



28 September 2018

## AUSTRALIAN ECONOMIC DEVELOPMENTS

This week the Commonwealth Government released the 2017-18 final budget outcome. The underlying cash deficit was \$10.1 billion (or 0.6% of GDP), down from the \$29.4 billion deficit forecast in May 2017 when the 2017-18 Budget was delivered. Tax receipts were \$13.8 billion higher than forecast in the budget outcome and were boosted by company tax receipts and individual income receipts - in line with a robust jobs market. On the expenses side, there was a sizeable \$6.9 billion government underspend due to lower than expected spending on the NDIS, payments to the states and delays to infrastructure projects.

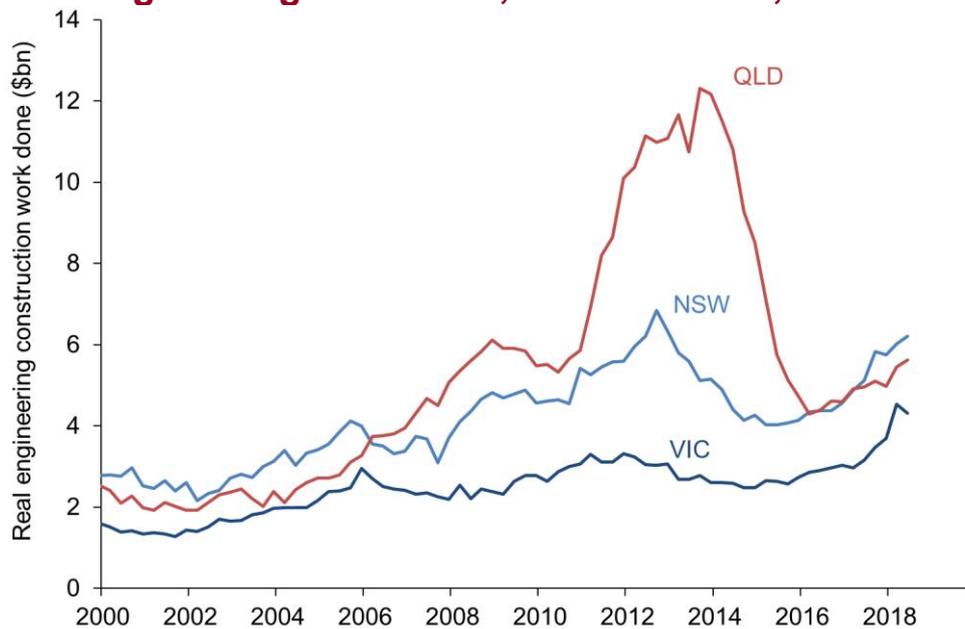
The ABS' latest estimates of engineering construction activity for the June quarter (Q2) of 2018, indicate that the infrastructure boom is continuing on the eastern seaboard. The transition away from the mining boom is almost complete with more engineering construction work done in the non-mining states than the mining states. Much of the new work is for publicly-funded infrastructure with a significant volume of this work being contracted out to the private sector. Engineering work done for the public sector by the private sector accounted for 73% of all engineering work being done for the public sector in Q2 2018. Work in the pipeline for transport infrastructure (roads, highways, bridges and rail) is near record highs reflecting major projects that are about to start construction.

Job vacancy data released this week by the ABS suggests strong employment growth in the coming months. Although the growth in job vacancies slowed in the quarter, job vacancies still rose to a record high of 240,900. The ratio of unemployed workers to job vacancies fell to 2.96 in the quarter, the lowest level since the ABS started tracking job vacancies again in 2009. However, the change in vacancies reported by the ABS are significantly higher than other measures of vacancies, which suggest slower, albeit still positive, employment growth.

### East coast infrastructure boom rolls on

The ABS estimates that the real value of engineering construction work done in Q2 of 2018 increased 2.2% q/q to \$24.2 billion (seasonally adjusted, inflation adjusted). Across the states, engineering construction work done is near record highs in Victoria while NSW engineering construction climbed to its highest level in five years and Queensland activity was at its strongest level since Q4 2015 (chart 1).

**Chart 1: Real engineering work done, eastern states, seasonally adjusted**

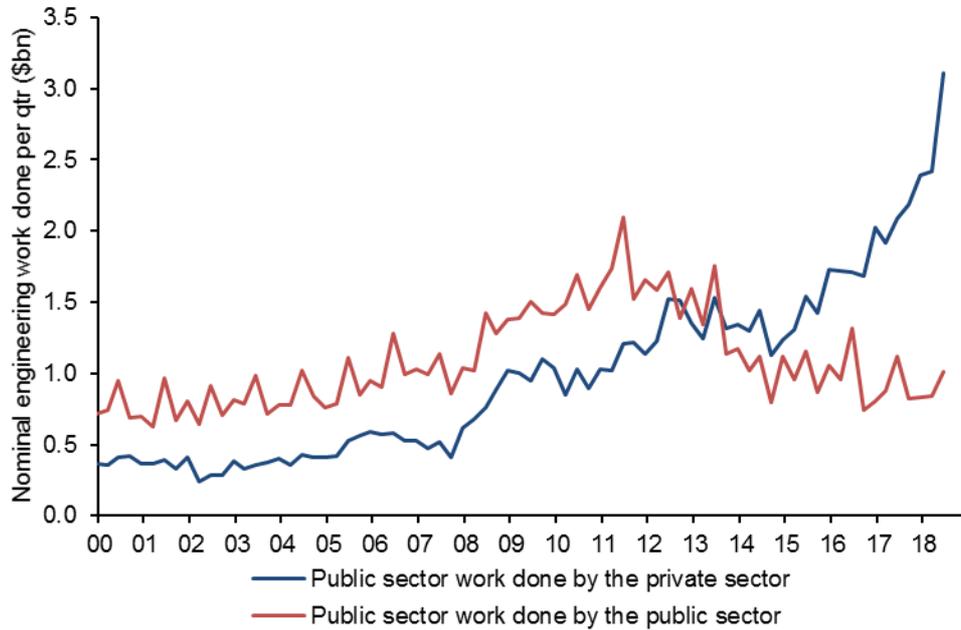


Source: ABS, *Engineering Construction Activity*, Jun 2018

As has been the case since 2002, the majority of engineering construction work done in Q2 2018 was for the private sector. However, work done for the public sector is rising with work undertaken in the 2017-18 financial year valued at a record \$37.4 billion. Engineering work done by the private sector for the public sector rose by 7.6% q/q and 30.7% p.a. to \$7.2 billion in Q2 of 2018 (real inflation-adjusted volumes, seasonally adjusted) and accounted for 73% of all engineering work being done for the public sector. This momentum is particularly evident in Victoria and New South Wales where work done by the private sector for the public sector accounted for 87% and 75% of all engineering work being done for the public sector, respectively (nominal, unadjusted data, see charts 2 and 3). Major publicly funded projects under construction include the NBN, level crossing removals in Victoria, WestConnex in New South Wales and the Sydney and Melbourne Metros.

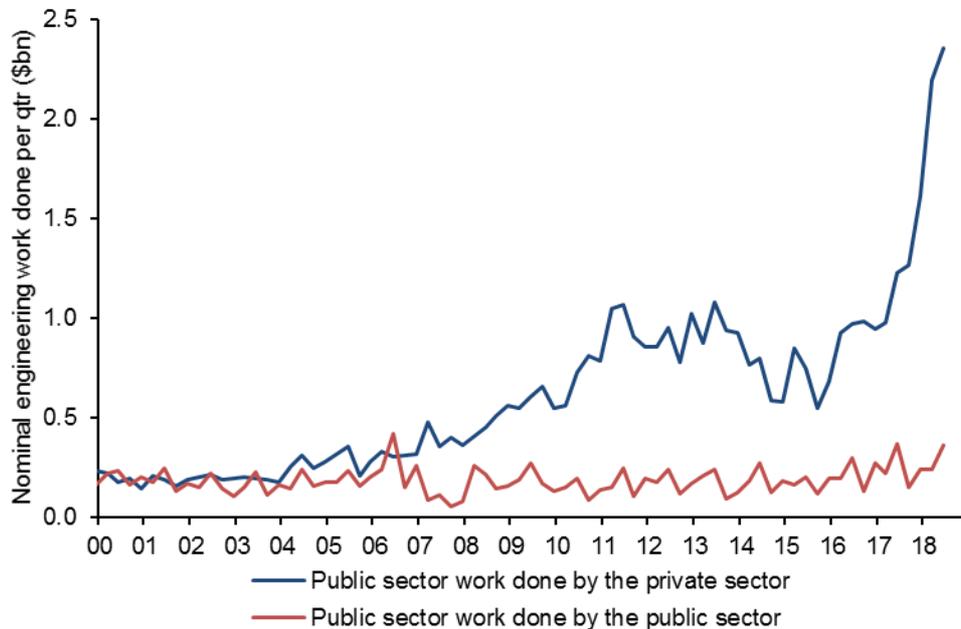
The nominal value of public-sector infrastructure work on roads, bridges and rail has been rising steadily for the last two years (see Chart 4). Telecommunications (which includes the work done for the roll-out of the NBN) has also seen a sizeable increase in engineering work for the public sector. However, with the NBN on track to finish in 2020 this will withdraw a significant amount of infrastructure spending that been the largest contributor to engineering construction outside of the capital cities.

**Chart 2: NSW engineering work done for the public sector**



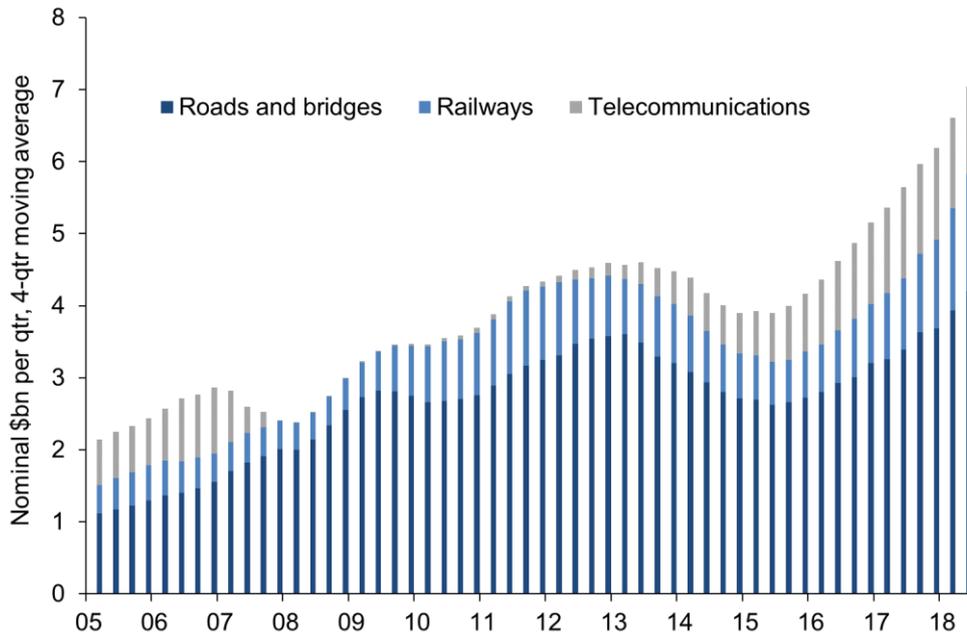
Source: ABS, *Engineering Construction Activity*, Jun 2018

**Chart 3: Victoria engineering work done for the public sector**



Source: ABS, *Engineering Construction Activity*, Jun 2018

**Chart 4: Engineering construction work done for the public sector, selected activities, (original, 4-quarter moving average)**

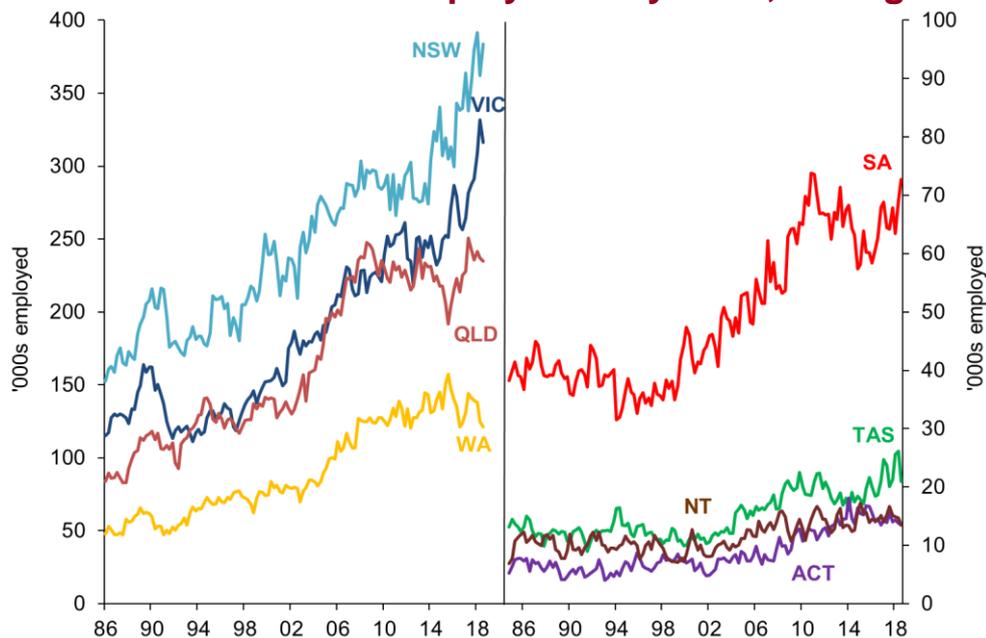


Source: ABS, *Engineering Construction Activity*, Jun 2018

The amount of construction activity in Australia remains elevated. According to surveyor Rider, Levett and Bucknall (RLB Crane Index), the number of fixed cranes across Australia’s skyline reached a record 735 cranes in the September quarter of 2018, with 70% involved in residential construction. There are currently more fixed cranes (as opposed to mobile ones) being used in Australian than the whole of the United States.

Construction industry jobs are also booming, with a further 36,300 jobs added in the year to August 2018. Employment in the ‘heavy and civil engineering construction segment’ has almost doubled since 2016, rising from 65,800 in August 2016 to 120,700 in August 2018 (unadjusted data). Consistent with the changing geographic destination of engineering construction activity, construction employment has risen particularly rapidly in NSW and Victoria over the past year (Chart 5).

**Chart 5: Construction employment by state, to Aug 2018**

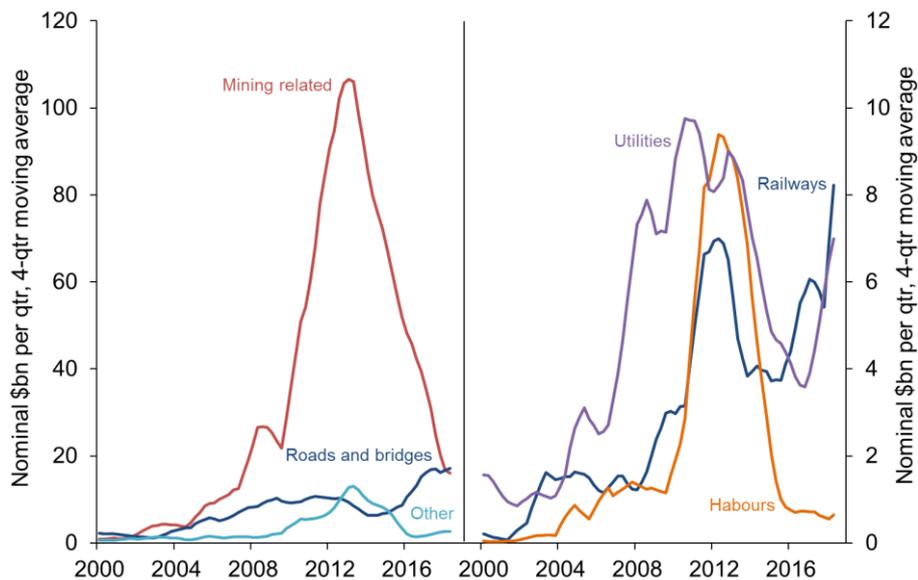


Note: Data is unadjusted. Right hand axis is a different scale to left hand axis.  
 Source: ABS *Labour force Australia, detailed quarterly*, Aug 2018

The record backlog of housing, non-residential and infrastructure projects is leading to cost pressures. In recent months, respondents in the [Australian PCI®](#) have been reporting rising costs due to robust demand for construction materials, elevated energy input costs and supplier price hikes related to strength in commodity prices. Increased demand for workers is also continuing to support wages growth in the construction industry. This is in line with the surge in large-scale transport infrastructure projects and other publicly funded works which has generally led to heightened demand for construction workers and increasing reports of difficulties in filling related skilled vacancies. Indeed, skilled vacancies for construction managers are around the highest level in seven years and the average annual wage increase in new construction EBA agreements rose to 5.5% in Q1 2018 (see our *EBA Fact Sheet for Q1 2018* [here](#)).

Looking ahead, the pipeline of future work grew in Q2, with the value of work yet to be commenced in Q2 lifting to \$64.4 billion, up from \$59.8 billion in Q1 (nominal, unadjusted data). The private sector is expected to undertake \$60.9 billion of this engineering construction, with \$23.9 billion being done for the public sector. Excluding mining related projects (including LNG projects), work in the pipeline stands at \$43.1 billion. Although this is below the record high of \$45.3 billion in Q1 2012, future work across key project areas including transport infrastructure (roads, highways and bridges), railways and utilities is increasing. Outstanding work for transport infrastructure and railways were just below record highs in Q2, while work yet to be done on utilities (electricity generation, transmission and distribution work) was at five-year highs. Major projects that will enter the pipeline include the East Coast Inland rail line, Melbourne Airport rail, Brisbane Cross River Rail and Badgerys Creek rail.

**Chart 6: Work yet to be done by the private sector  
(original, 4-quarter moving average)**



Note: The scale on the left axis is ten times the scale on the right axis. 'Other' includes pipelines, recreation, telecommunications, other heavy industry and other.  
Source: ABS, *Engineering Construction Activity*, Jun 2018

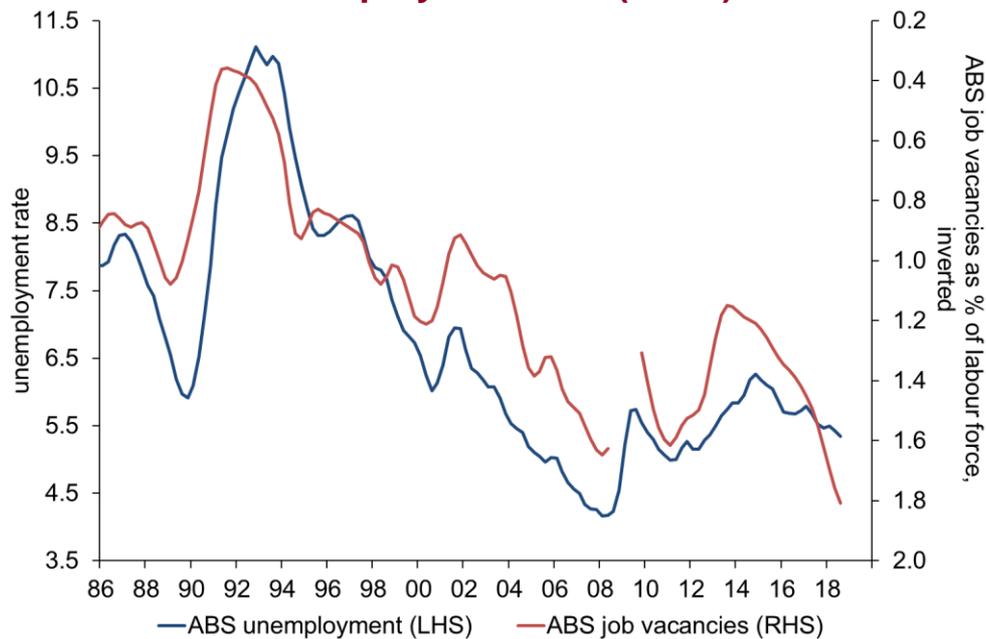
**ABS Job Vacancies suggest employment growth will continue in 2018**

Following on from The Department of Jobs and Small Business Internet Vacancy Index (IVI)<sup>1</sup> (see [Economics Weekly 21 September 2018](#)), job vacancy data released by the ABS this week indicate job vacancies rose 3.4% q/q to another record high of 240,900 in August 2018 (trend). This comprised of 220,000 private sector vacancies, which have increased by 20.3% p.a., and 20,900 public sector vacancies, which have grown by 9.5% p.a. Growth in the quarterly trend measure of job vacancies was slower than the previous quarter. Despite the slowing in growth, total job vacancies are up 19.3% over the year.

ABS job vacancies as a proportion of the total labour force are now at their highest level on record at 1.8%, indicating that there are more job vacancies as a proportion of people who are working or looking for work. This measure tends to lead movements in the unemployment rate by 3-9 months and suggests the unemployment rate may fall further the coming months (see chart 7). The number of unemployed persons per job vacancy decreased further, implying job vacancies are increasing at a faster rate than the number of people who are unemployed. The ratio of unemployed workers to job vacancies fell to 2.96 in the quarter, the lowest level in a decade and has been trending downwards since the recent peak of 5.19 in November 2014 (chart 8).

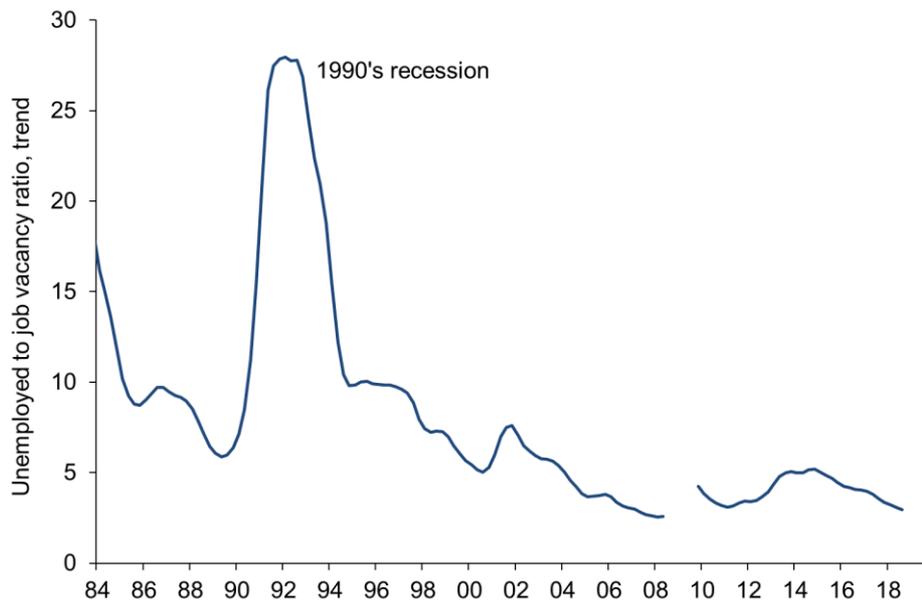
<sup>1</sup> The IVI is based on a count of online job advertisements newly lodged on SEEK, CareerOne and Australian JobSearch during the month.

**Chart 7: ABS Job Vacancies as proportion of labour force and unemployment rate (trend)**



Note: The survey was suspended between May 2008 and November 2009  
 Source: ABS *Job Vacancies*, Aug 2018; ABS *Labour Force*, Aug 2018

**Chart 8: Unemployed to job vacancy ratio (trend)**



Note: The survey was suspended between May 2008 and November 2009  
 Source: ABS *Job Vacancies*, Aug 2018; ABS *Labour Force*, Aug 2018

However, other leading indicators of employment growth suggest slower, albeit robust employment growth in coming months. The change in vacancies reported by the ABS - both over the quarter and past year - are significantly higher than other measures of vacancies such as the Department of Jobs and Small Business IVI, ANZ job ads and Seek job ads (see Table 1).

**Table 1: Job vacancy data for August 2018 (trend)**

August 2018	'000s (trend)	% change p.a. (trend)
ANZ job ads	177.5	6.2%
Internet vacancy index	183.1	4.5%
ABS job vacancies	240.9	19.3%
Seek job ads	N/A	6.0%

Source: ANZ *Job Ads*, Aug 2018; Department of Jobs and Small Business *Vacancy Report*, Aug 2018; ABS *Job Vacancies*, Aug 2018; SEEK *Employment data report*, Aug 2018.

**Please note** the FX and commodity prices on the back page were updated on Thursday afternoon this week instead of Friday morning.

## This week's data and events, 24 Sep – 28 Sep 2018

Day	Date	Data/event	Data period	Result
Tue	25 Sep	ABS Gender Indicators	Sep 2018 (A)	Median graduate salary: females \$59k, males \$60.1k
Wed	26 Sep	Engineering Construction	Mar (Q)	2.2% q/q, -5.2% p.a.
Thu	27 Sep	ABS Job Vacancies	Aug (Q)	240,900 job vacancies; +3.4 q/q, 19.3% p.a. (trend)
		ABS Finance and Wealth	Jun (Q)	Interest payable to income ratio 11.0%
Fri	28 Sep	RBA Financial Aggregates	Aug (M)	TBA

M = monthly. Q = quarterly. H = half-yearly. A = annual. All data are seasonally adjusted unless otherwise noted.

## Next week's data and events, 1 Oct – 5 Oct 2018

Day	Date	Data/event	Data period due for release	Result of previous release
Mon	1 Oct	Australian PMI®	Sep (M)	Aug (M): 56.7 points
Tue	2 Oct	RBA Board Meeting	Oct (M)	Sep (M): Cash rate 1.50%
		ABS Internet Activity	Jun (H)	Dec (H): 14.2mn internet subscribers
Wed	3 Oct	Australian PSI®	Sep (M)	Aug (M): 52.2 points
		ABS Building Approvals	Aug (M)	Jul (M): No. of dwellings approved - 5.2% m/m, -5.6% p.a.
Thu	4 Oct	ABS International Trade in Goods and Services	Aug (M)	Jul (M): imports \$34.5bn; exports \$36.1bn
Fri	5 Oct	Australian PCI®	Sep (M)	Aug (M): 51.8 points
		ABS Retail Trade	Aug (M)	Jul (M): \$26.8bn, 0.0% m/m
		RBA Speech by Alex Heath, Head of Economic Analysis	Oct (M)	N/A

M = monthly. Q = quarterly. H = half-yearly. A = annual. B= Biennial. All data are seasonally adjusted unless otherwise noted.

## Australian economy: latest full-year growth rates and government forecasts

RBA SoMP (August 2018)	2016-17 a	2017-18 a	2018-19 f	2019-20 f	2020-21 p	2021-22 p
GDP, % change p.a., year end	1.8	3.4	3.25	3.0		
Unemployment rate, %, year end	5.6	5.4	5.25	5.25		
Inflation (CPI), % change p.a., year end	1.9	2.1	2.0	2.25		
<b>Treasury Budget 2018-19 (May 2018)</b>						
GDP, % change p.a., year average	2.1	2.9	3.0	3.0	3.0	3.0
Household consumption, % p.a., year average	2.6	3.0	2.75	3.0		
Dwelling investment, % p.a., year average	2.8	-0.4	1.5	0.0		
Business investment, % p.a., year average	-4.0	8.7	3.0	4.5		
Terms of trade, % change p.a., year end	14.4	2.1	-5.25	-2.25		
Employment growth, % p.a., year end	1.9	2.7	1.5	1.5	1.25	1.25
Unemployment rate, %, year end	5.6	5.4	5.25	5.25	5.25	5.0
Inflation (CPI), % change p.a., year end	1.9	2.1	2.25	2.5	2.5	2.5
Wages (WPI), % change p.a., year end	1.9	2.1	2.75	3.25	3.5	3.5

a = actual f = forecast p = projection

Sources: ABS various data; RBA *Statement on Monetary Policy* (SoMP), latest quarter; Australian Treasury, *Budget 2018-19* (May 2018).

## Australian economy: latest indicators

Economy			FX and commodity prices (Thursday afternoon)		
RBA official cash rate, %	Sep (M)	1.50 -	AUD/USD exchange rate	US\$0.7239	▼
Real GDP, % change p.a.	Jun (Q)	3.4% ▲	Oil price (WTI light crude, USD/BBL)	US\$72.34	▲
Headline CPI, % change p.a.	Jun (Q)	2.1% ▲	Gold price (USD/OZ)	US\$1,196.63	▼
Unemployment rate, % trend	Aug (M)	5.3% ▼	Copper price (USD/tonne, LME spot)	US\$6257.00	▲

## Australian Industry Group monthly performance of industry indices

Australian PMI®	Aug (M)	56.7 ▲
Australian PSI®	Aug (M)	52.2 ▼
Australian PCI®	Aug (M)	51.8 ▼

M = monthly. Q = quarterly. All data are seasonally adjusted unless otherwise noted.

Arrows represent direction of movement relative to last week for prices, and last observation for growth rates and indices.

Sources: ABS various data; Ai Group; Australian Financial Review market prices (as of Thu); London Metals Exchange market prices (as of Thu).

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