

Australian construction: rotation to private sector emerges Q2: 3.5%qtr (mkt 3.0%, Westpac 3.5%)

- Construction activity increased strongly in the June quarter, as anticipated. Total work was up 3.5% in the period, which was in line with forecasts.
- This will add about 0.5ppts to quarterly GDP growth, with the sector accounting for around 16% of the economy.
- Also of note, Q1 construction work was revised up to a rise of 4.2%, upgraded from 1.9%. The revisions brought Q1 more into line with our original expectation, with upgrades to private infrastructure and private new residential building activity.
- Public construction work consolidated at a high level in Q2, rising by 0.4% following a 37% surge over the previous year. The Federal Government's building program (school halls and public housing) is the source of strength. A loss of altitude will be apparent in upcoming quarters as projects are completed.
- The rotation towards the private sector emerged, consistent with the sizeable pipeline of work for both new residential and infrastructure projects. Private construction work increased by 4.9% in Q2, with new residential up 6.9% and infrastructure work up 5.1%.
- The outlook for private construction is positive. Housing has more upside in the near-term, but will falter during 2011 as the impact of recent rate rises is felt. Infrastructure work is set to strengthen substantially, as work on the recently commenced \$43bn Gorgon LNG project ramps up.

The Federal Government's building program was the source of strength in the construction sector over the last year. The Federal Government is funding \$14.7bn on school building and \$6.6bn on public housing spread over two years. Public building work increased by 7.5%qtr, 120%yr in Q2. The strength in the June quarter was more apparent in public housing (+35%qtr, +243%yr) than in the public non-residential segment (+3%qtr, +106%yr).

Private construction work, which weakened during 2009 (down 7.3%yr) gained momentum. The themes were as expected. An upswing in new residential activity began and there was a jump in infrastructure activity, boosted by the recent commencement of the \$43bn LNG Gorgon project in WA.

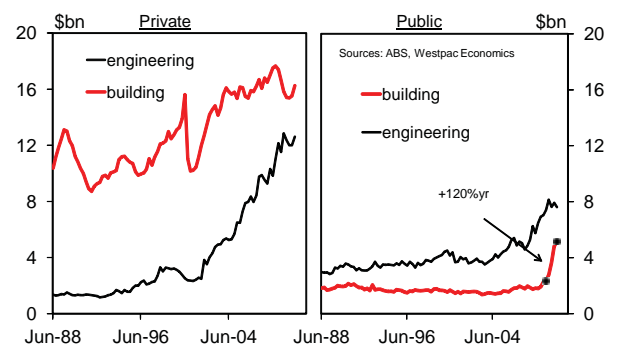
- It's worth noting that even with the 6.9% rise in private new residential building activity in the quarter, the value of work in the pipeline at the end of the quarter increased by more than 2%.

Construction work done: Jun qtr 2010

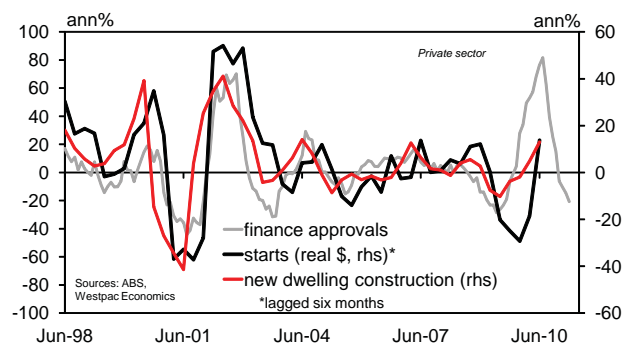
sa, real AUDbn	Q2 level	% chg qtr		% chg yr	
		Q1	Q2	Q1	Q2
Total construction	41.7	4.2	3.5	7.4	8.3
Total private	28.9	0.5	4.9	-2.2	0.6
Total public	12.8	13.1	0.4	36.7	31.0
Residential	11.7	3.4	7.7	3.3	13.8
Non-resid. building	9.7	11.3	2.6	12.8	23.1
Infrastructure	20.2	1.5	1.5	7.4	-0.2

Sources: ABS, Westpac Economics

Construction work



Dwelling work done vs approvals & starts



Not surprisingly the mining state of WA led the way in the June quarter, with activity surging 12% (up \$1.1bn). That explained half of the nation wide rise in construction work.

The good news was that Qld, which has been the weak link, recorded a solid 2.4% rise in construction work in the quarter – partially reversing the 6% decline over the previous 6 quarters.

The construction sector enjoyed stronger conditions in the June quarter in Victoria (+4.9%qtr) and in NSW (+1.6%). Work is up 7% over the first half of 2010 in both states.

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Construction by state

