLINE VERSION



Supporting the South Australian Building & Construction Industry & Workforce

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Overview

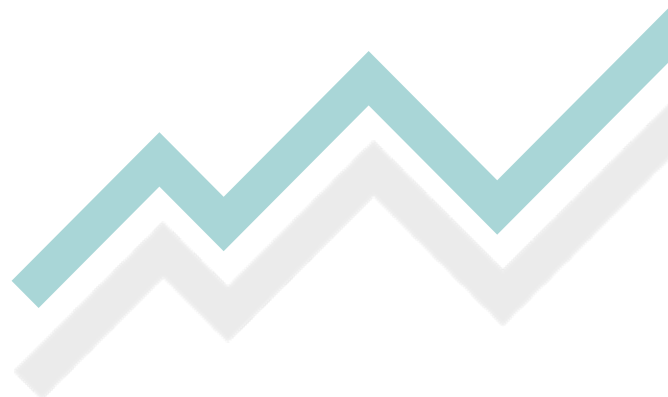
- South Australia's housing sector is still being dragged down by weakness in apartments activity.
- Non-residential building activity in South Australia appears to have bottomed out.
- South Australia remains the 6th ranked state across a number of indicators according to the State of the States report.

Positive Indicators

- BIS Oxford Economics suggests that business investment in South Australia is driving a more positive outlook.
- Non-residential building approvals appear to have bottomed out in South Australia and a rebound is projected for 2019-20.
- According to the Bank SA's State Monitor, business intention to expand and grow jobs in the immediate future has increased for the second survey in a row.

Negative Indicators

- Significant drop in business confidence in South Australia.
- Most building and construction indicators are trending lower than a year ago.
- Total employment in South Australia has stopped growing over the past 5 months.
- According to the Bank SA's State Monitor, "consumer confidence in South Australia has followed a downward national trend and fallen to a record low".





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 (August 2019)	893	-0.9%	-11.4%
• Private houses	619	-1.6%	-3.3%
• Private 'other' dwellings ¹	244	0.0%	-33.0%
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 (June qtr 2019, chain volume seas. adj.)	\$2.9b	-4.8%	-11.3%
• Residential	\$0.8b	-4.8%	-12.3%
• Non-Residential	\$0.6b	1.0%	-5.1%
• Engineering	\$1.5b	-6.9%	-13.1%
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

ABS Building Approvals - August 2019, Cat. No. 8731.0 data - analysis by CITB and Department of Treasury and Finance

South Australia Monthly data (trend)	Latest Month	Compared to a year earlier
Dwelling approvals (August 2019)	893	-11.4%
- Private houses	619	-3.3%
- Private 'other' dwellings	244	-33.0%
Non-residential building approvals	\$195.9m	0.0%

Source: ABS - Cat No. 8731.0

- The total number of dwelling approvals in South Australia in August 2019 was 11% lower than a year ago. Nationally, the number of dwelling approvals was 26% lower than a year ago.
- The number of private sector houses approved for construction in South Australia fell by 1.6% during August to be 3.3% lower than a year ago.
- Private 'other' dwelling approvals in South Australia remained unchanged during August but were 33% lower than a year earlier.

Table 1: Trend Dwelling Approvals by State

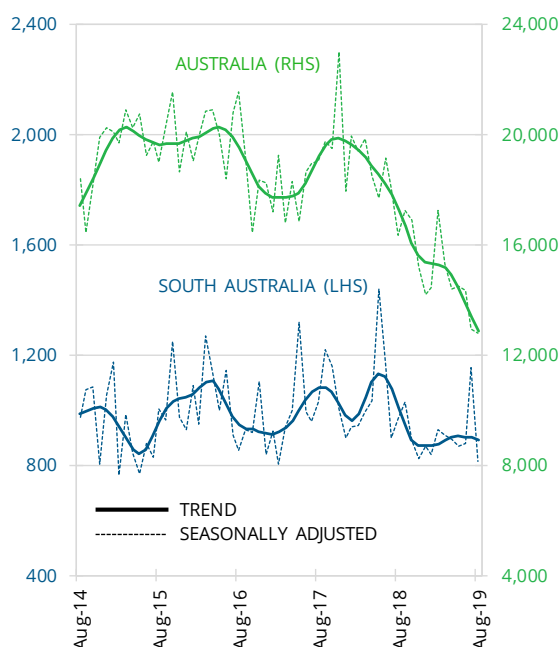
	Aug 19 (no.)	Aug 19 vs Jul 19 (% change)	Aug 19 vs Aug 18 (% change)
NSW	3,687	-5.4	-30.0
VIC	4,153	-4.0	-22.8
QLD	2,415	-2.3	-25.2
SA	893	-0.9	-11.4
WA	1,252	-0.2	-9.2
TAS	237	-0.4	-8.8
AUS	12,864	-3.9	-25.6

Source: ABS data, reproduced from Department of Treasury and Finance, Economic Briefing.

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



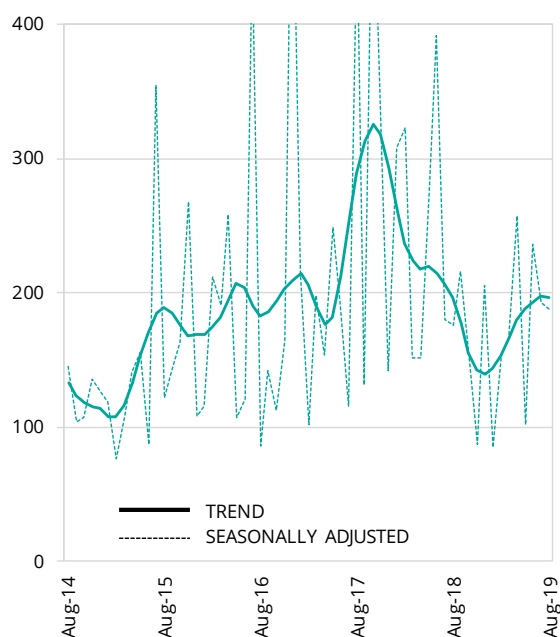
Chart 1: Trend Dwelling Approvals by State



Source: ABS - Cat No. 8731.0

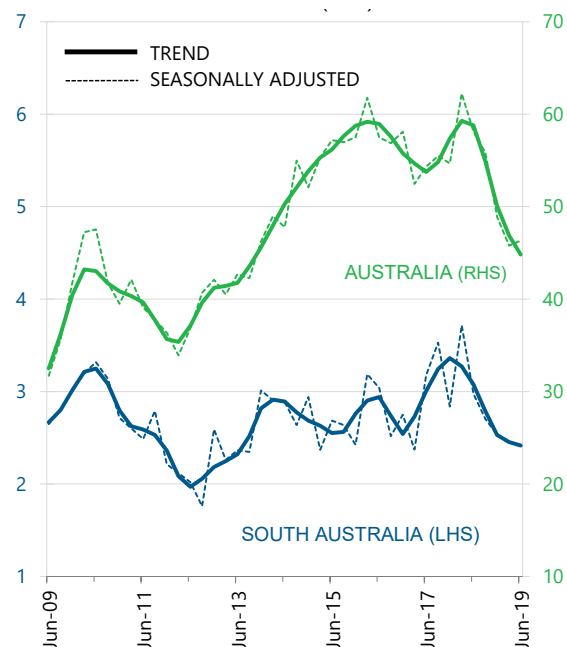
- During August, the value of non-residential building approvals fell by 0.8% in South Australia but was unchanged through the year.

Chart 2: South Australian Non-Residential Buildings Approval



Source: ABS - Cat No. 8731.0

Chart 3: Quarterly Dwelling Unit Commencements

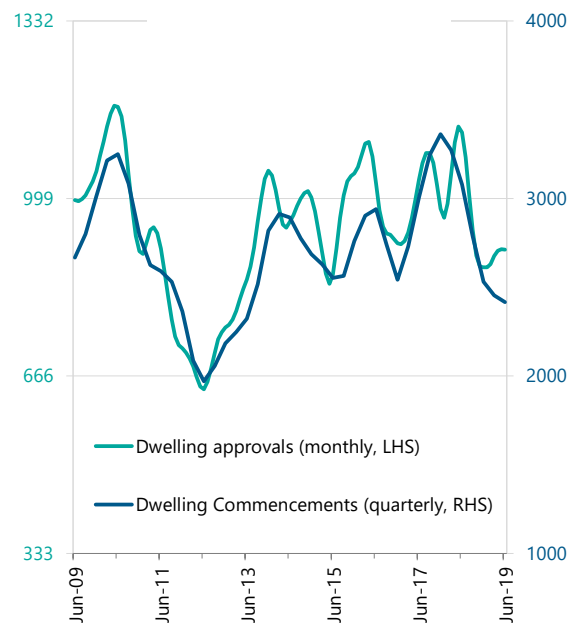


Source: ABS - Cat No. 8752.0

ABS Dwelling Unit Commencements - June Quarter 2019, Cat. No. 8752.0 data - analysis by CITB

- During the June quarter 2019, the number of dwelling unit commencements: fell 0.9% in South Australia in seasonally adjusted terms and were 18.6% lower than one year ago.

Chart 4: South Australian Non-Residential Buildings Approval



Source: ABS data (various issues)



Analysis of ABS Construction Work Done June Quarter 2019, Cat. No. 8755.0

No updates available since last report. Next data release (September quarter 2019) on 27 November 2019.

Other Commentary on Building and Construction Indicators

South Australian Centre for Economic Studies Data Wrap 17 October 2019

- Revised estimates of building activity released by the ABS confirmed that residential building activity has been easing in South Australia. The value of residential building work done fell by 5.0 per cent in the June quarter 2019 in real seasonally adjusted terms, and was down 14 per cent from their peak level reached in the June quarter 2018.
- Looking forward, the latest ABS data on home lending activity suggests that residential building activity will continue to slow in the short term. The total number of loans for the construction or purchase of new homes by owner occupiers in South Australia in the three months to August 2019 was down 3.9 per cent compared to the corresponding period a year earlier. However, home lending activity has held up better compared to national performance, with the number of loans for new home construction or purchase in Australia down 13 per cent over the same period.

ANZ/Property Council Survey - December Quarter 2019

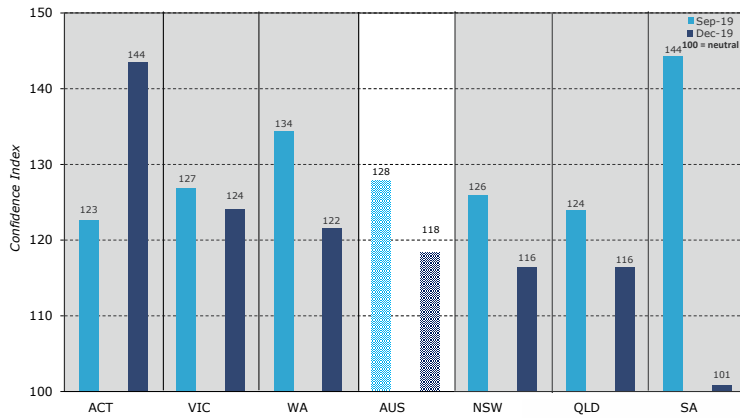
- The ANZ-Property Council Survey for the December quarter shows a decline in sentiment in Australia's property sector nationally. The decline was driven by a fall in commercial property sentiment. Sentiment in the residential sector rose strongly for a second quarter.
- Signs of recovery in the residential property market have been emerging for some months now, with sentiment turning around convincingly in May. Since then auction clearance rates have picked up sharply, prices have been rising strongly now in Sydney and Melbourne for two months, and housing finance is starting to pick up. Interest rate cuts (both actual and anticipated), and regulatory easing have been key drivers of this turnaround.
- The improvement in residential confidence was concentrated in the eastern states, while confidence in South Australia and Western Australia fell.
- The decline in sentiment in the commercial property sector, while not sharp, continues the downward trend evident since mid-2018. Marked weakness in retail is clearly weighing on the overall commercial sector, while concerns over land tax reform appear to have dampened sentiment in South Australia.

South Australia

- In South Australia sentiment was much weaker across all sectors (office, industrial, retail, tourism, retirement living), and on all metrics (construction, price expectations, forward orders, employment), with proposed reform of land taxes most likely impacting sentiment.
- Business confidence in South Australia is significantly lower today than it was following the 2016 statewide blackout.
- According to the ANZ/Property Council Survey, statewide confidence has decreased from 144 to 101 for the December quarter – the largest national quarterly decrease on record.
- This represents South Australia's lowest confidence level since 2012 and comes only 18 months after the Premier formed Government at the last State Election.
- South Australia's confidence levels have been nation-leading for the past six quarters, but following the recent State Budget, confidence has deteriorated by 43 points."
- South Australia's quarterly deterioration of 43 points was the largest drop on record behind SA's 20-point decrease in 2014 and Queensland's 17 point drop in 2014.
- State economic growth expectations. Worst result in nation, quarterly decrease of 45 points, worst result since March 2014.
- State Government performance index. Second worst result on record (-27.4), worst result since March 2016 quarter (-27.7), quarterly decrease of 48 points.
- Forward work schedule expectations. Second worst result on record (14.7), worst result since December 2011 quarter (13), quarterly decrease of 44 points, dropped from nation's best to worst in one quarter.



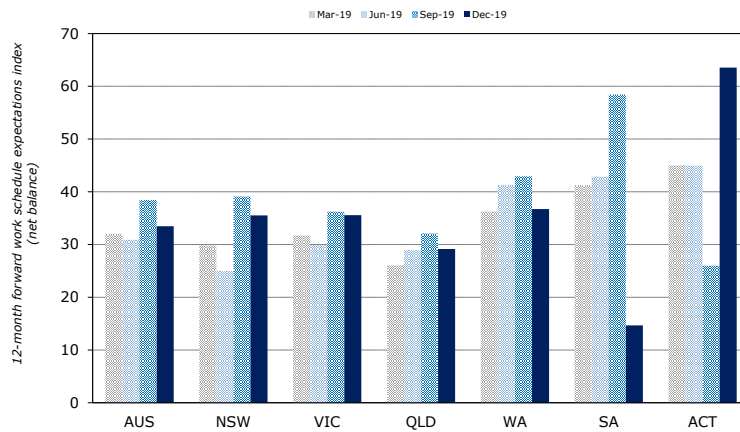
Chart 5: ANZ/Property Council Survey - December 2019



Source: ANZ/Property Council

Chart 6: Forward work schedule expectations

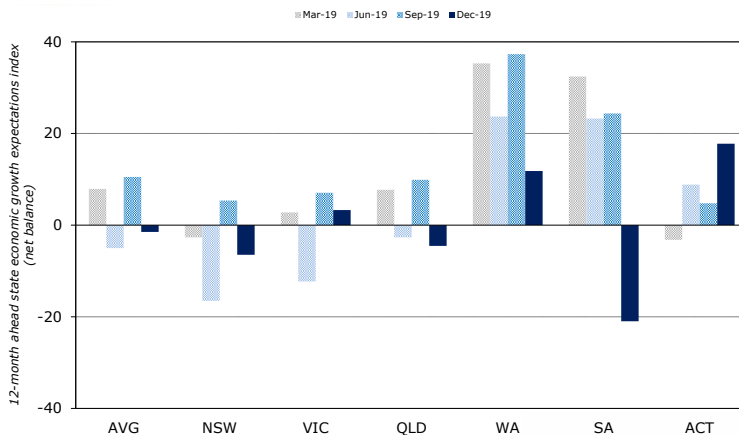
Over the next 12 MONTHS in the state you primarily operate, will your forward work schedule:



Source: ANZ/Property Council

Chart 7: State economic growth expectations

Over the next 12 MONTHS in the state you primarily operate, will economic growth be:

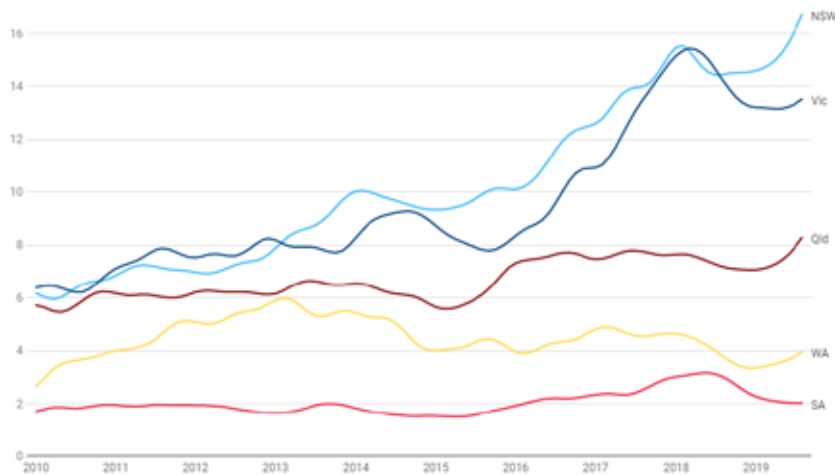


Source: ANZ/Property Council



[Monitor your investment pipeline using non-residential buildings approvals' .id Blog 17/10/19](#)

Chart 8: Investment pipelines varies state to state
Non-residential Building Approvals Trend
(\$ billion, 12 Months Moving Average)

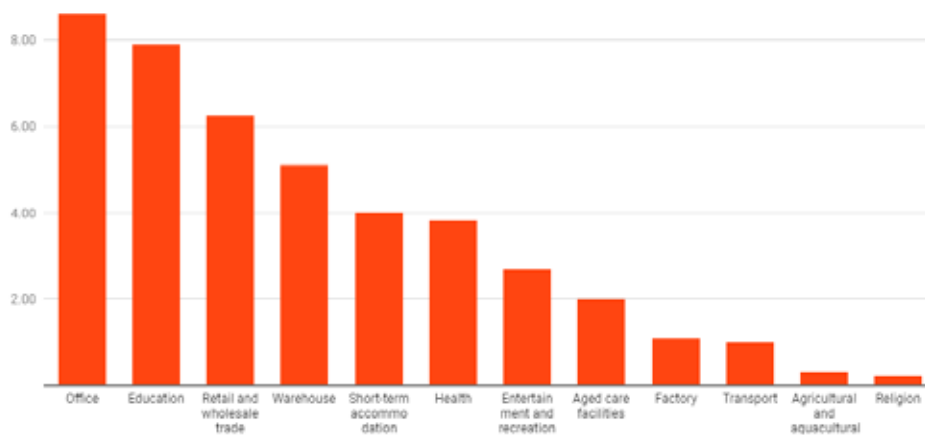


Source: ABS, 8731.0, TABLE 41. Value of Non-residential Building Approved - States and Territories

Chart 9: South Australia

Pipeline driven by office and education buildings. But the story changes from state to state.

Annual Non-residential Building Approvals as at August 2019 by State and Building Types (\$ billion, 12 Months Moving Average)



Source: ABS, 8731.0, TABLE 51-59. Value of Non-residential Building Approved, By Sector, Original



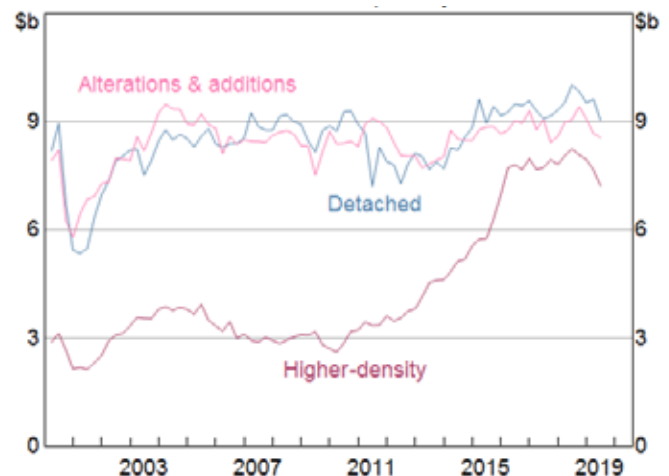
Housing and the Economy – speech by Guy Debelle – Deputy Governor, Reserve Bank of Australia, Address at the CFA Societies Australia Investment Conference

- Chart 10 shows that currently there is almost as much investment spending on higher-density dwellings as detached houses nationally. But this equal spending translates into 2½ higher-density apartments being built for every detached house at the moment.
- The lead time for high-density construction is long. A higher-density development also requires more certainty around demand before going ahead given the developer is trying to sell more dwellings at the same time. That is relevant for the pre-sale financing too. And then, once construction is actually underway, it takes about two years to build higher-density housing compared with around nine months for a detached house.
- The greater share of higher-density means the construction response to changes in demand is probably slower on the way up and on the way down, as higher-density is harder to stop once it's underway.
- It is not just interest rates that matter for housing. Other fundamentals such as population growth, incomes and lags on the supply side are important drivers of the construction and price cycles.
- Residential construction nationally grew from 2012 to be 6 per cent of Gross Domestic Product at the beginning of 2016 and stayed around there for the next three years. This was its highest share of the economy since 2006. While the supply response to the increase in population growth in the mid-2000s took some time, in the end it did come.
- The increase in supply has worked to address the increased demand. Hence it is not surprising to see construction activity decline, particularly when it is combined with a decline in demand from foreigners, as well as from domestic investors in a market where prices were falling and facing tighter credit conditions.
- Since September 2018, residential construction activity has declined by 9 per cent. The decline has been broad-based across detached and higher-density housing, as well as spending on renovations. Nevertheless, the pipeline of work to be done remains at a high level, particularly for higher-density projects in New South Wales and Victoria, though it has declined in most states.
- Given the large size of the pipeline, the RBA had expected construction activity to remain at a pretty high level for most of this year, but it turned down sooner and by more than expected.
- The fall has been larger in higher-density than in detached, but still sizeable in each. Even so, much of the downturn in construction activity is still ahead. Building approvals nationally are around 40 per cent lower than their peak in late 2017.
- RBA are forecasting a further 7 per cent decline in dwelling investment nationally over the next year, and there is some risk the decline could be even larger.
- While there is a significant downturn in prospect over the next year or so, some of RBA's liaison contacts in the construction sector have said that they can see through the trough in activity to the other side. While the increase in supply has finally met the earlier increase in demand,

demand will continue to grow given population growth, but supply is going to decline. So there is quite likely to be a shortfall again in the foreseeable future.

- Hence some large developers tell the RBA that they are prepared to retain their employees through the coming trough in activity. That said, the outlook for smaller contractors, which are quite prevalent in the housing sector, is not so great in the period ahead.

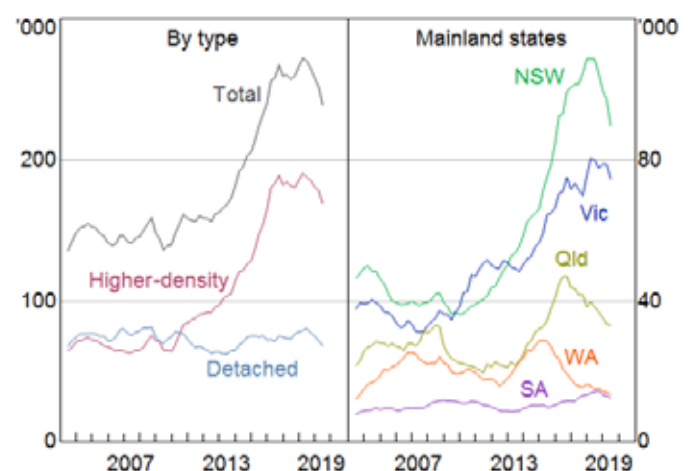
Chart 10: Dwelling Investment* - Australia
Chain volume, quarterly



* Reference year is 2016/17.

Source: ABS

Chart 11: Residential Dwelling Pipeline



Sources: ABS, RBA.



EMPLOYMENT AND UNEMPLOYMENT INDICATORS

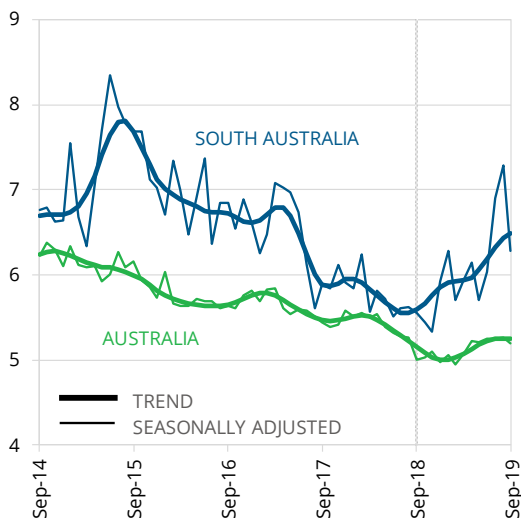
ABS Labour Force Australia, September 2019 — Cat. No. 6202.0 (analysis from Department of Treasury and Finance)

- During September, the unemployment rate: was 6.5% in South Australia in trend terms (5.3% nationally); and was 6.3% in South Australia in seasonally adjusted terms (5.2% nationally).
- Annual trend employment growth was 1.5% for South Australia and 2.4% nationally.

South Australian Centre for Economic Studies Data Wrap 17 October 2019

- The September 2019 Labour Force Survey results show that total employment levels in South Australia remained virtually unchanged, and suggest that the recent deterioration in the state's unemployment rate as indicated by seasonally adjusted data has not been as severe as previously reported.
- Trend data indicates that just 400 jobs were created in September 2019, while the number of unemployed rose by 600 people. As a consequence, South Australia's trend unemployment rate ticked up from 6.4 per cent in August to 6.5 per cent in September. The unemployment rate remains well up from its previous low of 5.6 per cent recorded in August 2018.
- South Australia's participation rate remained steady at 63.4 per cent in September, while the underemployment rate rose slightly to 9.5 per cent.
- The seasonally adjusted estimates are inherently volatile, and month-to-month movements in these measures should not be interpreted as reflecting movements in actual labour market performance. This month's data, with the trend and seasonally adjusted estimates telling a similar story, is more likely to be an accurate gauge of the current state of unemployment in South Australia.

Chart 14: Unemployment Rates (%)

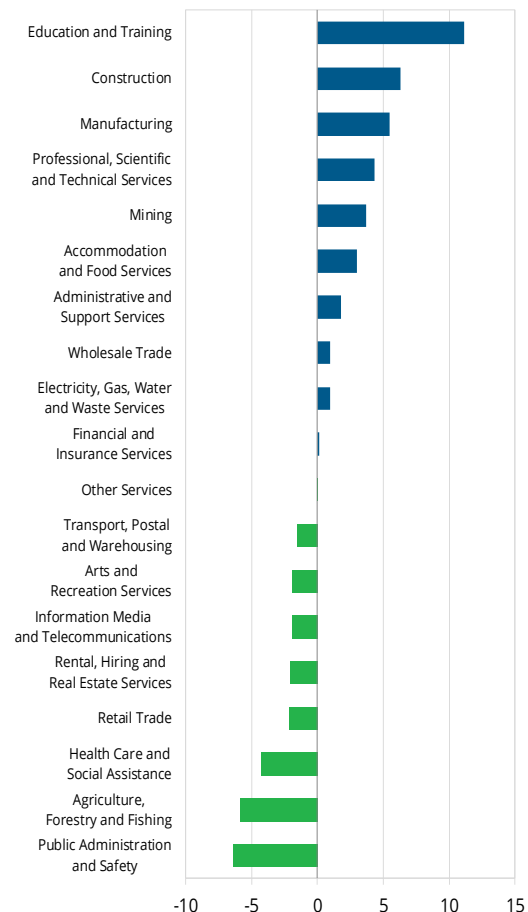


Source: ABS – Cat No. 6202.0, Chart reproduced from Department of Treasury and Finance Economic Briefing

- Perhaps the key take-away from recent Labour Force Survey results is that total employment in South Australia has stopped growing over the past five months. A total of 855,000 people were employed in September 2019, which is unchanged from May. This lack of employment growth, combined with an increase in the number of people looking for work, has put upward pressure on the unemployment rate.
- South Australia's 6.5 per cent unemployment rate compares with a national unemployment rate of 5.3 per cent, which is a relatively large differential by historical standards

Industry Employment (ABS figures for August Quarter 2019) - Analysis by Department of Treasury and Finance – Regions and Industry Economic Briefing

**Chart 15: Year on Year Employment Growth by Industry,
South Australia (Moving Annual Average, '000)**



Source: ABS - Labour Force Estimates, Chart reproduced from Department of Treasury and Finance Economic Briefing.



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

- The Internet Vacancy Index (IVI) nationally decreased by 0.7% (or 1,100 job advertisements) in September 2019 and has now declined for nine consecutive months.
- Nationally, the IVI is 7.1% (or 12,800 job advertisements) below the level recorded a year ago.
- Over the year to September 2019, job advertisements decreased in three states and the Northern Territory. New South Wales recorded the strongest decline (down by 13.6%), followed by the Northern Territory (9.2%) and Victoria (7.6%). By contrast, the strongest rises in job advertisements were recorded in the ACT (up by 12.3%) and Tasmania (5.9%).

IVI - September 2019	Index (Jan '06 = 100)	Monthly % change	Yearly % change	Number of job advertisements
New South Wales	79.1	-1.0	-13.6	58,000
Victoria	91.2	-0.2	-7.6	45,900
Queensland	62.9	-0.5	-3.6	31,200
South Australia	58.3	-0.3	1.1	7,700
Western Australia	88.3	0.0	1.4	16,200
Tasmania	65.9	-0.4	5.9	1,900
Northern Territory	68.4	-1.0	-9.2	1,700
Australian Capital Territory	183.1	0.5	12.3	6,000
Australia	78.7	-0.7	-7.1	168,400

Source: Internet Vacancy Index, Australian Government.

Population Estimates

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

COMMENTARY ON GENERAL ECONOMIC CONDITIONS

ABS Retail Trade Data – August 2019, ABS Cat. No. 8501.0 (analysis by CITB)

- During August, nominal retail turnover was unchanged in South Australia in trend terms. Nationally, nominal retail turnover rose 0.1%.
- Compared with a year earlier, nominal retail turnover was 1.9% higher in South Australia and 2.3% higher nationally.

CommSec – State of the States October 2019

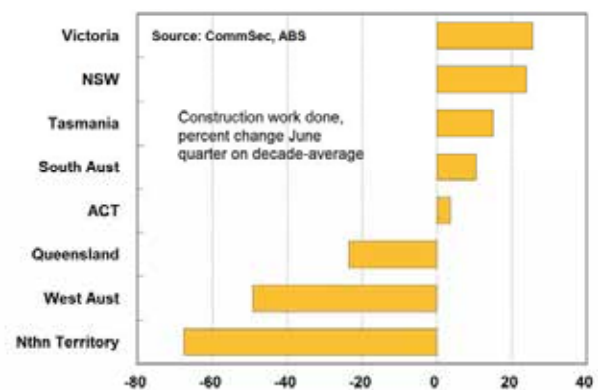
- Victoria remains the best performing economy. Tasmania has moved past NSW into second spot but there is little separating the states. The ACT is solidly in fourth position. Then there is a gap to Queensland and South Australia (which remains in 6th position). And in the fourth grouping is Western Australia and the Northern Territory. Queensland remains in fifth spot from South Australia and both are having to contend with relatively high jobless rates.
- South Australia lost two positions on economic growth and one position on dwelling starts. But it gained one position on each of population growth, unemployment and construction work.
- The measure used for analysis was the total real value of residential, commercial and engineering work completed in trend terms in the June quarter.
- South Australia is now in fourth position with construction work 10.5 per cent above decade averages.
- The measure used was the trend number of dwelling commencements (starts) with the comparison made to the decade-average level of starts.
- Victoria remains in third spot with starts up 1.4 per cent on decade averages from South Australia (down 10.7 per cent).

Bank SA State Monitor, October 2019 – Media Release

- Consumer confidence in South Australia has followed a downward national trend and fallen to a record low.
- The latest index also shows a large decline in how consumers feel about their own household situation, lower confidence about their ability to change jobs, and weakened state pride.

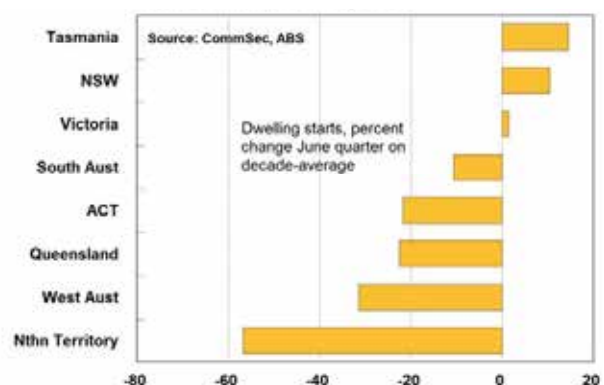
- Unemployment levels, rising petrol prices, wages relative to cost of living and global uncertainty were amongst the factors cited for the diminished consumer sentiment.
- In addition to the decrease in consumer confidence, business confidence in South Australia has also fallen, by 10 points from 115.2 to 105.2, but still remains relatively positive despite the recent downward trend.
- It appears that recent tax and interest rate cuts have been outweighed by consumer concerns about the economy and their own financial position and employment prospects.

Victoria leads on construction



Source: CommSec – State of the States, October 2019

Home building activity eases



Source: CommSec – State of the States, October 2019





THE FUTURE IS YOURS TO BUILD

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