ECONOMICS WEEKLY

12 April 2019

AUSTRALIAN ECONOMIC DEVELOPMENTS

This week the IMF updated its assessment of the global economy. It describes 2019 as a *"delicate moment for the global economy"*. A year ago, economic growth was accelerating in most regions around the world. Now, the IMF projects growth to decelerate for 70% of the world economy (by value) in 2019, including in Australia. Most advanced economies slowed in the second half of 2018 and this weakness has persisted into the first half of 2019. The IMF forecasts global output growth to slow to 3.3% in 2019, before rebounding to 3.6% in 2020. The IMF downgraded its forecast for Australian output growth to 2.1% p.a. in 2019, which is 0.7 percentage points lower than its forecast published last October and 1.0 percentage points lower than in April last year. This downgrade comes just one week after the Australian Treasury downgraded its forecasts for the Australian economy in 2019 and beyond, as part of its annual Federal Budget papers.

In Australia, the Deputy Governor of the RBA, Guy Debelle, made a speech on *"The State of the Economy".* Debelle noted that GDP growth has been surprisingly weak, but the labour market has been surprisingly strong, with unemployment now at an eight-year low. This conundrum is also playing out in other countries such as Germany, Canada and the United Kingdom. One explanation is that productivity growth is very weak, and another is that the labour market is a lagging indicator (that is, the strength of the labour market is simply a reflection of the strength in output growth in the first half of 2018). Debelle also touched on the housing market and noted that mortgage arrears rates have been edging up but remain at a low level. The labour market and incomes growth will be the critical factor for arrears rates from here, since households tend not to move into arrears, so long as they have sufficient income to pay their mortgage.

On the housing market, ABS building activity data show the number of new dwellings built in Australia fell to 215,000 in the December quarter (Q4) 2018, down from a record high in Q1. Almost three quarters of new dwellings were built in Victoria and New South Wales in 2018.

Australian consumers were slightly more optimistic in April 2019, with the Westpac-MI Index of Consumer Sentiment rising by 1.9% m/m to 100.7 points from 98.8 points in March (results over 100 points indicate 'net optimism' in this survey). The April survey was conducted over five days either side of the Federal Budget on 2 April 2019. Westpac reports that sentiment was 7.7% higher amongst respondents surveyed post-budget than those surveyed pre-budget, indicating the Budget helped consumers feel slightly more optimistic in April.

The Prime Minister announced the next Federal Election will be held on Saturday 18 May 2019.

IMF forecasts global growth to slow to lowest level since GFC

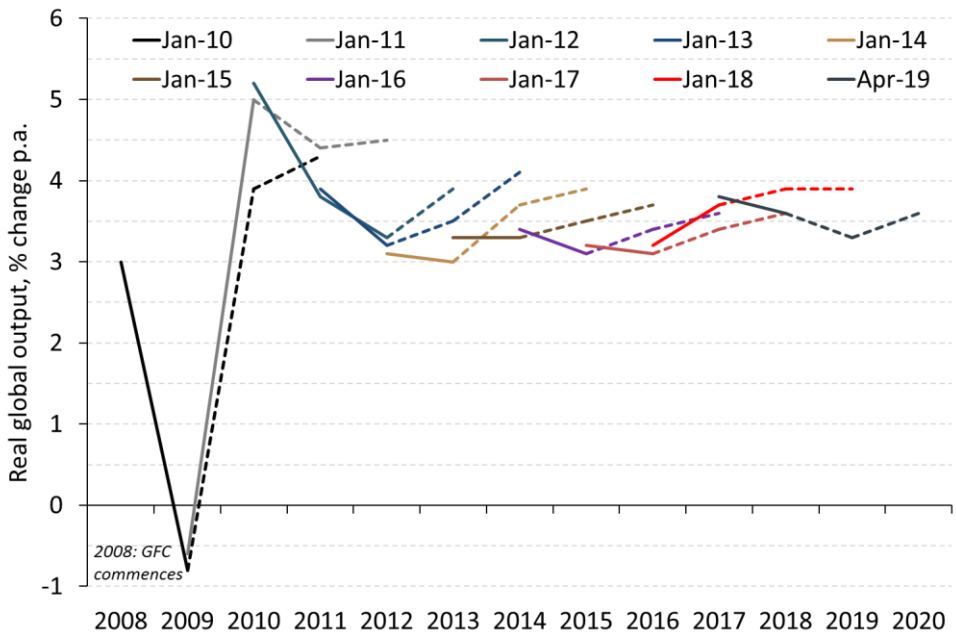
In its latest *World Economic Outlook*, the IMF forecasts growth in global output of 3.3% p.a. in 2019, down from 3.9% p.a. in its forecasts published in April 2018. If realised, this would be the slowest rate of global growth since the Global Financial Crisis (GFC) (table 1). The IMF's forecasts for growth in global output have generally erred on the optimistic side over the decade since the GFC however, so even this gloomy forecast may prove to be too high for 2019 (chart 1).

Table 1: IMF growth forecasts and revisions, selected economies, April 2019

Real GDP, % change p.a.	2018	2019p (Revision from Oct 2018)	2020p
World output	**3.6**	**3.3 (-0.4)**	**3.6 (-0.1)**
Advanced economies	**2.2**	**1.8 (-0.3)**	**1.7 (0.0)**
US	2.9	2.3 (-0.2)	1.9 (0.1)
Euro area	1.8	1.3 (-0.6)	1.5 (-0.2)
UK	1.4	1.2 (-0.3)	1.4 (-0.1)
Japan	0.8	1.0 (0.1)	0.5 (0.2)
Australia	2.8	2.1 (-0.7)	2.8 (0.1)
Emerging and developing economies	**4.5**	**4.4 (-0.3)**	**4.8 (-0.1)**
China	6.6	6.3 (0.2)	6.1 (-0.1)
ASEAN-5	5.2	5.1 (-0.1)	5.2 (0.0)
India	7.1	7.3 (-0.1)	7.5 (-0.2)
World trade volumes, % change p.a.	**3.8**	**3.4 (-0.6)**	**3.9 (-0.2)**

p = projection. Source: IMF *World Economic Outlook Update*, April 2019.

Chart 1: IMF forecasts for global output, real GDP growth, % p.a.



- solid lines denote actual global output growth rates. --- dotted lines denote IMF forecasts.
Source: IMF, *World Economic Outlook*, April 2019 and previous editions.

This latest deceleration reflects slower than expected growth in several major economies including the euro area, Latin America, the United States, the United Kingdom, Canada and Australia. The IMF says slower than expected growth in the second half of 2018 has persisted into the first half of 2019. It attributes this to a number of factors including: US–China trade tensions, credit tightening in China, economic woes in Argentina and Turkey, disruptions to the auto sector in Germany, financial tightening, and higher central bank interest rates in the larger advanced economies (especially the United States).

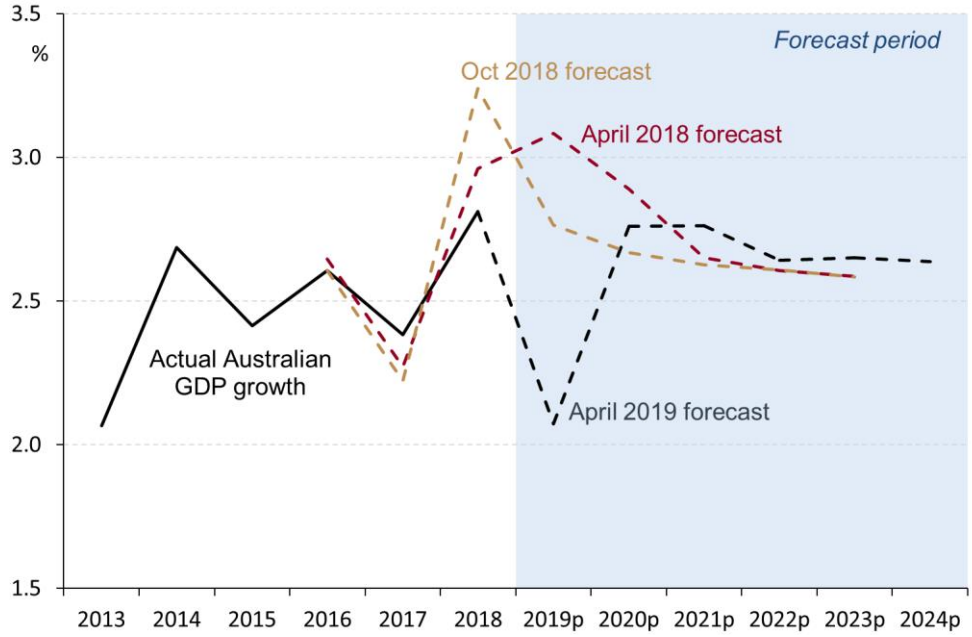
Among advanced and developing economies, growth prospects are diverging. In advanced economies, growth will slow from 2.2% in 2018 to 1.7% in 2020 (table 1). In contrast, emerging and developing economies are expected to boost global growth after 2019, with growth easing from 4.5% in 2018 to 4.4% p.a. in 2019, before climbing to 4.8% in 2020. The IMF says risks are currently tilted to the downside. Escalating trade tensions are the greatest near-term threat to global growth because it damages confidence, asset prices and investment. However, if trade differences are resolved quickly this could balance some of the risks. Over the medium term, the IMF says climate change and political discord are key risks that could lower global potential output. In response, the IMF recommends "*multi-national cooperation to resolve trade conflicts, address climate change and the risks from cybersecurity and to improve the effectiveness of international taxation."* At national level the IMF recommends fiscal policy that manages the trade-offs between supporting demand and making sure that public debt stays on a sustainable path.

For Australia, the IMF expects output growth to ease from 2.8% in 2018 to 2.1% in 2019. This forecast for 2019 is 0.7 percentage points lower than the IMF expected last October and a full one percentage point lower than it expected in April last year (Chart 2). It is also significantly lower than the IMF report on Australia of January 2019, which expected GDP growth to be 2.7% in 2019.

The IMF report welcomed Australia's commitment to trade and participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11). However, it warned that *"baseline forecasts entail a soft landing in the housing market, but a stronger market correction remains a risk. Overall, near-term risks to growth are to the downside, mirroring the global risk picture, with the impact of shocks potentially being amplified by high household debt."*

For Australia's next Government, the IMF recommends a supportive macroeconomic policy stance, stable macroprudential policies, raising potential growth through tax reform, sustained promotion of innovation and competition, and energy market reform.

Chart 2: IMF forecasts for Australia, real GDP growth, % p.a.



Note: p = projection. Source: IMF, April 2019

Number of new homes being built hit a 3-year low in Q4 of 2018

Building activity includes residential houses and apartments and non-residential buildings (offices, warehouses, hospitals etc.) but excludes engineering construction. It accounted for 57% of the total construction activity in Australia in 2018.

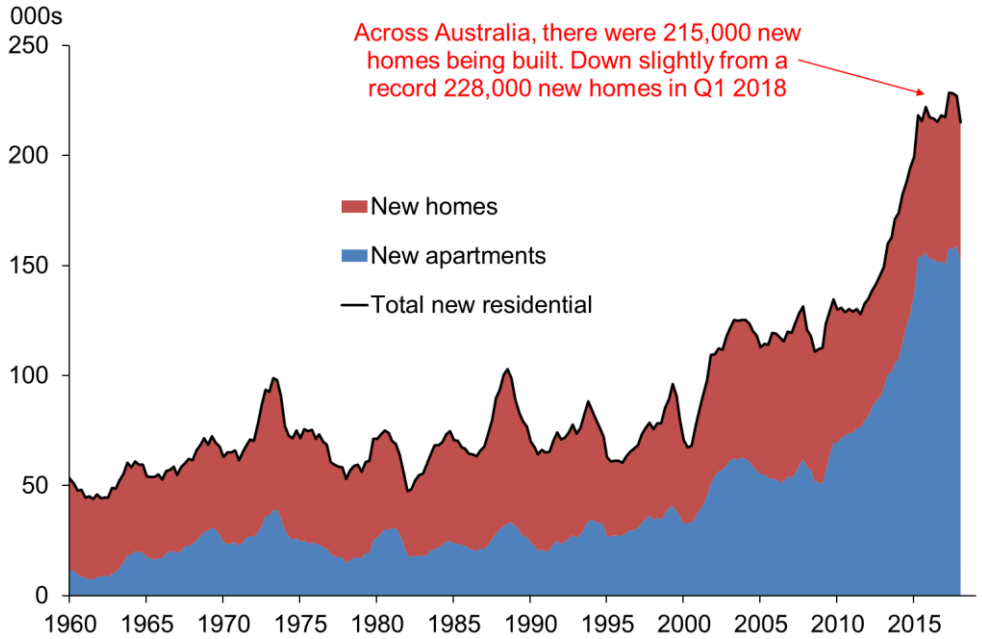
The ABS detailed estimates of building activity in the December quarter (Q4) of 2018, show the number of new residential dwellings under construction across Australia fell to 215,000, down from a record high in Q1 2018 of 228,000 (unadjusted data, Chart 3). This consisted of 63,000 'new houses' and 152,000 'new other residential buildings' (mostly apartments). The number of new homes currently being built are at the lowest level since December 2015 but remains high compared to historical levels. The number of homes being built in each quarter has increased by almost two-thirds from around 130,000 per quarter in 2010.

Most of this increase came from new apartments being built (particularly in Sydney and Melbourne). In Q4 2018, apartments accounted for 71% of all new homes being built, up from 53% in 2010. Almost three quarters of these new apartments were built in Victoria and New South Wales in Q4 2018, including 48,946 new apartments in Victoria and 62,982 apartments in New South Wales (see Chart 4 and Table 2).

Building approvals, sales and now sentiment have all passed their peak. Actual building activity tends to lag behind these indicators by several months (due to lengthy planning and construction times). The number of residential approvals fell by 21% p.a. in Q4 2018 and continued to trend down in January and February (see *Economics Weekly 5 April 2019*). The number of dwelling commencements fell by 14.4% p.a. in Q4 2018. Building completions – the last stage in the

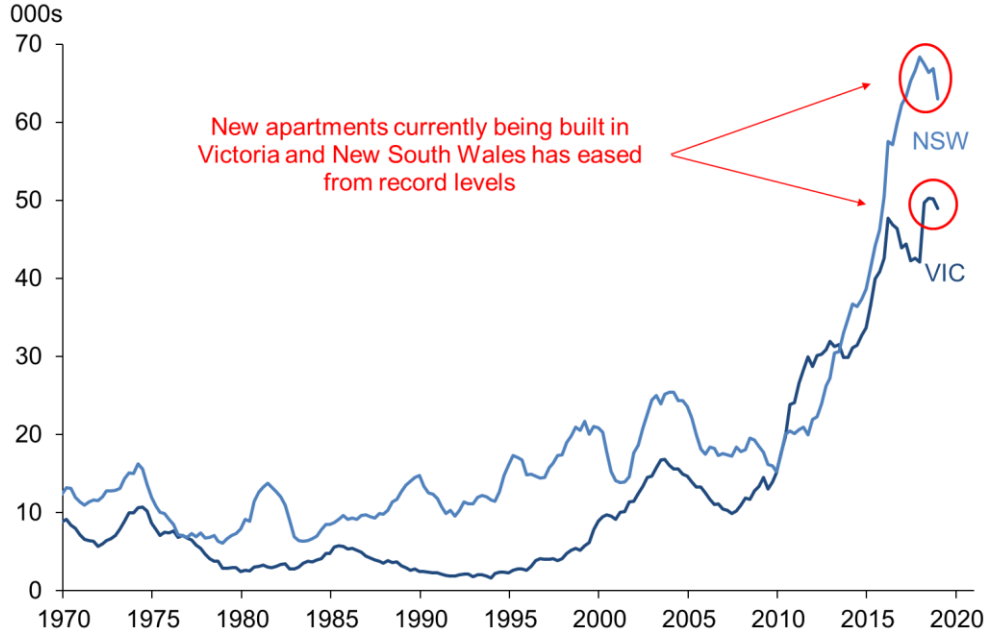
process - were still increasing in Q4, up by 6.7% p.a. (trend). The recent falls in building approvals and commencements suggest the number of completions will soon decline as well (see Chart 5). Although still at near record levels, residential construction activity may fall further in 2019.

Chart 3: Number of new dwellings being built in the quarter, unadjusted data



Sources: ABS *Building Activity*, Dec 2018

Chart 4: Number of new apartments being built in NSW and VIC



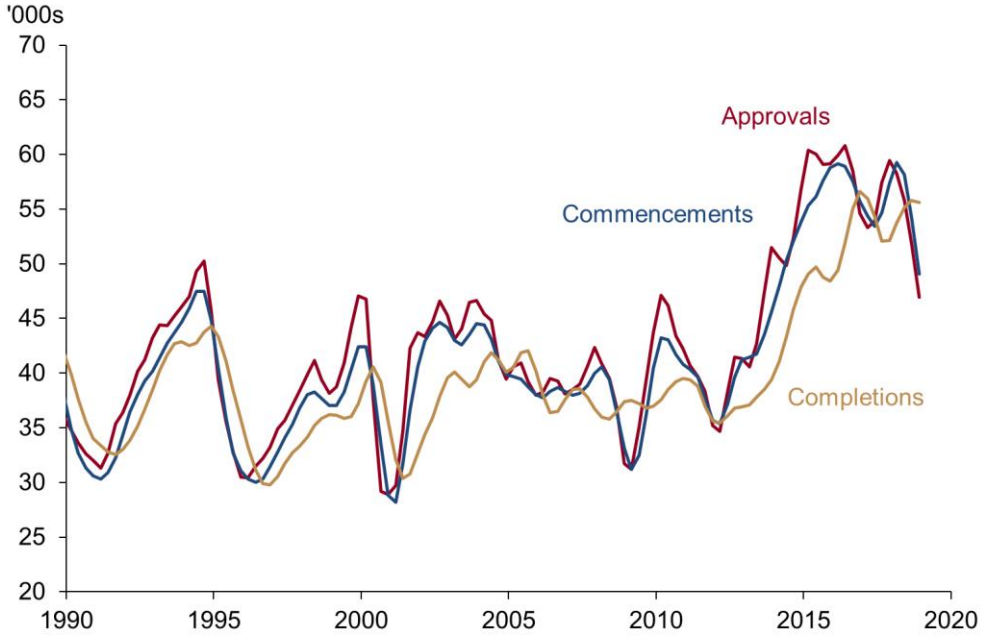
Sources: ABS *Building Activity*, Dec 2018

Table 2: Number of new dwellings being built, by state, Q4 2018

State (unadjusted data)	New houses '000 per qtr	New apartments '000 per qtr	New residences '000 per qtr
NSW	18,847	62,982	81,829
VIC	20,871	48,946	69,817
QLD	8,845	21,325	30,170
SA	4,698	4,845	9,543
WA	6,981	5,522	12,503
TAS	1,655	322	1,977
NT	262	607	869
ACT	961	7,389	8,350
Australia	**63,120**	**151,938**	**215,058**

Sources: ABS *Building Activity*, Dec 2018

Chart 5: Approvals, commencements & completions in quarter (trend)



Sources: ABS *Building Activity*, Dec 2018

Looking at non-residential as well as residential building activity, the volume of all building work done in Q4 2018 across Australia fell slightly to $29.4bn in Q4 2018 (-2.6% q/q) but remained 0.8% higher than a year earlier. The volume of residential construction fell in Q4 2018, dropping by 4.1% q/q to $18.9 billion (seasonally adjusted and inflation adjusted). The volume of non-residential construction is looking more stable at $10.5 billion in Q4 2018. This took the total volume of all construction work done in Q4 (residential and non-residential building plus engineering construction) to $51.2bn, down 2.5% p.a. from Q4 2017 (see Table 3).

Looking ahead, the ABS estimates that the total value of building work in the pipeline stood at $94.9 billion in Q4 2018 (in nominal dollar values). This includes work yet to be completed on 215,000 new homes being built across Australia ($40.6 billion), work outstanding on residential

alterations and additions ($2.7 billion), non-residential work yet to be completed ($29.6 billion) plus work that is planned but has not yet commenced ($22.0 billion).

Table 3: Volume of construction activity done in Q4 2018

Volume of work done (seasonally adjusted)	**$bn per qtr**	**Share (%)**	**% change q/q**	**% change p.a.**
Building (residential & non-residential)	29.4	57.4	-2.6	0.8
Residential	*18.9*	*36.9*	*-4.1*	*2.1*
Non-residential	*10.5*	*20.5*	*0.0*	*-1.4*
Engineering	21.8	42.6	-4.1	-6.6
Total	**51.2**	**100.0**	**-3.3**	**-2.5**

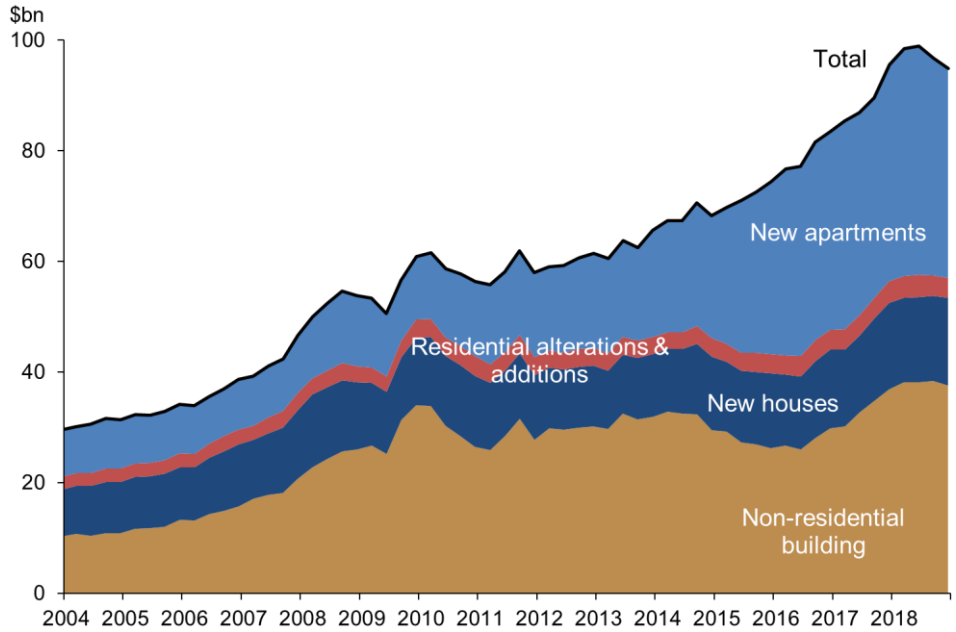
Source: ABS, *Construction Activity: Chain Volume Measures,* Dec 2018

These data confirm the forward pipeline of building activity shrank in Q4 2018 and probably peaked in mid-2018 (Chart 6 and Table 4). Most of the decline in the value of building activity in the pipeline is due to the falling value of non-house buildings (mainly apartments) in the pipeline.

As outlined in our *Economics Weekly 29 March 2019*, the pipeline of future work in non-resource engineering construction is looking strong, with just over $40.4 billion of non-resources engineering work that is scheduled but yet to be done (that is, excluding mining related projects, including LNG projects). Although this is below the record high of $45.3 billion in Q1 2012, the outstanding pipeline of work for transport infrastructure and railways reached record highs in Q4 2018, while work yet to be done for utilities (electricity generation, transmission and distribution work) was at a five-year high.

This is consistent with results in the Ai Group-HIA Australian PCI®. which has shown a divergence amongst the sub-sectors in recent months. As of March 2019, residential building conditions remain particularly subdued and commercial construction is continuing to detract from industry wide performance. However, engineering construction stabilised in March, in line with reports of new projects and tender opportunities.

Chart 6: Building activity in the pipeline*,



* Nominal value of building work yet to be done plus building work not yet commenced.
Source: ABS *Building Activity*, Dec 2018

Table 4: Nominal value* of building activity in the pipeline in Q4 2018

Original, nominal	Value of work yet to be done			Value of work not yet commenced			Value of work in the pipeline		
	$bn	q/q	p.a.	$bn	q/q	p.a.	$bn	q/q	p.a.
Residential	43.3	-4.3	1.9	14.1	7.4	-13.2	**57.4**	**-1.7**	**-2.3**
New houses	12.0	0.4	-1.2	3.9	14.0	7.7	**15.8**	**3.4**	**0.9**
New apartments	28.7	-6.1	3.8	9.3	5.4	-19.4	**37.9**	**-3.5**	**-3.0**
Alterations and additions	2.7	-5.9	-4.4	0.9	2.2	-15.5	**3.6**	**-3.9**	**-7.5**
Non-residential	29.6	-2.7	11.5	7.9	-0.5	-23.0	**37.5**	**-2.2**	**1.9**
Total	72.9	-3.7	5.6	22.0	4.4	-17.0	**94.9**	**-1.9**	**-0.7**

* Nominal value of building work yet to be done plus building work not yet commenced.
Source: ABS *Building Activity*, Dec 2018

This week's data and events, 8 – 12 Apr 2019

Day	Date	Data/event	Data period	Result
Mon	8 Apr	ANZ Job Ads	Mar (M)	-1.7% m/m, -6.0% p.a.
Tues	9 Apr	ABS Lending to Households and Businesses	Feb (M)	Lending to business -11.1% m/m, -7.6% p.a.
		IMF World Economic Outlook (WEO)	Apr (H)	Global growth forecasts: 3.3% in 2019 and 3.6% in 2020
Wed	10 Apr	RBA Speech "The State of the Economy"	-	-
Thur	11 Apr	ABS Building Activity	Dec 2018 (Q)	Value of work done: -2.6% q/q, +0.8% p.a.
		ABS Overseas Arrivals and Departures	Feb (M)	Arrivals 786,100, returns 912,500
Fri	12 Apr	RBA Financial Stability Review	Apr (H)	Nov (H): -

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

Next week's data and events, 15 – 19 Apr 2019

Day	Date	Data/event	Data period due for release	Previous release
Tues	16 Apr	RBA Meeting Minutes	Apr (M)	Apr (M): Cash rate 1.50%
Wed	17 Apr	ABS Employment in Renewable Energy	2017-18 (A)	2016-17 (A): 14,820 FTE employment
Thur	18 Apr	ABS Labour Force	Mar (M)	Feb (M): emp growth: 2.3% p.a., unemp rate: 5.0% (trend)
		ABS Australian Historical Population Statistics	2016	-
Fri	19 Apr	Easter public holiday	-	-

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 (Feb 2019)	Dec 18 e	Jun 19 f	Jun 20 f	Jun 21 f		
GDP, % change p.a., year end	2.8	2.4	2.7	2.7		
Unemployment rate, %, year end	5.0	5.0	4.9	4.8		
Inflation (CPI), % change p.a., year end	1.8	1.4	2.1	2.2		
Wages (WPI), % change p.a., year end	2.4	2.5	2.5	2.6		
Treasury Budget 2019-20 (Apr 2019)	**2017-18 e**	**18-19 f**	**19-20 f**	**20-21 f**	**21-22 p**	**22-23 p**
GDP, % change p.a., year average	2.8	2.25	2.75	2.75	3.0	3.0
Household consumption, % p.a., year average	2.8	2.25	2.75	3.0	-	-
Dwelling investment, % p.a., year average	0.2	0.5	-7.0	-4.0	-	-
Business investment, % p.a., year average	6.0	1.0	5.0	4.5	-	-
Employment growth, % p.a., year end	2.7	2.0	1.75	1.75	1.5	1.5
Unemployment rate, %, year end	5.4	5.0	5.0	5.0	5.0	5.0
Inflation (CPI), % change p.a., year end	2.1	1.5	2.25	2.5	2.5	2.5
Wages (WPI), % change p.a., year end	2.1	2.5	2.75	3.25	3.5	3.5
Terms of trade, % change p.a., year end	1.9	4.0	-5.25	-4.75	-	-

e = estimate f = forecast p = projection
Sources: ABS various data; RBA *Statement on Monetary Policy* (SoMP), latest quarter; Australian Treasury, *MYEFO 2018-19* (Dec 2018).

Australian economy: latest indicators

Economy				FX and commodity prices (Friday morning)		
RBA official cash rate, %	Apr (M)	1.50	-	AUD/USD exchange rate	US$0.7121	▲
Real GDP, % change p.a.	Dec (Q)	2.3%	▼	Oil price (WTI light crude, USD/BBL)	US$63.70	▲
Headline CPI, % change p.a.	Dec (Q)	1.8%	▼	Gold price (USD/OZ)	US$1,292.00	▼
Unemployment rate, % trend	Feb (M)	5.0%	-	Copper price (USD/tonne, LME spot)	US$6446.00	▼

Australian Industry Group monthly performance of industry indices

Australian PMI®	Mar (M)	51.0 ▼
Australian PSI®	Mar (M)	44.8 ▲
Australian PCI®	Mar (M)	45.6 ▲

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 Fri); London Metals Exchange market prices (as of Fri).

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