



VICTORIAN

Building and Construction

INDUSTRY OUTLOOK

June 2018



Disclaimer

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C O N T E N T S

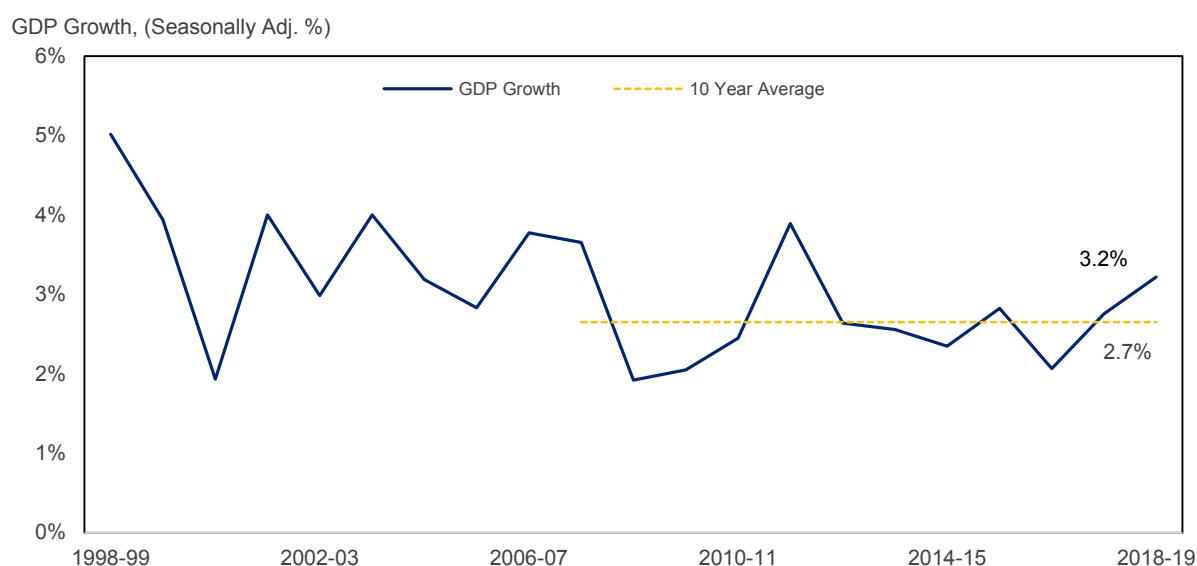
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1 National Economic Outlook

The recent uptick in resource commodity prices has been a major win. With it national income growth has spiked, and was the key reason why the Treasurer was able to hand down a Budget in May 2018 which was still big on spending and working towards a surplus one year earlier than expected. The change in the economic outlook from the 2017 MYEFO is quite staggering. Wages growth in the Budget is very optimistic, but if the global economy keeps giving Australia a pay rise through higher commodity prices, then people's personal wages may well increase.

China is now a larger trading partner with Australia than any other country in our history. This has been a huge blessing so far. Most of the investment into expanding our mining and export infrastructure in the last decade has been to support this growing trade relationship.

CHART 1: Australian Annual GDP Growth



Source: ABS, Master Builders Australia
*2018-19 growth rate is a forecast

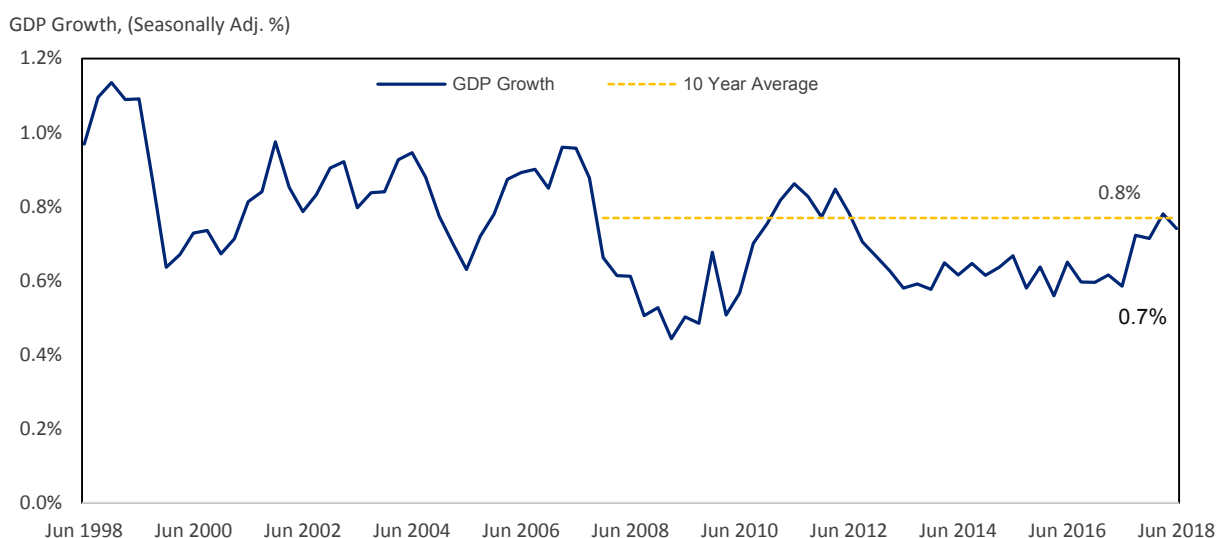


But this relationship also means Australia's ongoing economic prosperity is now more closely tied to China than ever before. So far the bet has payed-off, but we need China to grow for a few years yet to ensure we get a good return on the \$1 trillion invested in new resources capacity over the last decade.

Elsewhere:

- Private investment is expected to increase by more than \$10 billion in the year to June 2018 and follow a similar path of growth over the next two years, and;
- Growth in non-residential building activity is expected to outpace that for engineering construction and provide some much needed stability as the wind down in housing construction activity runs its course.

CHART 2: Australian Quarterly GDP Growth



Source: ABS, Master Builders Australia
*2018-19 growth rate is a forecast

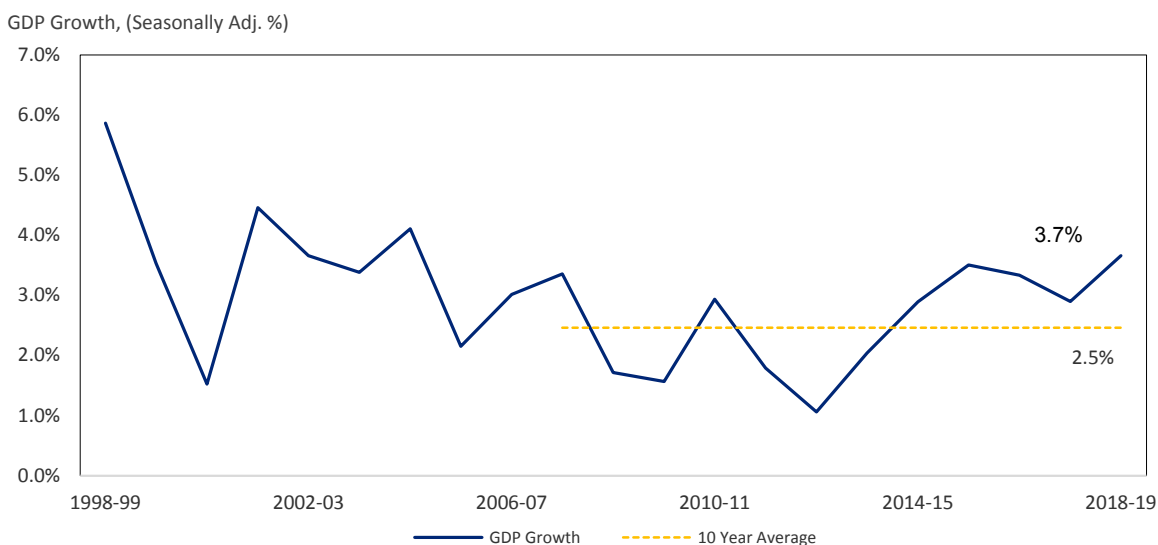
2 Victorian Economic Summary

Victoria is the place to be – more people have chosen to move to the State in recent years than any other. Victoria is also home to the largest number of international migrants and the only State in 2017 to record population growth at above the national average – a pretty impressive result given it is home to a little under 25 per cent of the population.

Melbourne is a magnet for migrants looking for opportunities to both earn and learn. Melbourne University is not only the largest education institution in the country, it is now one of Australia's largest businesses.

Victoria has had the highest rate of population growth of any State since mid-2013: adding over 550,000 people, with more than 60 per cent of them migrants. The growing population has been a key source of growth for this State over the past five years. More people means more demand for housing, retail spending, transport and other public services (including health and education).

CHART 3: Victorian Annual GDP Growth



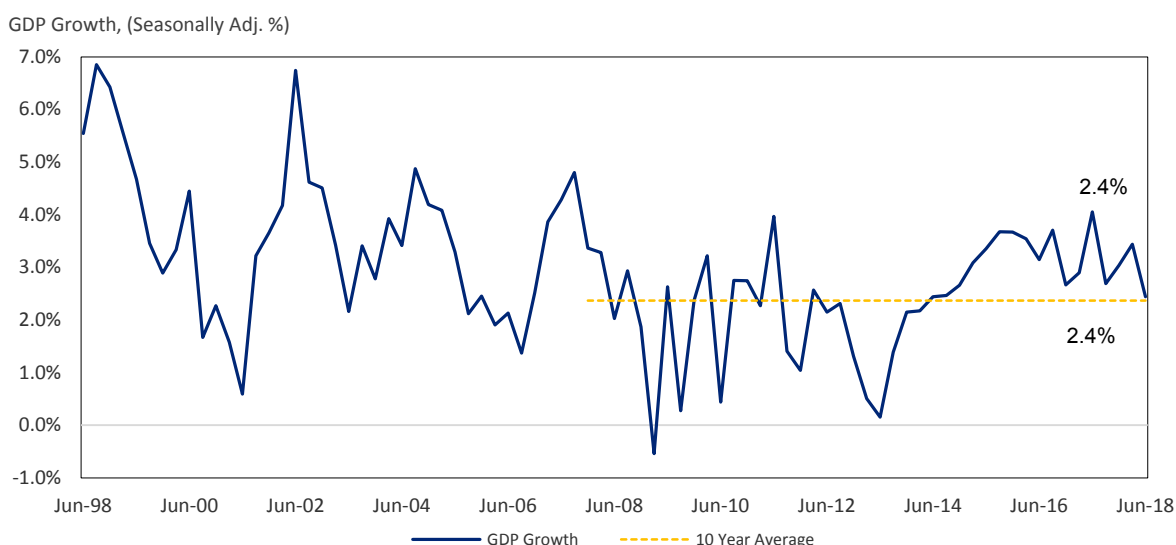
Source: ABS, Master Builders Australia
*2018-19 growth rate is a forecast



It also means a larger workforce which has strongly contributed to the growth in employment in the State. Continued strength in population and jobs growth will contribute to continued growth in the economy. Key positives include:

- Economic growth is expected to pick up over the course of 2018;
- The residential construction cycle is expected to peak later and last longer than in other parts of the country;
- Private investment in commercial construction and plant and equipment is set to surge in 2018, a good indicator that business confidence is back on track; and
- Industrial production is expected to expand for the first time in two years and is expected to support a better year for manufacturing related construction.

CHART 4: Victorian Quarterly GDP Growth



Source: ABS, Master Builders Australia
*2018-19 growth rate is a forecast

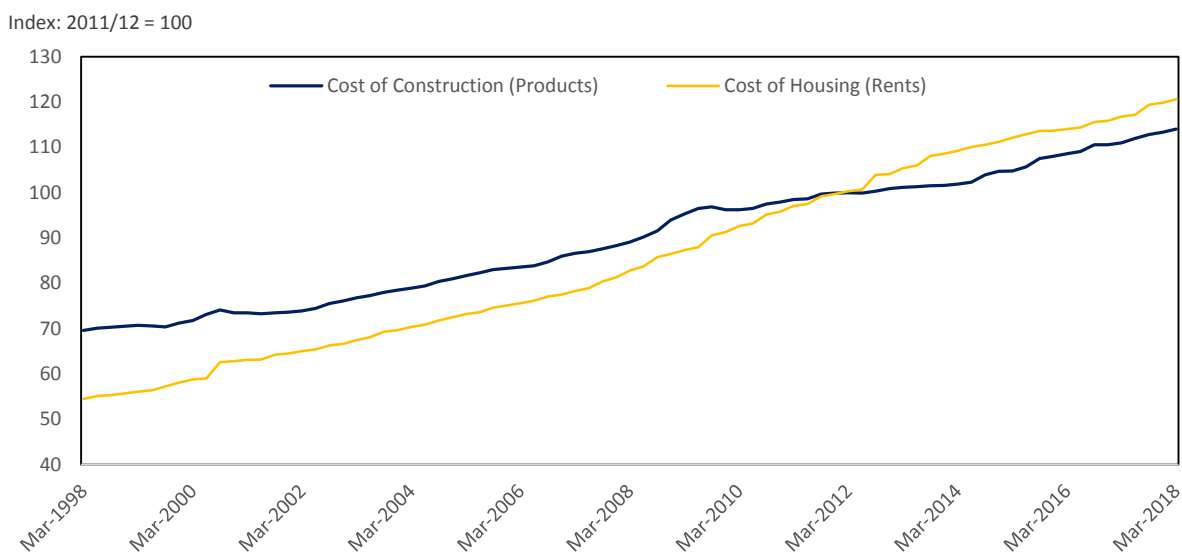
3 Prices in the Building and Construction Industry

The index for the cost of construction below (blue line) shows the growth in construction costs – measured by the cost of building products – has not grown significantly despite the boom in new housing construction.

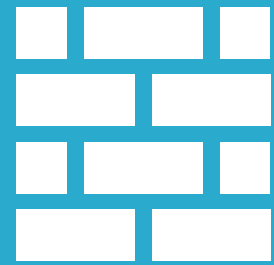
There is some indication from the market that there are shortages emerging in products which are used extensively in the construction of new transport infrastructure projects. In Victoria, Master Builders' members have noted difficulty in sourcing timber products, some steel products, cement and concrete.

The costs of housing measured as growth in the Australian Bureau of Statistics Consumer Price Index for housing rents, continues to grow at a faster rate than construction costs.

CHART 5: Australian Housing and Construction Costs



Source: ABS, Master Builders Australia



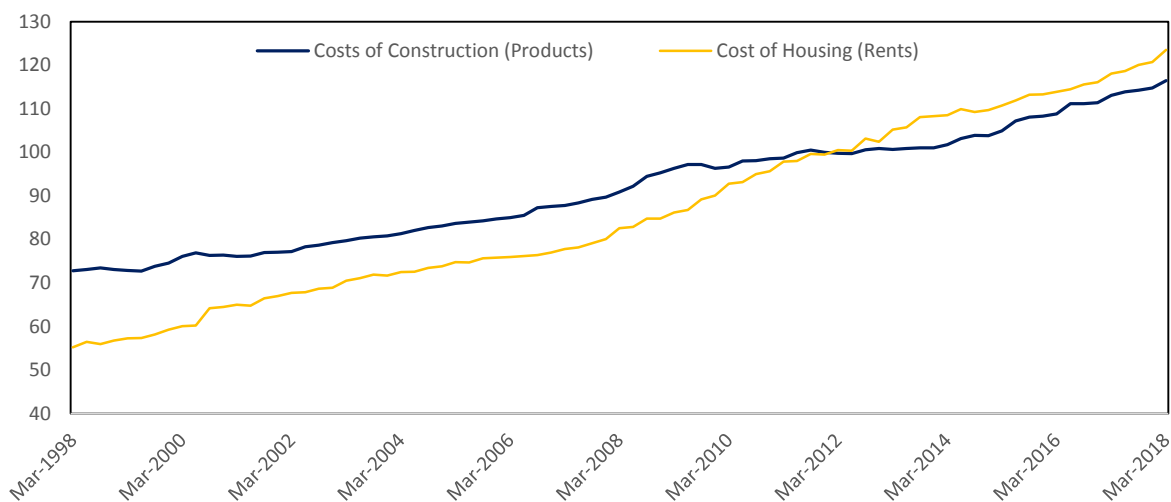
In Victoria:

- The cost of construction, measured as growth in the Australian Bureau of Statistics Producer Price Index for housing construction materials, was up by around 1 per cent in the March quarter 2018, adding to growth of 2.9 per cent over the year.
- The cost of housing, measured as growth in the Australian Bureau of Statistics Consumer Price Index for housing (rents), was flat in the March quarter 2018, but was up 3.2 per cent over the year.

Overall, housing costs continue to rise faster than the costs of construction, suggesting there is still some tightness in the market in terms of access to housing.

CHART 6: Victorian Housing and Construction Costs

Index: 2011/12 = 100



Source: ABS, Master Builders Australia

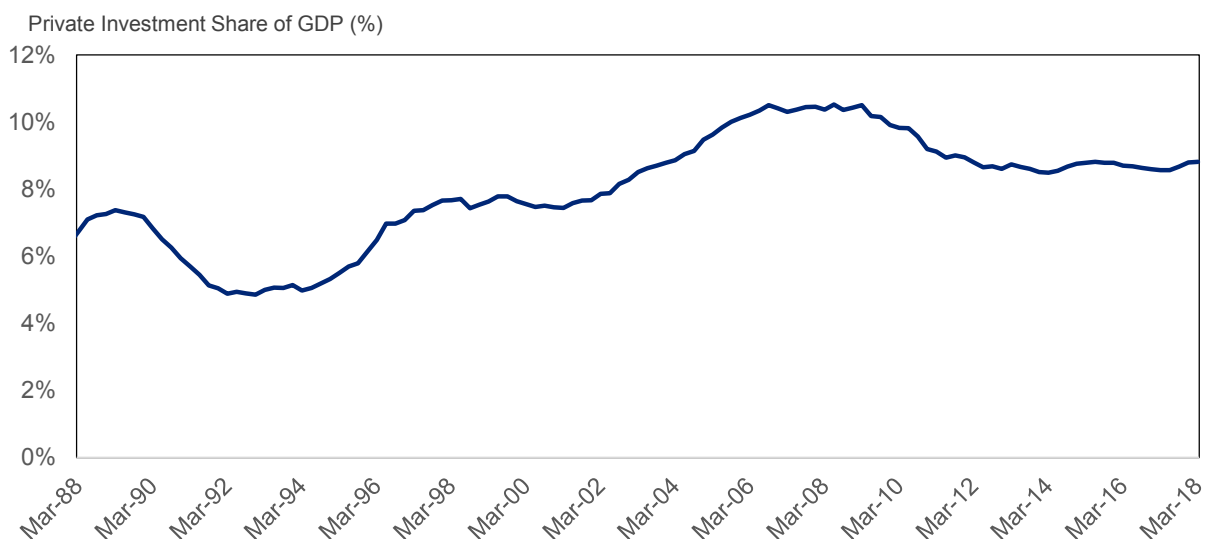
4 Business Investment



Private business investment in Victoria has expanded for five straight quarters in a row and is a good sign that businesses are once again confident enough to put up the money for new plant and equipment. Most notably, investment into new capital has been positive in the industrial and manufacturing sectors for the first time in a number of years.

The chart below combines the value of private investment into engineering and commercial infrastructure, and plant and equipment investment, and shows the value as a share of Gross State Product in Victoria. Despite still being below the peak in 2009, private business investment has stabilised and is expected to grow over the next couple of years.

CHART 7: Private Business Investment



Source: ABS, Master Builders Australia, National Survey of Building and Construction

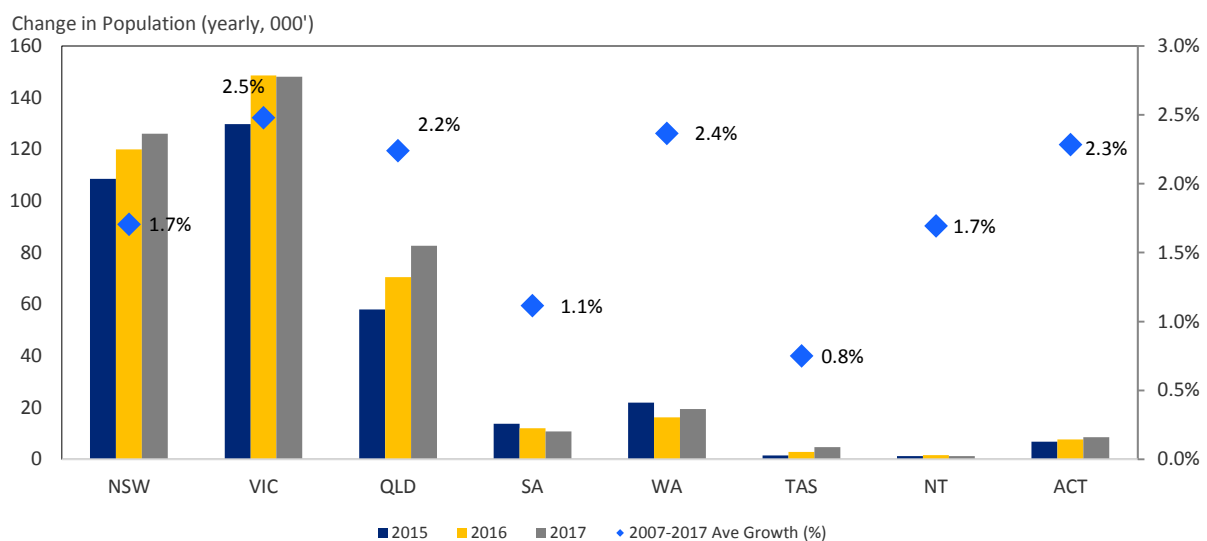
5 Population



If you want to know why the Victorian economy is performing so well then look no further than its growing people power. The momentum in Victoria's population has spilled into all other parts of the economy and is the key reason why the construction industry has had such a good run in the last few years.

The chart below shows population growth in Victoria against that in the other States and Territories. Victoria's population has been the fastest growing in the country since 2007, attracting more residents from other States and overseas. In the last three years more people have moved to Victoria in absolute numbers than NSW, or the rest of the States and Territories (excluding NSW) combined.

CHART 8: States Population Growth

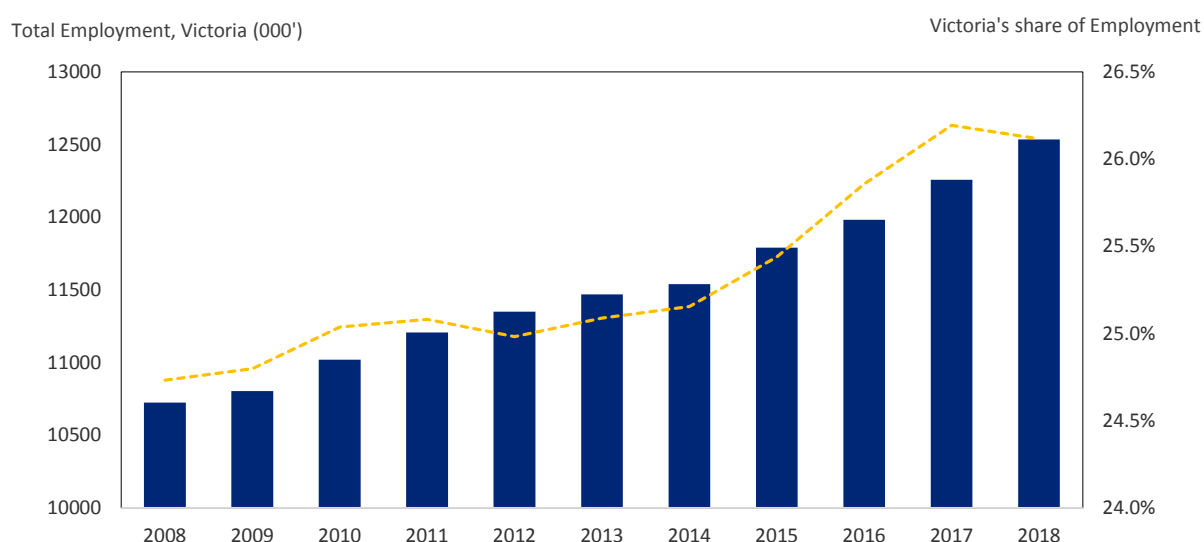


Source: Master Builders Australia

6 Labour Market

The chart below shows growth in the Australian labour market and Victoria's share of employment.

CHART 9: Victoria's Share of Total Employment



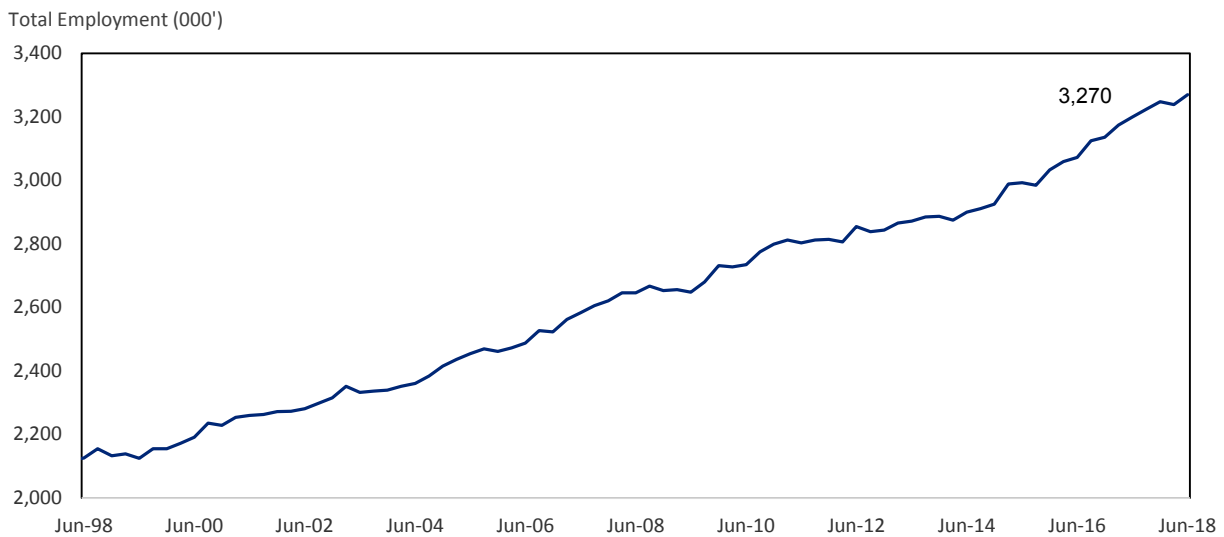
Source: ABS, Master Builders Australia

Key insights:

- Jobs growth has slowed slightly from a year ago but is still growing much faster than the working age population.
- Total employment in Victoria was estimated at just over 3.24 million in 2018.
- Total employment in Victoria's construction sector is estimated at 275,000 – around 8.5 per cent of the Victorian workforce.
- Employment growth in the construction sector is expected to be positive over the next 12 months, supported by a surge in commercial construction activity and a number of major transport infrastructure projects underway.
- Unemployment is estimated to have fallen to 5.6 per cent in 2017-18, and is expected to continue to fall over the next few years as the economy picks up. The construction industry will be a key source of skilled jobs demand. But we need to ensure the training system keeps up.

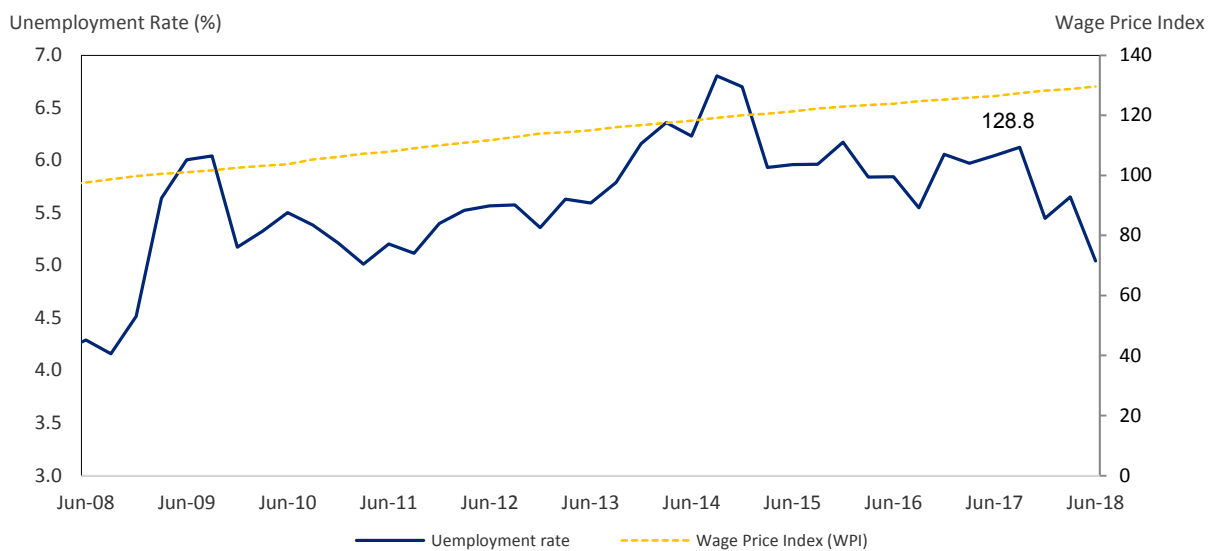


CHART 10: Total Employment, Victoria



Source: ABS, Master Builders Australia

CHART 11: Unemployment and Wages, Victoria



Source: ABS, Master Builders Australia

7 Housing Affordability

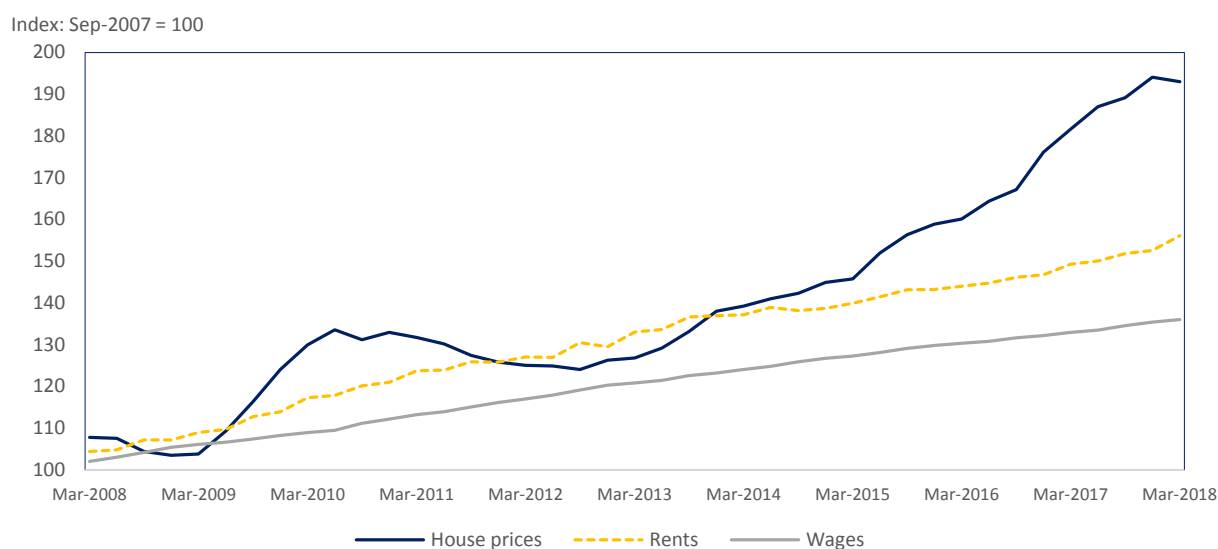
The first quarter of 2018 saw average property prices moderate in Melbourne according to the Australian Bureau of Statistics Residential Property Price Index (RPPI) data. The fall in Melbourne house prices in March 2018 broke a run of uninterrupted growth which began back in September 2012.

Despite the recent fall, property prices over the year still recorded growth of 6.2 per cent. Very strong population growth over the last 12 months does support an expectation that any moderation in price growth will likely be modest and short-lived.

Key insights:

- House prices and rents have grown faster than average incomes since 2006. As a result, housing affordability in Victoria, particularly in Melbourne, has deteriorated.

CHART 12: House Prices, Rents and Wages, Victoria



Source: ABS, Master Builders Australia



- The Reserve Bank has again warned against the possibility that household mortgage stress could cause an economic shock if the price of debt rises. This reduces the possibility of an interest rates rise in the short or medium term.
- The fall in average dwelling prices has not been shared across all types of housing. The median price for a three bedroom house increased to \$855,000 in the March quarter 2018, with the fall in average property prices generally being quarantined to the apartments market.
- Average rents increased by 2.6 per cent over the year to March 2018 compared to average wages growth of 2.3 per cent over the same period.

8 Industry Outlook

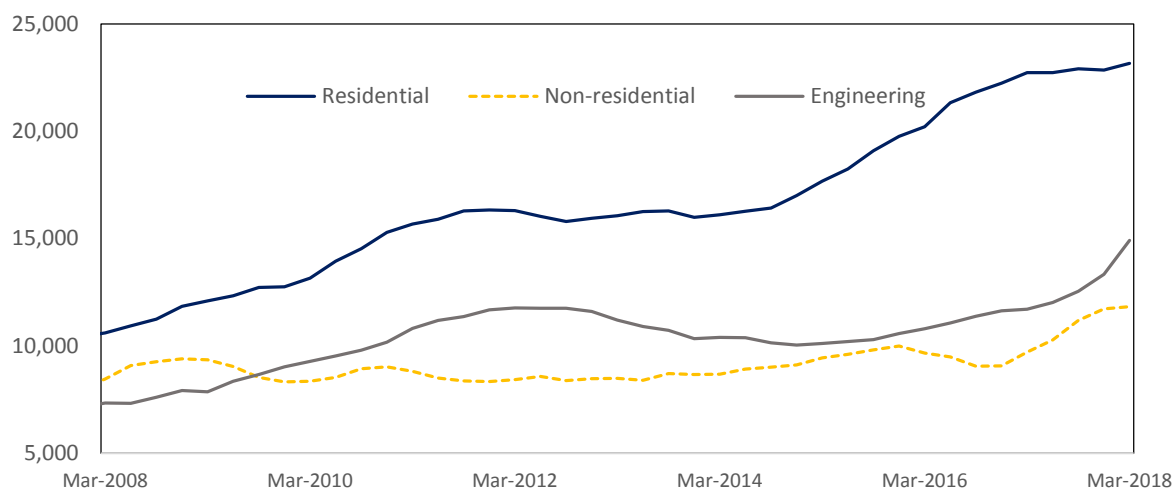
The construction industry continues to make up a greater share of economic activity and jobs in Victoria. The total value of work done is expected to top \$49.5 billion in 2017-18 and top \$54 billion in 2018-19. Notably, the value of engineering construction work done has jumped considerably and is expected to continue to expand at a similar rate over the next 12 months as work on major transport infrastructure projects accelerates.

By sector in Victoria the value of work done in the year ending in March quarter 2018 was:

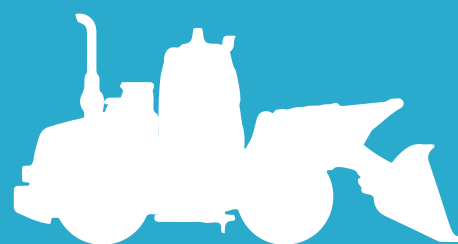
- \$23.1 billion in residential construction activity
- \$11.8 billion in non-residential construction activity
- \$14.9 billion in engineering construction activity

CHART 13: Total Value of Work Done, Victoria

Value of work done, (\$m), Rolling Annual



Source: ABS, Master Builders Australia



Housing

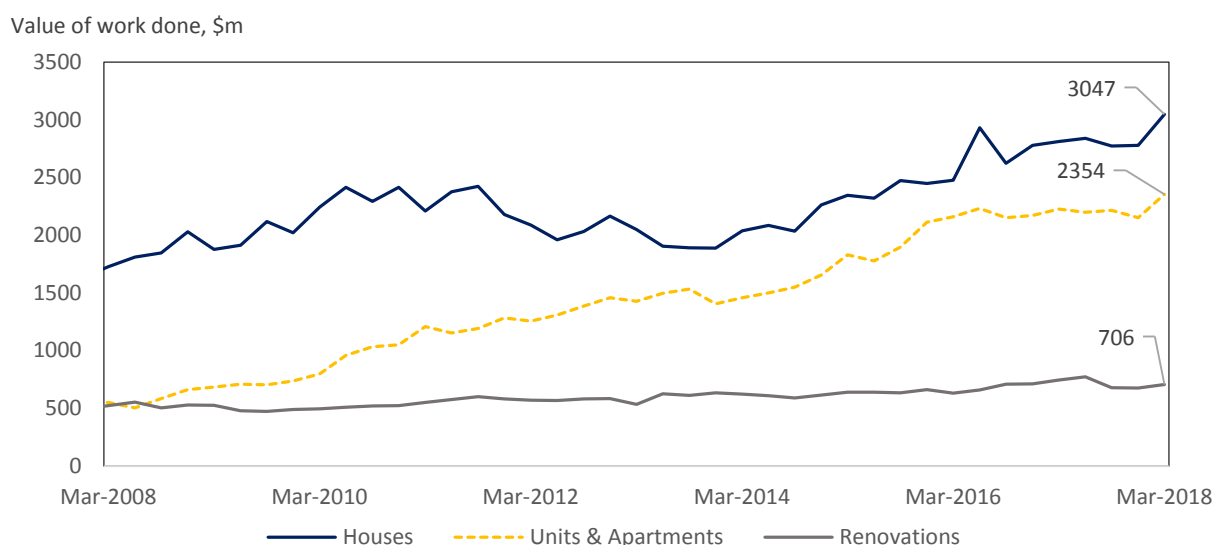
According to the latest ABS data on building activity, the value of residential construction work completed for the March quarter 2018 was recorded at \$5.4 billion in Victoria. This included a little over \$3 billion for houses, \$2.4 billion for units and apartments and \$700 million for renovations, as shown in Chart 14 below.

Over the year to March 2018 the value of construction activity in the housing sector:

- Recorded growth of 2.1 per cent for total residential building activity, owing to a very strong period earlier in the year;
- 2.7 per cent growth in the value of work on detached housing;
- 1.5 per cent growth for units and apartments construction; and
- 0.3 per cent growth in the value of renovation related construction activity.

While still positive, growth in the value of construction activity is slowing.

CHART 14: Value of Housing Construction, Victoria



Source: ABS, Master Builders Australia

8 Industry Outlook, continued

In terms of the number of new residential dwellings built in the past few years, the table below shows the number of new dwelling commencements per year spilt into houses and other dwellings – which includes townhouses and apartments. It shows that the number of dwellings being built has increased markedly in the past 12 months, and is expected to peak in 2017-18 at over 70,000 – a record number of new dwelling commencements for Victoria.

TABLE 1: Residential Commencements by Sector, Victoria

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Residential Building	59,113	50,568	50,794	51,521	64,946	68,672	64,253	71,792
%ch	7.6%	-14.5%	0.4%	1.4%	26.1%	5.7%	-6.4%	11.7%
Houses	34,889	30,134	28,009	29,462	32,357	35,574	35,760	38,375
%ch	-8.1%	-13.6%	-7.1%	5.2%	9.8%	9.9%	0.5%	7.3%
Other Dwellings	24,224	20,434	22,785	22,059	32,589	33,098	28,493	33,416
%ch	42.7%	-15.6%	11.5%	-3.2%	47.7%	1.6%	-13.9%	17.3%

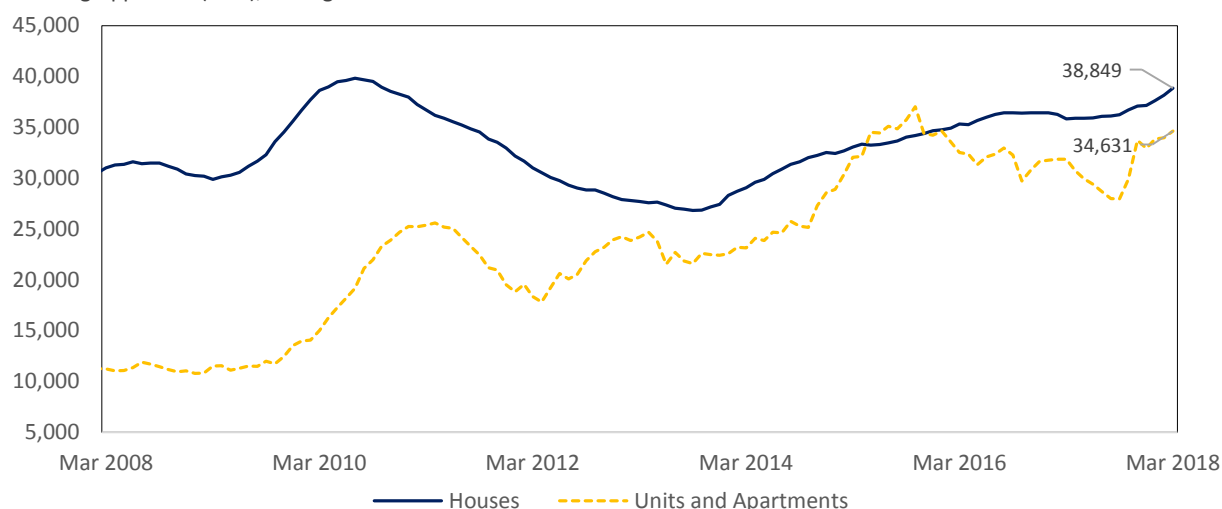
Source: ABS, Master Builders Australia

Approvals of new dwellings continue at a steady pace, with detached and unit and apartment approvals growing steadily in the first quarter of 2018. Despite some volatility in the approvals data – particularly for units and apartments – recent growth data has been strong enough to revise up expectations for residential construction activity and push the peak of the cycle out one more year:

- Detached housing approvals over the past 12 months were recorded at 38,849, while units and apartments made up the remainder at 34,631.

CHART 15: Number of Residential Dwelling Approvals, Victoria

Dwelling Approvals (000'), Rolling Annual



Source: ABS, Master Builders Australia

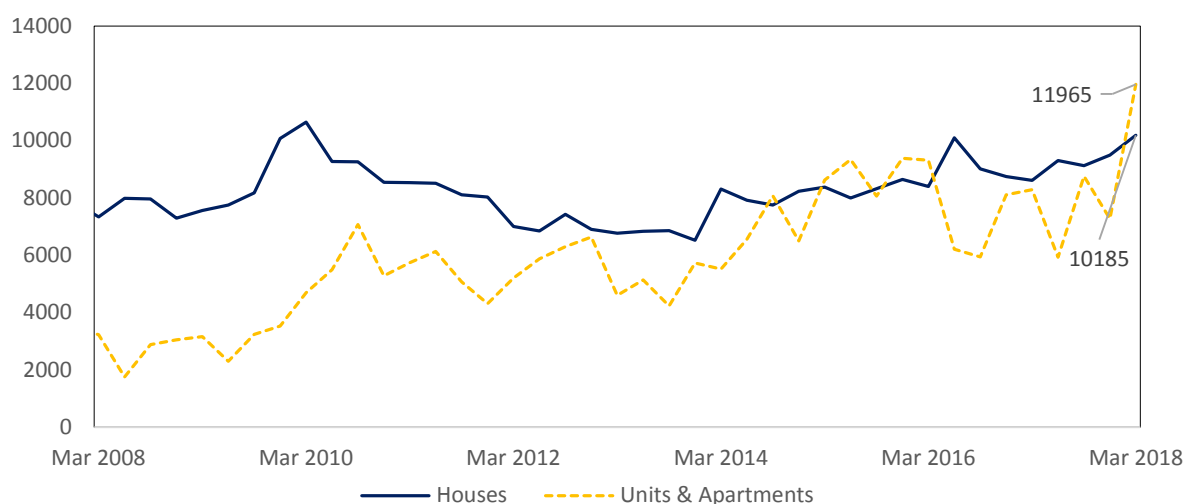
Dwelling commencements jumped considerably in the first quarter of 2018, particularly for units and apartments which surpassed the number of new detached housing commencements. Detached housing commencements also increased moderately in the March quarter 2018. The latter supports an outlook for a strong year ahead for the value of residential construction activity.

In total there were:

- 10,185 new detached housing commencements in the March quarter 2018, and
- 11,965 new apartment or townhouse commencements in the March quarter 2018.

CHART 16: Number of Residential Dwelling Commencements, Victoria

Number of commencements (Seasonally Adj.)



Source: ABS, Master Builders Australia

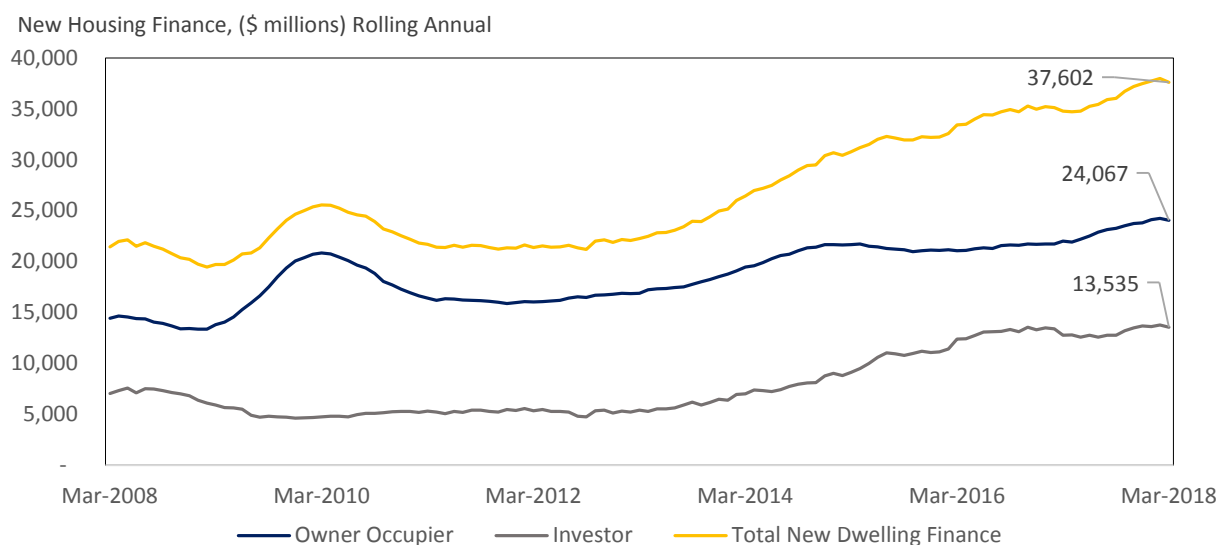
8 Industry Outlook, continued

Total finance commitments for the construction of new dwellings was recorded at \$8 billion in the March quarter 2018. \$5.3 billion was in the construction of new dwellings for owner occupiers, while the remaining \$2.7 billion was for the construction of investment housing.

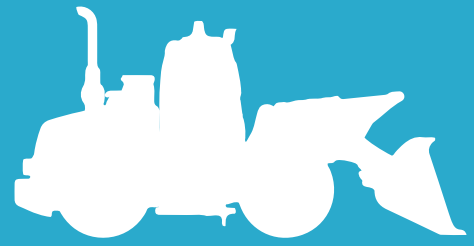
Chart 17 shows new housing finance over the year to March 2018 topped \$37.6 billion, of which \$24 billion was for owner occupiers and around \$13 billion was for investment housing.

Importantly, Chart 17 shows that growth in the value of dwelling finance has been driven in the most part by owner occupiers, supporting an improvement in home ownership rates, and first home buyer activity over the year.

CHART 17: Value of Dwelling Finance, Australia



Source: ABS, Master Builders Australia



Total financial commitments (mortgages) may have peaked back in November 2018, but this should be enough to support an outlook for growth in the value of residential construction work in 2018.

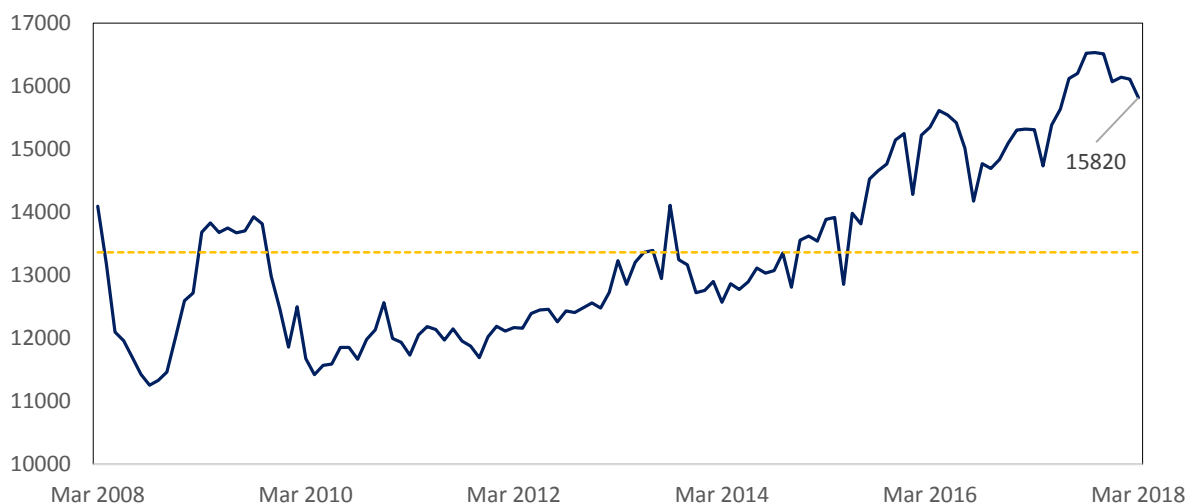
The Victorian Government initiatives aimed at improving housing affordability, particularly for first home buyers have seen the share of first home buyers in new financial commitments rise to over 20 per cent – the highest rate in the country and well above the national average of around 18 per cent.

In sum:

- Total dwellings financed fell by 2.1 per cent in the first quarter of 2018, following a flat end to 2017.
- A total of 48,000 new dwelling commitments were recorded in the March quarter 2018.
- Over the year, new dwelling commitments recorded growth of 5.9 per cent and totalled 191,800 – equal to 525 new dwelling commitments per day.

CHART 18: Number of Dwellings Financed, Victoria

Number of finance commitments, (Monthly)



Source: ABS, Master Builders Australia

8 Industry Outlook, continued

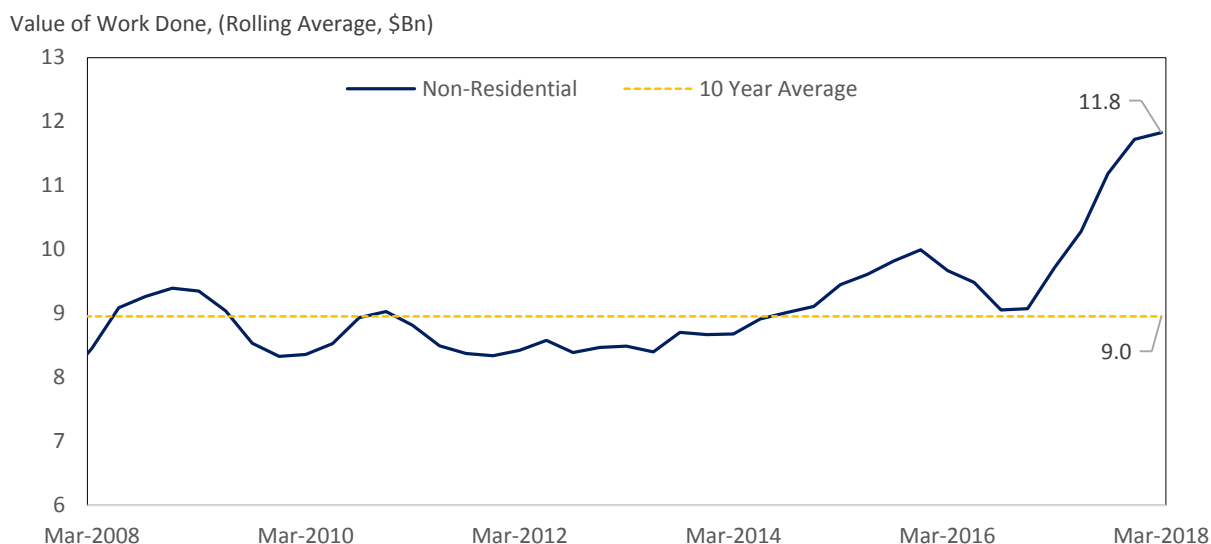
Non-residential

Chart 19 below shows the value of non-residential work done in Victoria. The value of work done over the year to March 2018 came close to 12 billion which is the highest value of activity ever recorded in a 12 month period in Victoria's commercial construction sector.

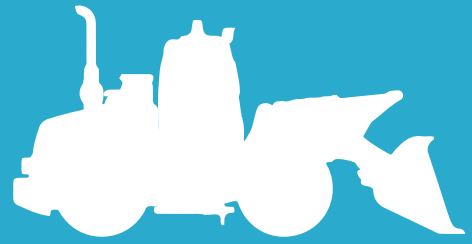
We note:

- Over the year to May 2018 non-residential building approvals are up by about 23 per cent.
- There are currently \$43 billion worth of projects under construction in Victoria, of which around \$13 billion are in commercial sectors.

CHART 19: Non-residential Value of Work Done, Victoria



Source: ABS, Master Builders Australia



A doubling of activity in the accommodation and entertainment and recreation sectors, and strong gains in the State's education and offices sectors accounts for most of the recent growth in the value of commercial construction projects. Of the \$13 billion worth of projects listed as under construction, around \$8 billion are classified as either office or mixed-use developments. Adding to this, there's another \$17 billion worth of projects across the various planning stages in Victoria.

TABLE 2: Non-residential Projects, Victoria

Company	Project	Cost	Industry
Under construction or committed			
Kuok Group/Lang Walker	"Collins Square" - 5 Commercial towers	2,500	Mixed use
Lend Lease	Melbourne Quarter mixed-use development	1,500	Mixed use
MAB Corporation Pty Ltd/Gibson Property	Merrifield development	1,200	Finance, Property & Business services
Grocon	former Carlton and United Breweries site	1,200	Mixed use
Salta Properties/Qube Logistics	Lyndhurst (Dandenong South) and Altona inland ports	1,000	Transport & Storage
Australia Post and Cbus Property	New 39-storey Melbourne Police HQ	800	Community & Other services
Brookfield Multiplex	405 Bourke Street - 156m tower	800	Mixed use
QIC Global Real Estate	Collins Street Paris end development	800	Mixed use
Queensland Investment Corp	Office and retail tower at 80 Collins Street	550	Mixed use
Carlton Connect Consortium	Carlton Connect Initiative	425	Mixed use
Under consideration or possible			
Paragon Premier Investment Fund	Koo Wee Rup Airport	7,000	Transport & Storage
JTX International	Humex mixed use development	1,700	Mixed use
Mirvac	Office tower at 477 Collins St, Melbourne	600	Finance, Property & Business services
MonashHeart	Victorian Heart Hospital - 195 beds	543	Community & Other services
Westfield	Extension of Westfield Doncaster Shopping Centre	500	Trade
Westfield Holdings Ltd	Westfield Knox shopping centre	450	Trade
Leighton Properties	Wesley Church on Lonsdale Street, Melbourne	450	Finance, Property & Business services
Mandarin Oriental Group	Mandarin Oriental Melbourne	375	Accommodation
SP Setia Berhad Group	Shangri La Melbourne	375	Accommodation
Grollo Property Group	34 level office tower at 710 Collins Street	375	Finance, Property & Business services

Source: Deloitte Access Economics, Investment Monitor

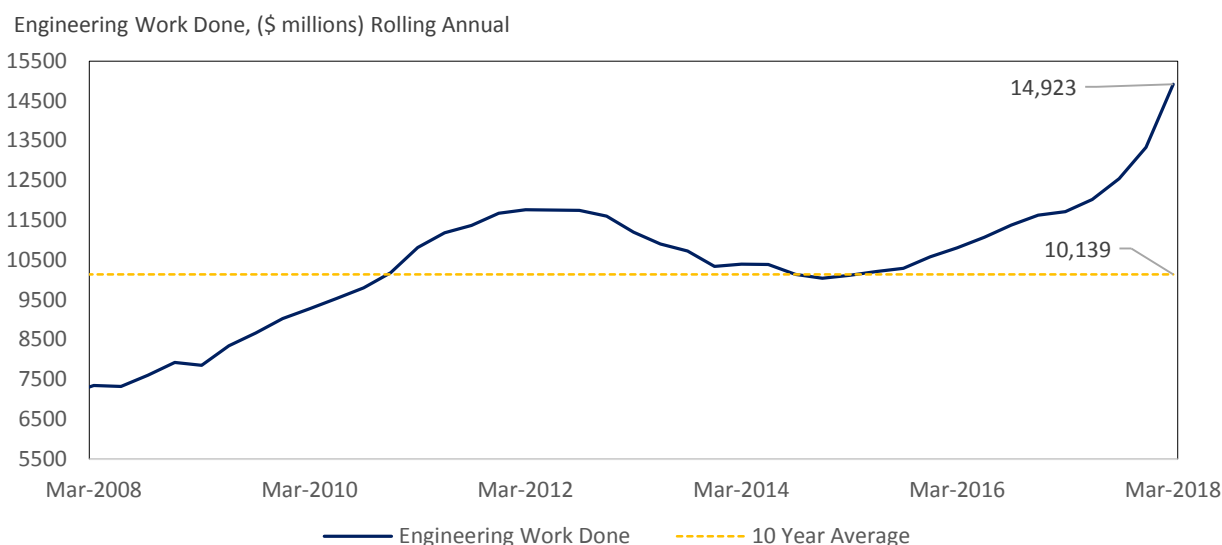
8 Industry Outlook, continued

Engineering

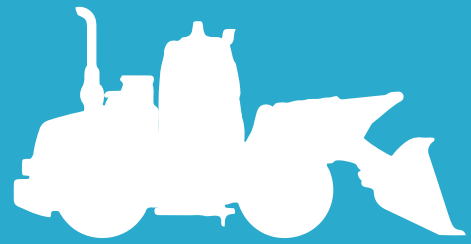
Chart 20 below shows the value of engineering work done in Victoria. The value of engineering work has risen by 15.3 per cent over the year to March 2018. The total value of work was recorded at over \$ 14.9 billion, which the highest value of work in Victoria's engineering sector recorded in a 12 month period.

- The total value of engineering work in the September quarter 2017 was recorded at \$4.4 billion, \$600 million higher than the value work done in the previous three months and more than \$1.5 billion higher than the value of work recorded in the first quarter of 2017.
- Over the year to March 2018 the total value of engineering work done was recorded at \$14.9 billion, largely as a result of major government funded transport infrastructure projects starting to show up in the statistics.

CHART 20: Engineering Value of Work Done, Victoria



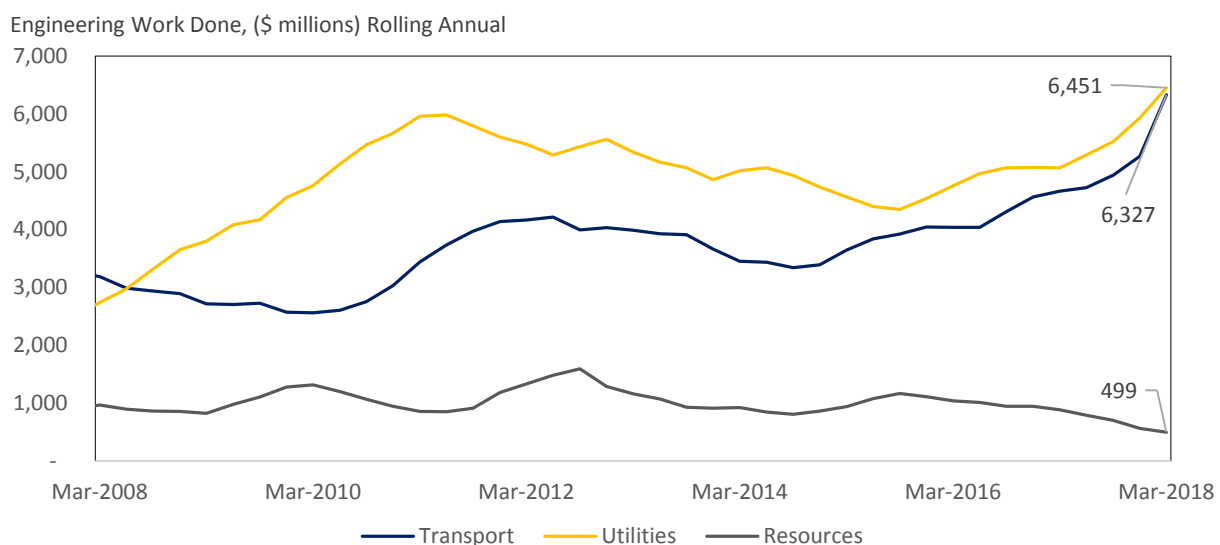
Source: ABS, Master Builders Australia



By sector in Victoria:

- Transport construction was recorded at \$2.2 billion in the March quarter 2018 and \$6.3 billion over the year – growth of 35.6 per cent.
- Utilities construction was recorded at \$1.7 billion in the March quarter 2018 and \$6.4 billion over the year – growth of 27.2 per cent, largely driven by the NBN rollout.
- Resources construction dipped to \$86 million in the September quarter, with activity in the year falling to \$498 million.

CHART 21: Engineering Value of Work Done, Victoria



Source: ABS, Master Builders Australia

8 Industry Outlook, continued

As the table below shows, investment in major transport infrastructure projects is the major driver of Victoria's project pipeline and a key source of economic activity. These projects will support broader economic activity over the next few years and productivity enhancing infrastructure for years to come. They will also be an important source of jobs, but training to ensure we have workers with the right skills to deliver these projects will become increasingly important.

TABLE 3: Engineering Projects, Victoria

Company	Project	Cost	Industry
Under construction or committed			
Victorian Rail Track	Melbourne Metro Rail Project	10,900	Transport & Storage
Transurban	West Gate Tunnel Project	6,700	Transport & Storage
Victorian Rail Track	Cranbourne-Pakenham Rail Upgrade	1,600	Transport & Storage
Vic State Government	Dandenong Rail Corridor	1,600	Transport & Storage
Transurban Group	CityLink upgrade	1,300	Transport & Storage
Victorian Rail Track	Metropolitan rail infrastructure renewal program	700	Transport & Storage
VicRoads	Western Highway Duplication - Ballarat to Stawell	659	Transport & Storage
Victorian Rail Track	Mernda rail extension project	597	Transport & Storage
Melbourne Metro Rail Authority	Ballarat Line Upgrade	518	Transport & Storage
Overland Sun Farming and Island Green Power	Y3 solar farms in the Mildura and Swan Hill districts	500	Electricity, Gas & Water
Under consideration or possible			
VicRoads	"North East Link" (Missing Link)	16,500	Transport & Storage
Latrobe Magnesium	Magnesium plant	1,000	Manufacturing
Origin Energy	Stockyard Hill Wind Farm	900	Electricity, Gas & Water
Santos Ltd	Shaw River 1,500MW gasfired power station	880	Electricity, Gas & Water
VicRoads	M80 Ring Roads upgrade	673	Transport & Storage
Tilt Renewables	Wind farm near Dundonnell	650	Electricity, Gas & Water
AGL Ltd	Tarrone Power Station	600	Electricity, Gas & Water
Australian Energy Company / Latrobe Fertilisers	Urea Plant (Stage 1), Latrobe Valley	550	Manufacturing
Victorian Rail Track	Gippsland Rail Upgrade	530	Transport & Storage
Astron Industries Pty Ltd	Donald mineral sands project	518	Mining

Source: Deloitte Access Economics, Investment Monitor



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