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## News Release

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### Flat building outlook takes pressure off interest rates

Leading industry analyst and economic forecaster, BIS Shrapnel, is forecasting national building commencements to be close to flat in 2010/11 and 2011/12.

The company's *Building in Australia 2010* report says that as the positive effect of fiscal stimulus programs fades, there will be less upward pressure on interest rates. Relatively favourable interest rates will allow apartment construction to become a key driver for economic growth over the next two years.

"Federal government stimulus programs were largely responsible for the strong 15 per cent rebound in the national value of total building commencements in 2009/10," says BIS Shrapnel Senior Economist, Jason Anderson. "The First-Home Buyer Boost Scheme, social housing and the Building Education Revolution programs were vital to the recovery in the building pipeline, following the 18 per cent plunge in starts during 2008/09."

BIS Shrapnel is forecasting support for the building industry from Federal Government spending to fall away during 2010/11 and 2011/12, and Anderson says the effects of this can already be seen.

"First-home buyer numbers are down by 50 per cent over the first half of 2010, compared to the first half of 2009, and non-residential building approvals have trended down sharply over the past six months," he says.

BIS Shrapnel predicts there will be two major drags on economic growth in 2010/11. The first is a substantial 27 per cent decline in net overseas migration to 175,000 people, which will constrain retail sales growth. The second is a three per cent drop in private sector non-residential construction (non-residential building plus engineering construction), which is considerably worse than the Commonwealth Treasury's latest forecast for a 7.5 per cent rise.

"In this environment, we are predicting only two rate hikes by the Reserve Bank of Australia in 2010/11, with the first coming towards the end of 2010," says Anderson.

Continuation of relatively favourable interest rates should encourage a recovery in first-home buyer numbers over the first half of 2011. A revival of first-home buyer demand would give residential property markets a second wind, and buoy upgrader and investor demand for new dwellings. In turn, BIS Shrapnel expects national home renovation expenditure will show solid growth of six per cent in 2010/11.

Apartment projects are also expected to deliver a substantial upside for the national economy during 2010/11, and beyond. The national number of private sector medium and high density dwellings has remained very low over the past few years so BIS Shrapnel is expecting a pick up. On the other hand, the number of private house commencements has been strong, with 2009/10 seeing the highest annual level since 2003/04, and should remain solid.

“Prospects for a sustained recovery in residential building activity are heavily dependent on demand in New South Wales and Queensland,” says Anderson. “Stamp duty relief for new dwellings in New South Wales is expected to encourage a strong upturn in starts of apartment projects from 2010/11.

“More apartments would help to address housing shortages across Sydney – particularly in Western Sydney, where average population growth over the past decade has been weak on average, due to the lack of new housing.”

BIS Shrapnel says part of the rationale for an extended recovery in apartment construction is that developers will have limited opportunities emerging from the non-residential building sector.

“We are forecasting national non-residential building starts to drop by 14 per cent in 2010/11 and five per cent in 2011/12, reaching the lowest level since 2005/06,” says Anderson. “This outlook is an inevitable consequence of education project stimulus phasing down, but is also due to a slow recovery in the number of major commercial and industrial building projects.

“The overall mix of building and construction activity provides a near-term opportunity for developers of residential projects. Softness in non-residential building should result in more competitive tendering and cost benefits for apartment projects.”

### **BIS Shrapnel forecasts by state**

#### **New South Wales**

In New South Wales total building commencements are forecast to grow three per cent in 2010/11 and eight per cent in 2011/12. Growth in residential construction is anticipated to be very strong over these years, with new dwelling commencements coming off a very low base.

Non-residential activity is forecast to weaken. Although the value of commercial building is anticipated to rebound from a very low level in 2009/10, education and health spending are forecast to weaken considerably, as public stimulus winds down.

#### **Victoria**

Total building construction in Victoria is forecast to be flat over the next two years. Residential construction is expected to hold close to steady. As the volume of house and higher density starts in Victoria is currently running at record high levels, little upside is expected to develop over the coming few years.

However, a mild contraction in non-residential building is forecast. This is caused by an exhaustion of stimulus funding for education projects which will be somewhat offset by a lift in commercial and industrial starts over the next two years.

#### **Queensland**

In Queensland growth of eight per cent in 2010/11 and two per cent in 2011/12 is forecast for the value of total building commencements. Strong growth is anticipated for residential commencements over 2010/11 and 2011/12, with both detached house and higher density projects contributing.

Non-residential commencements are anticipated to weaken notably in 2011/12 as spending on education and health projects winds back to more historically normal levels.

#### **South Australia**

In South Australia a contraction in total building construction of seven per cent is forecast for 2010/11 before a 17 per cent expansion in 2011/12. Non-residential construction is anticipated to contract in 2010/11 before expanding significantly in 2011/12, supported by a lift in health-related commencements.

Moderate growth in new house construction is forecast, continuing the stable upwards trend in Adelaide dwelling construction over the past decade.

## **Western Australia**

A 14 per cent contraction in total building construction is forecast for Western Australia in 2010, before flattening in 2011/12. This weakness will be driven by non-residential construction. Health and education construction are both coming off a very high base in 2009/10, and further weakness in commercial construction is expected.

Moderate growth in residential construction is forecast in both years.

## **Tasmania**

Total building construction in Tasmania is forecast to weaken by 10 per cent in 2010/11 and two per cent in 2011/12. Non-residential construction will drive the contraction. Residential construction is anticipated to hold relatively stable at its current robust level.

## **Northern Territory**

In the Northern Territory growth of 17 per cent and three per cent is forecast for total building construction over 2010/11 and 2011/12 respectively. Residential construction is expected to lift strongly, especially in 2010/11. New dwelling construction is coming off a low base in 2009/10, and significant pressure is evident in the Darwin property market. A modest contraction in non-residential is anticipated over both years.

## **Australian Capital Territory**

Total building commencements in the Australian Capital Territory are forecast to weaken by 14 per cent in 2010/11 and a further 10 per cent in 2011/12. Residential construction ran at a very high level over 2009/10. New dwelling construction is expected to weaken moderately over the coming two years.

Non-residential building was sustained at a very high level over the 2005/06 – 2009/10 period. The level of non-residential construction is anticipated to fall to a more historically normal level over the next two years.

## **About BIS Shrapnel**

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 46-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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