

CIB COVID-19 Webinar
September 2020

Australian Building and Construction

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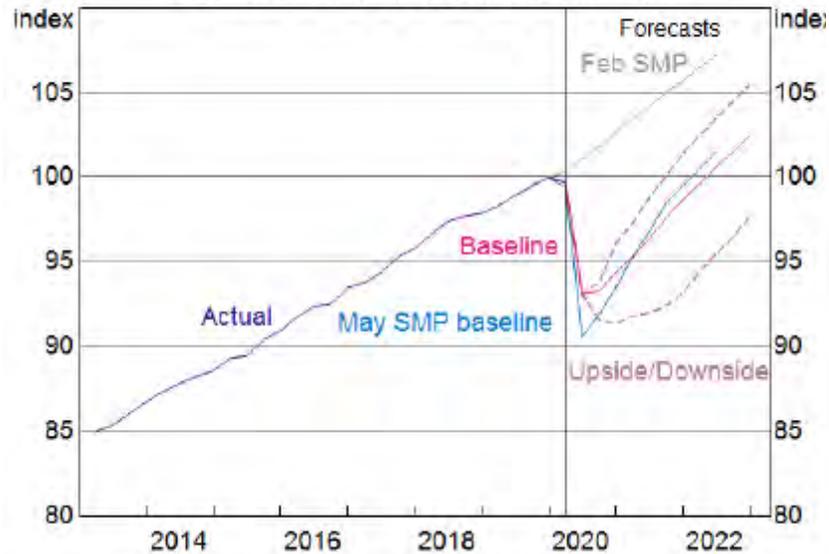
Topics

- The macroeconomy – GDP and unemployment
- Government policy and spending responses
- Australian housing market and residential building
- Non-residential and engineering construction
- Conclusion

Pandemic Economy

GDP

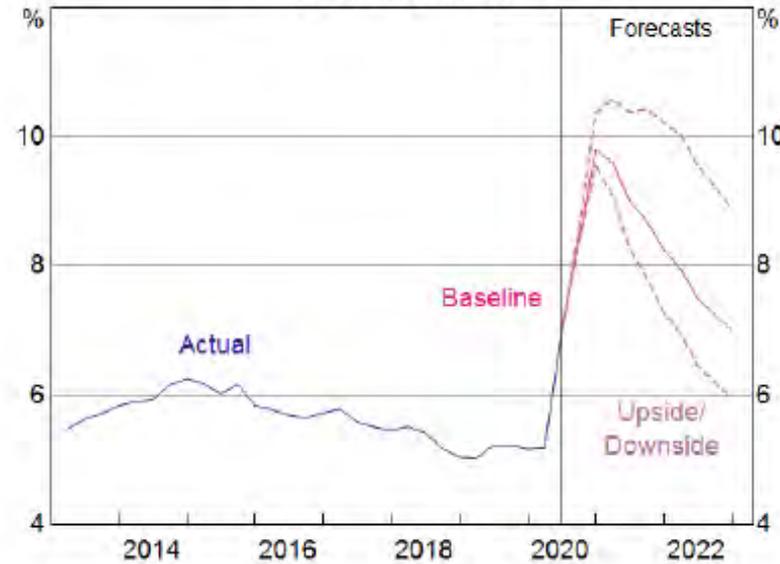
Forecast scenarios, December 2019 = 100



Sources: ABS; RBA

Unemployment Rate

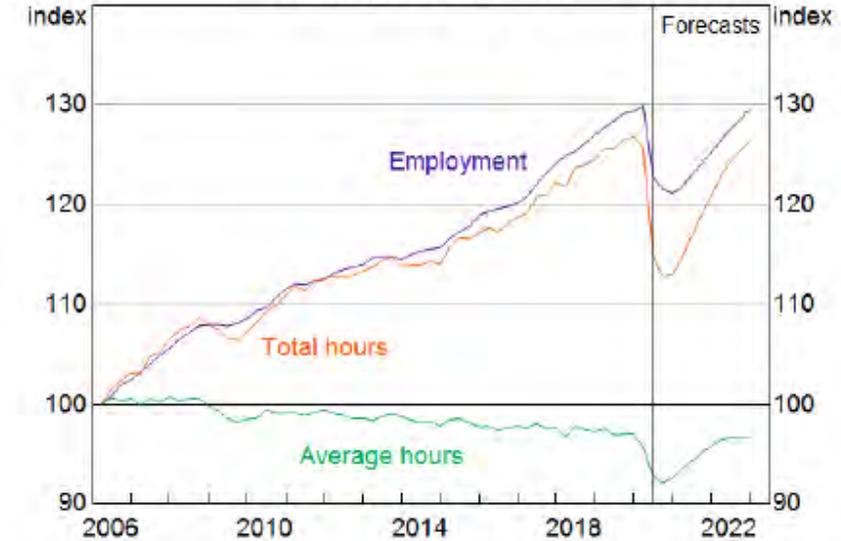
Forecast scenarios



Sources: ABS; RBA

Employment and Hours Worked

March quarter 2006 = 100



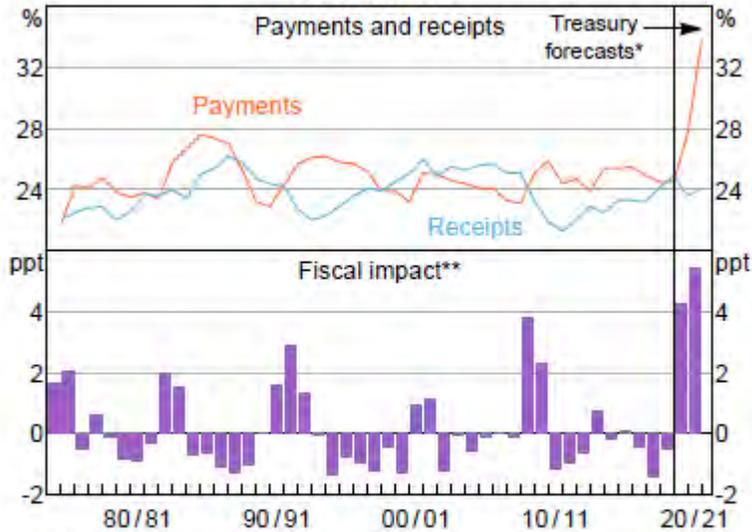
Sources: ABS; RBA

Reserve Bank of Australia, *Statement on Monetary Policy*, August 2020.

Government Support

Australian Government Budget Position

Per cent of GDP



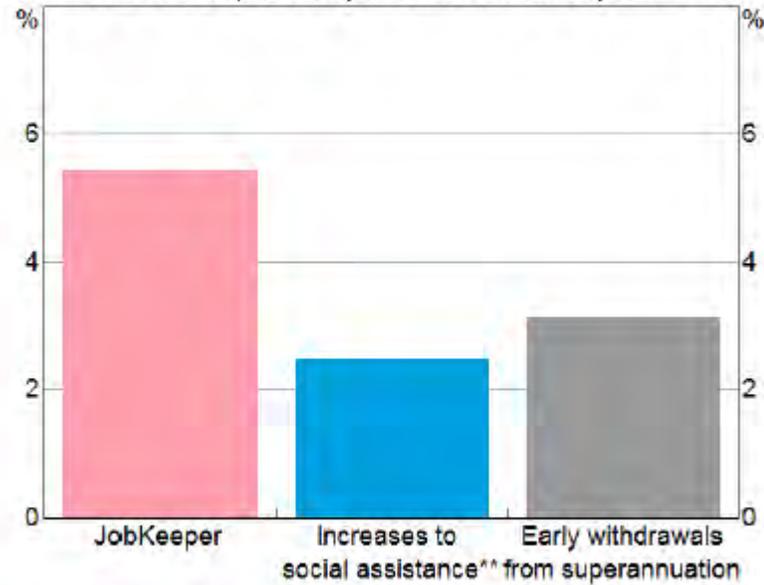
* 2020 July Economic and Fiscal Update

** Negative change in the underlying cash balance; adjusted for RBA balance sheet, dividend amounts and timing changes for some large payments

Sources: ABS; Australian Treasury; RBA

Policies to Support Household Cash Flow*

Estimates to end-September, per cent of annual disposable income



* Forecast for disposable income in 2020

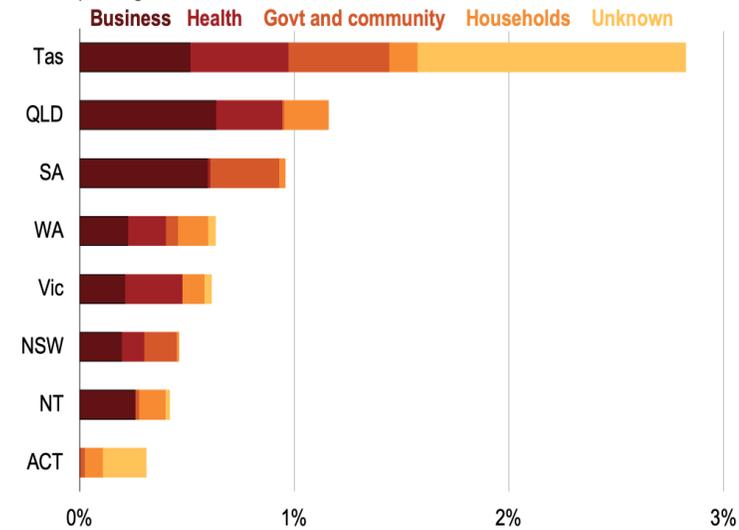
** Relative to 2019

Sources: ABS; APRA; Australian Treasury; RBA

Tasmania spends big as larger states move more slowly

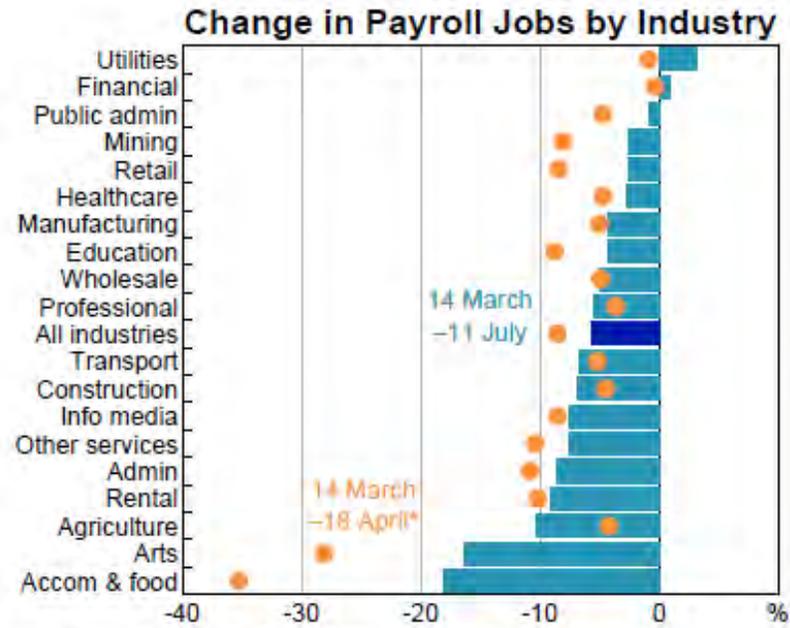
GRATTAN
Institute

Spending on COVID-19 crisis as % of GSP

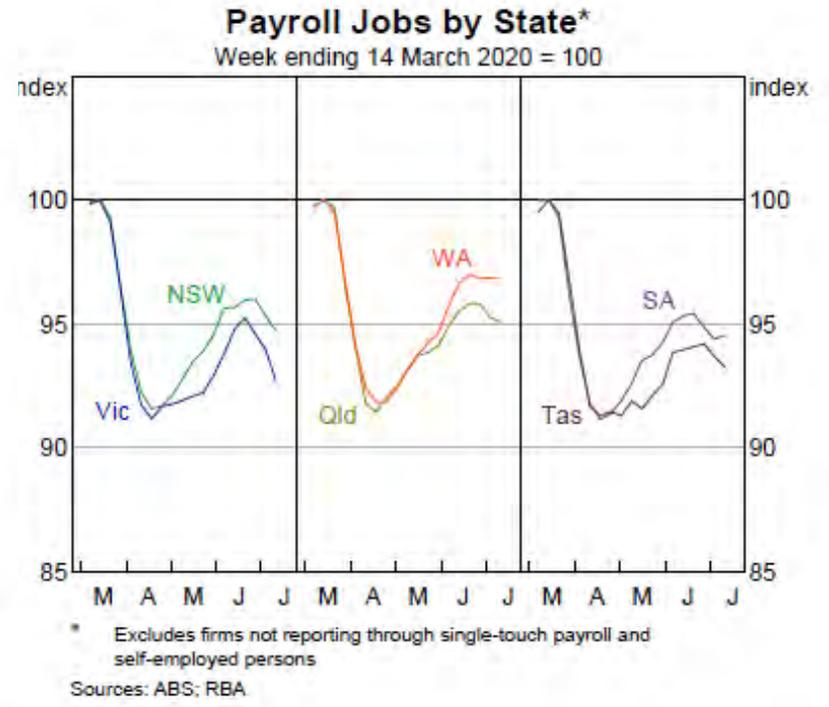
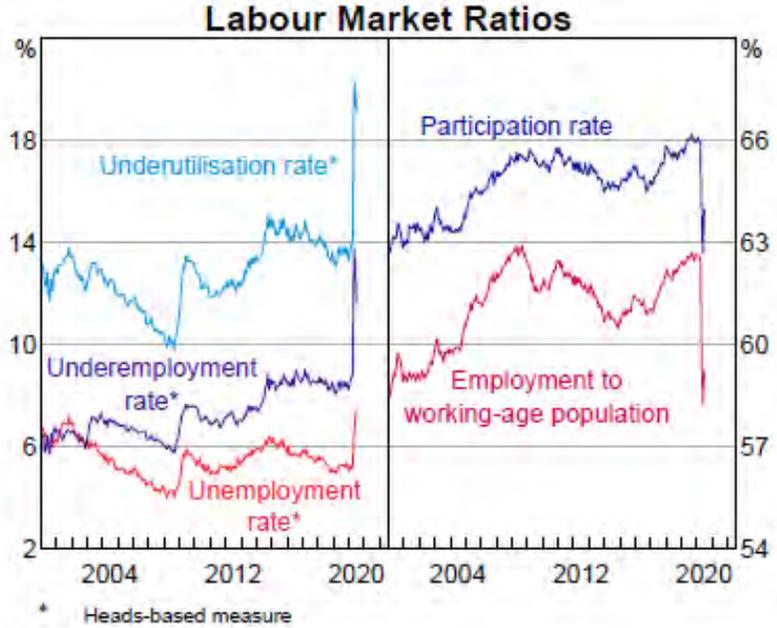


Note: 'Unknown' is comprised of shortfalls between headline figures and the sum of detailed components.

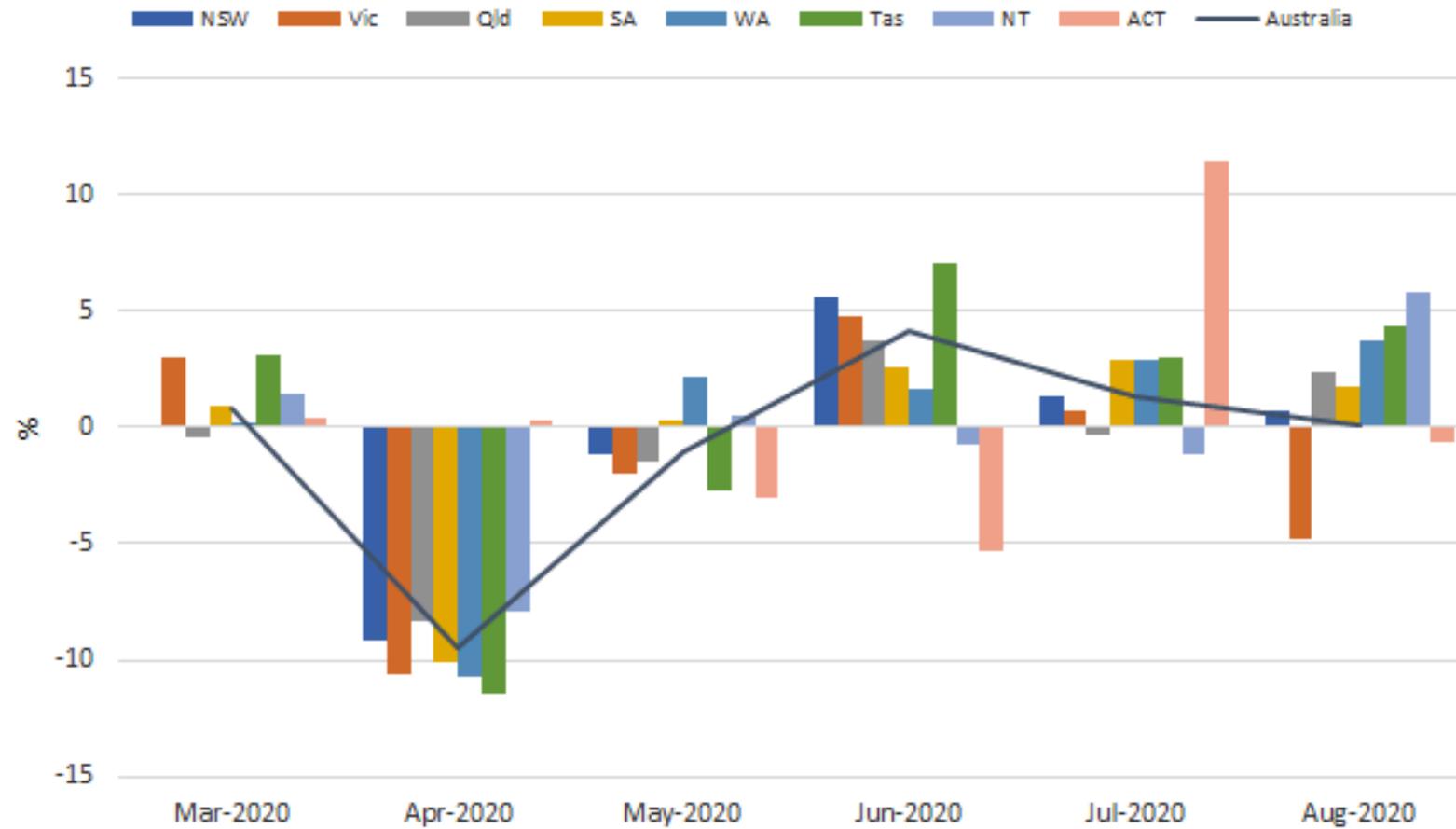
Differing Impacts



* The lowest weekly value of the aggregate payroll jobs index
Sources: ABS; RBA.



Victoria's Second Wave



ABS 6202. Monthly growth in hours worked, States and territories, Seasonally adjusted

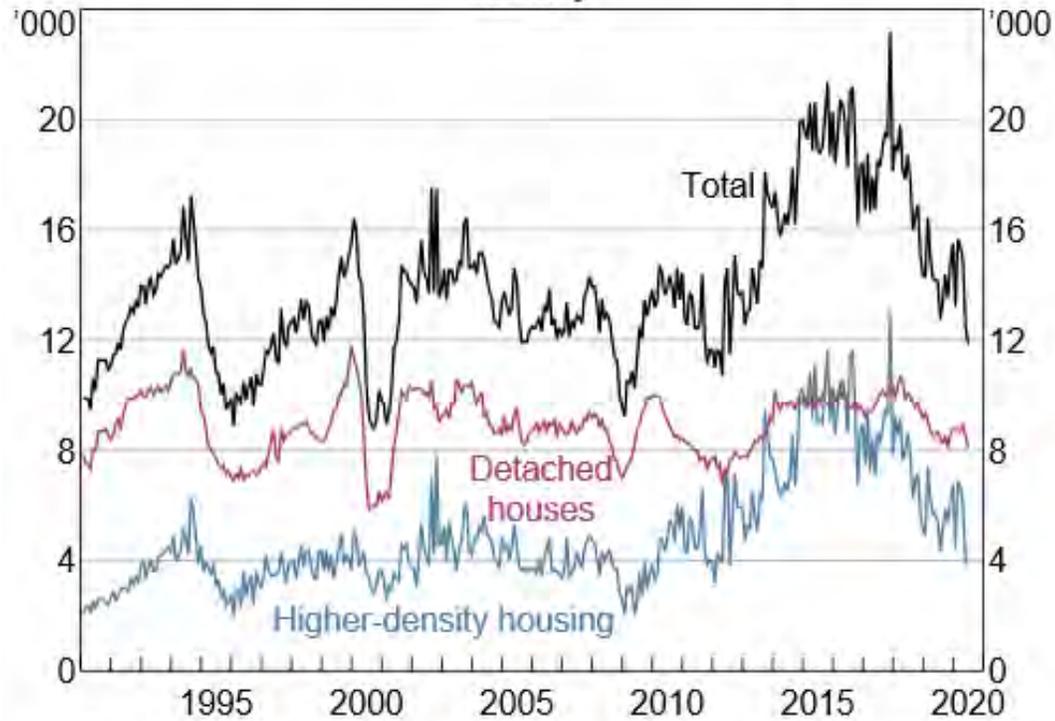
Housing Market

Governments, the RBA and banks are treading cautiously

Approvals and Prices

Private Residential Building Approvals

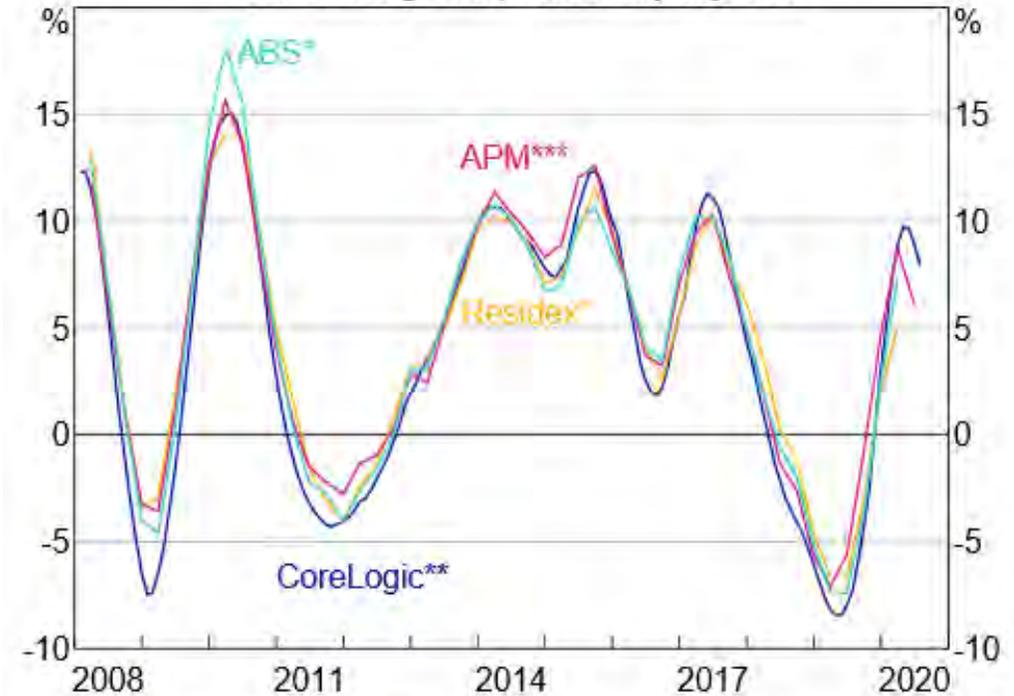
Monthly



Source: ABS

Housing Prices

Year-ended growth, seasonally adjusted



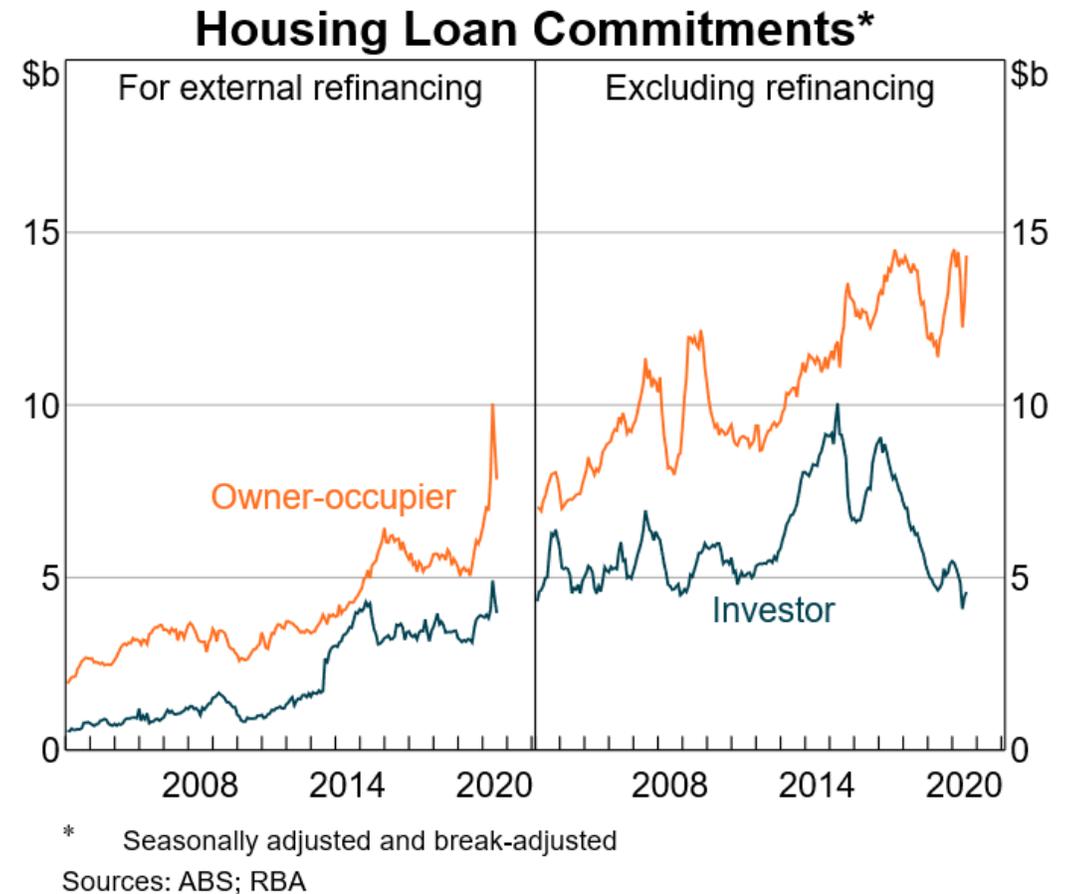
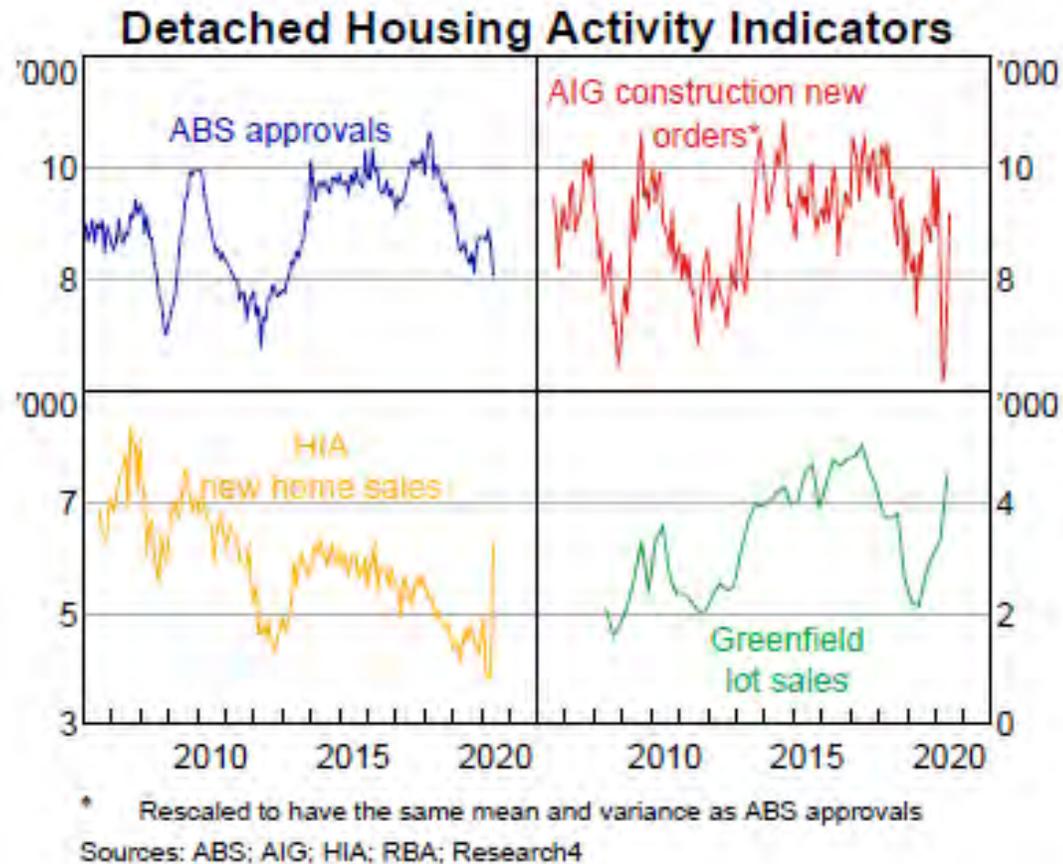
* ABS is a quarterly stratified median price index; Residex is a quarterly repeat sales price index

** Monthly hedonic price index; non-seasonally adjusted

*** Quarterly stratified median price index

Sources: ABS; APM; CoreLogic; RBA; Residex

Policies Are Working



Rental Market

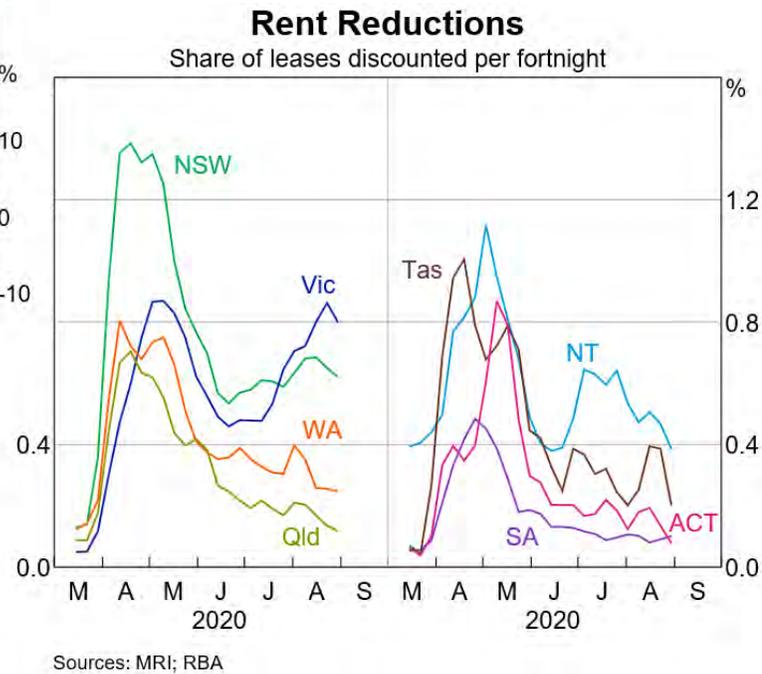
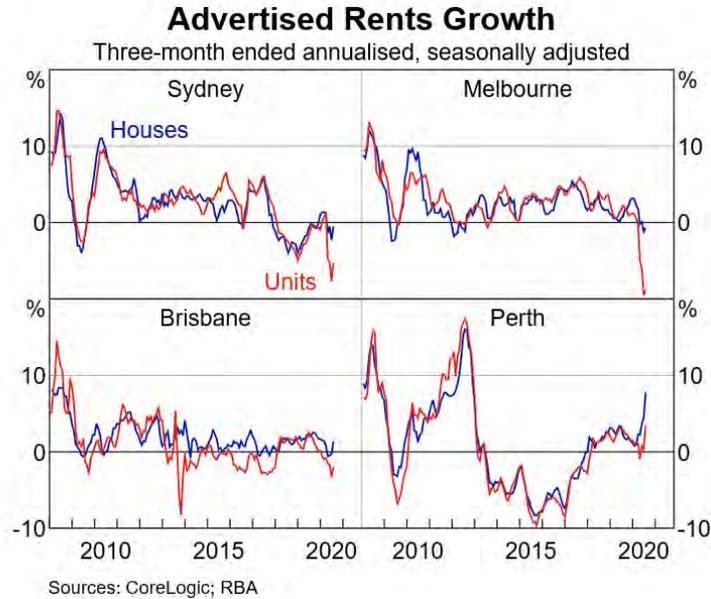
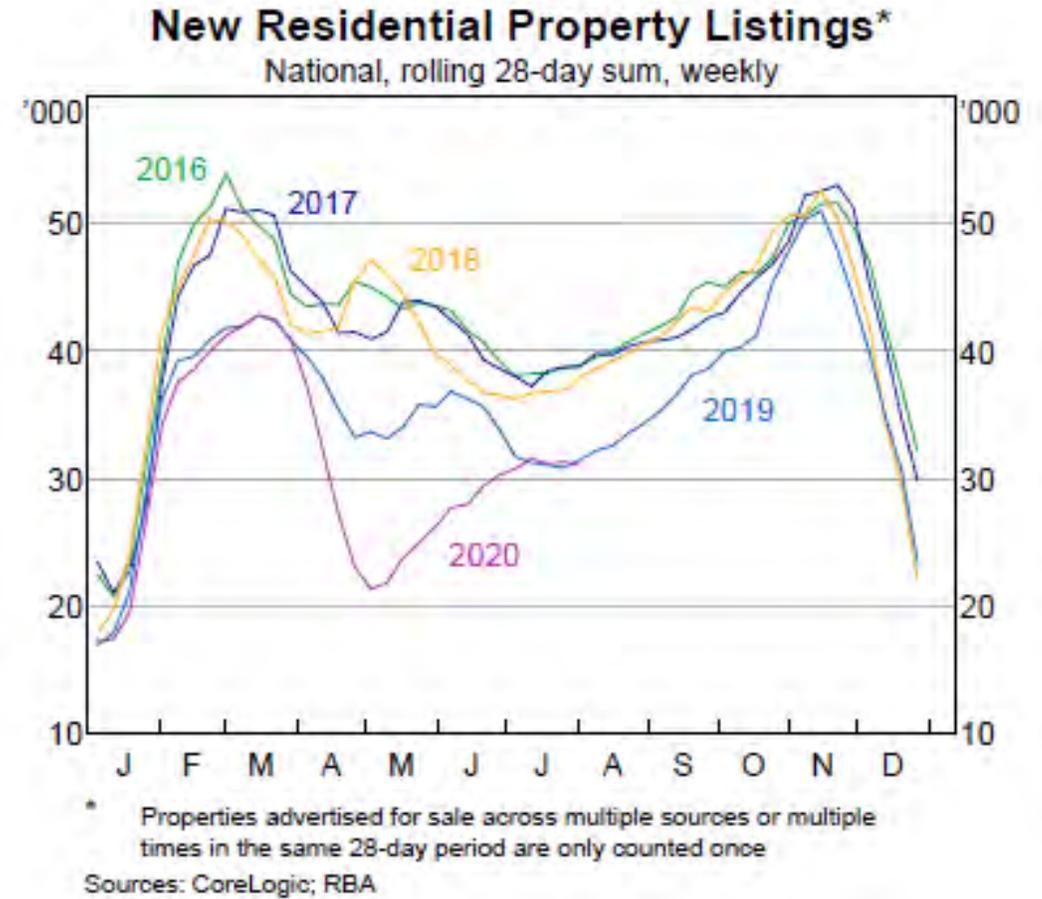
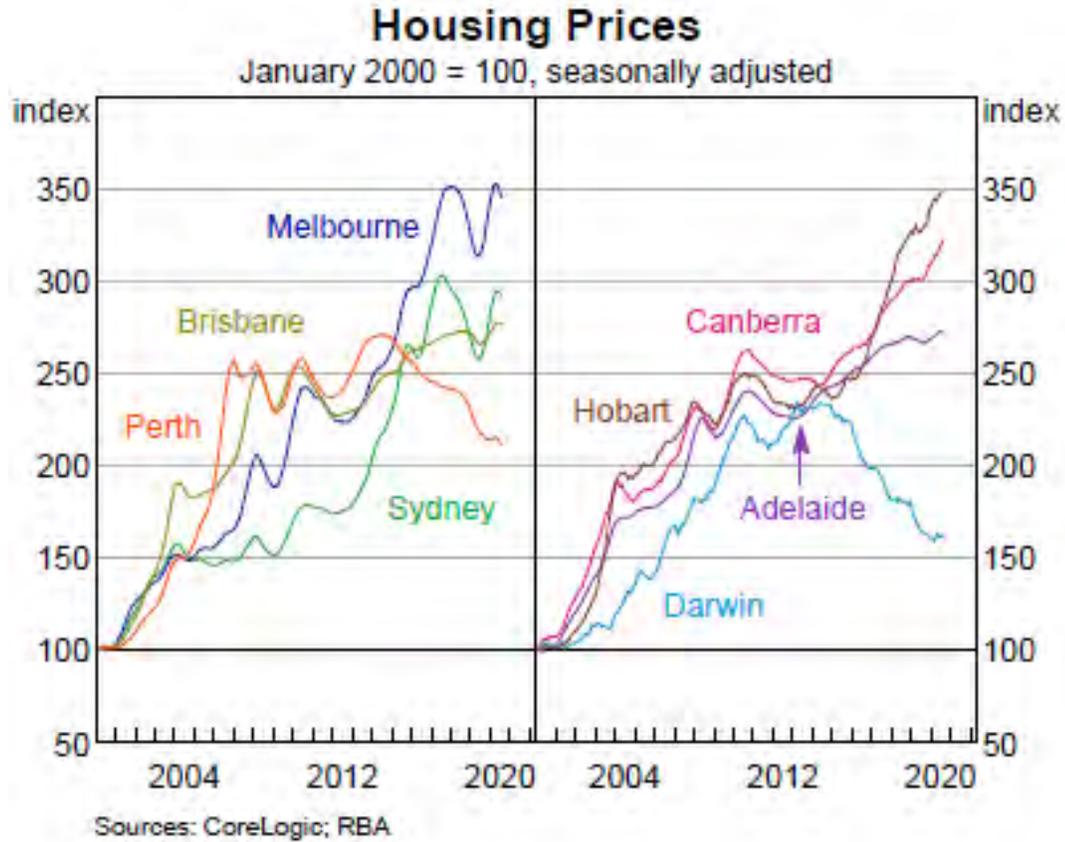


Table A1: State and territory rental housing market policy responses

State	Policies
New South Wales	<p>\$440m in land tax relief of up to 25 per cent of land tax due between 1 April and 30 September if the savings were passed on to tenants. Outstanding land tax could also be deferred for three months.</p> <p>Evictions for rent arrears restricted until 15 October for COVID-19 impacted tenants. Impacted tenants could not be evicted for rent arrears unless an application was made to the NSW Civil and Administrative Tribunal and the landlord could demonstrate they engaged in good faith negotiations over rental payments, and it would be fair and reasonable to evict the tenant. Blacklisting tenants in rent arrears due to COVID-19 was also banned during this period.</p>
Victoria	<p>\$500m in land tax relief of up to 50 per cent (increased from 25 per cent in August 2020) of land tax due for commercial and residential tenancies, if rent relief was provided to tenants. Remaining land tax payable can be deferred to March 2021.</p> <p>Evictions were banned for residential tenancies (except in limited circumstances) from 29 March 2020 to 28 March 2021, after being extended from an initial six month period during the second lockdown, and rent increases paused for the same period. Tenants unable to secure a rent reduction could enter a binding dispute resolution process overseen by Consumer Affairs Victoria. Blacklisting tenants in rent arrears due to COVID-19 was also banned during this period.</p> <p>Both residential and commercial tenants could apply for grants of up to \$3,000 from the Rental Relief Grant Program. To be eligible, renters needed to have registered their revised agreement or gone through mediation, have less than \$5,000 in savings and still be paying at least 30 per cent of their income in rent.</p>
Queensland	<p>\$400m in land tax relief up to 30 October for residential tenancies if equivalent rent relief was provided. Land tax could also be deferred for three months.</p> <p>Payments of up to four weeks rent or \$2,000 to those affected by COVID-19 who had no access to other financial assistance, and met asset tests.</p> <p>Tenants who were significantly impacted due to COVID-19 could not be evicted or blacklisted until 30 September. Fixed-term leases expiring before this date were automatically extended to 30 September.</p>

Calm Before the Storm?



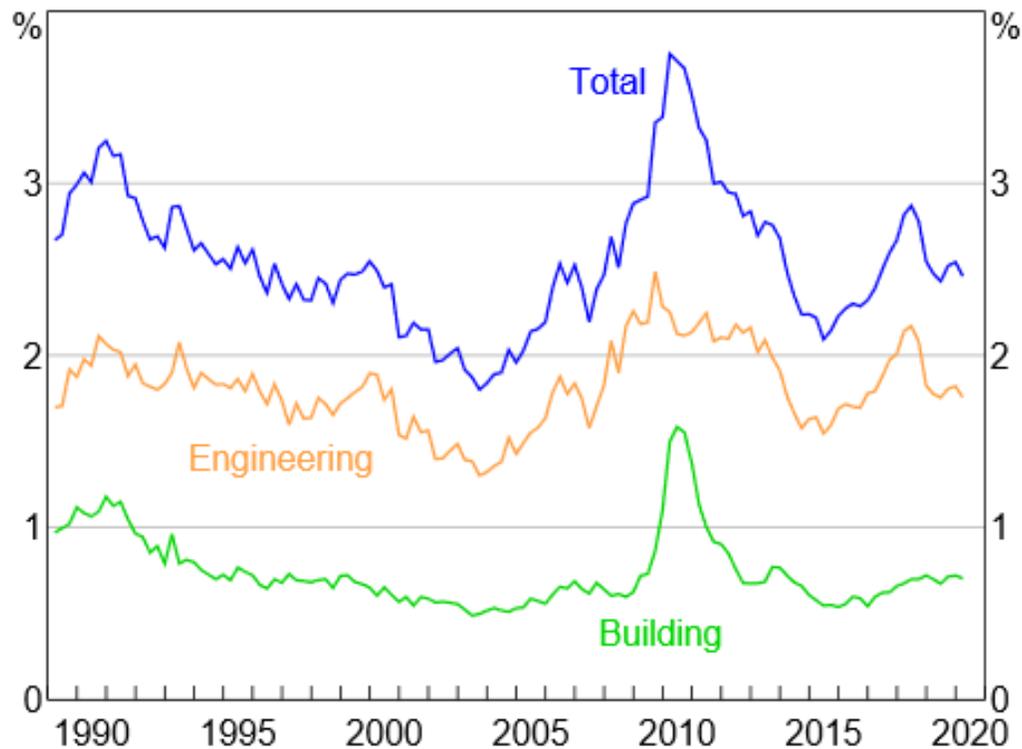
Non-residential Construction

Public and private sector expenditures are falling

Government Spending

Public Construction Work Done

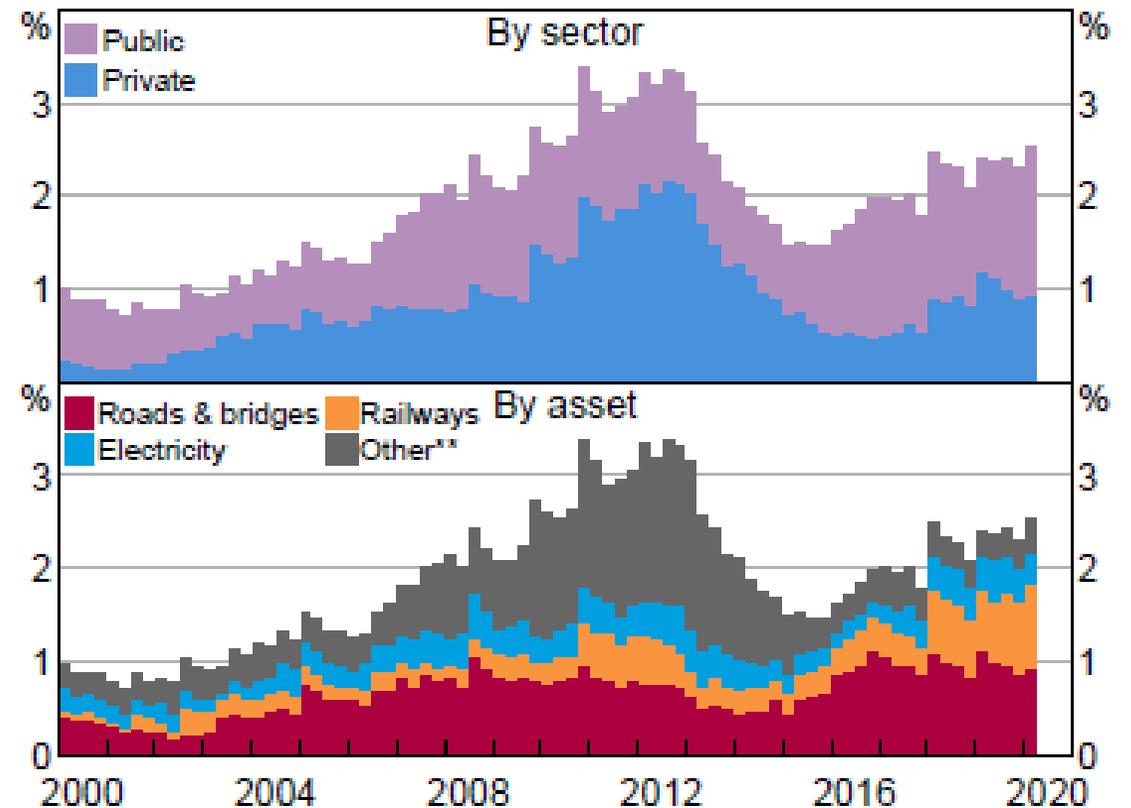
Per cent of nominal GDP



Source: ABS

Infrastructure Pipeline*

Share of nominal GDP



* Includes some resource-related work (for example, some railways, harbours, and pipelines have been associated with resource projects)

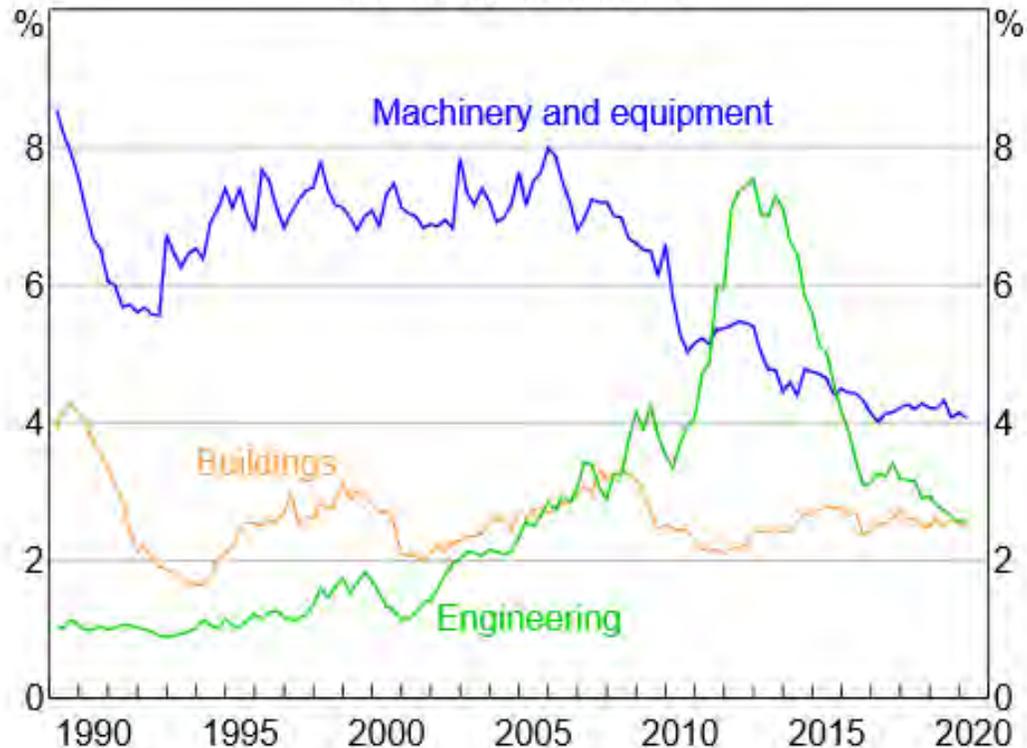
** Includes harbours, pipelines, water, sewerage, telecommunications, recreation and other infrastructure projects

Sources: ABS; RBA

Business Investment is Weak

Business Investment Components*

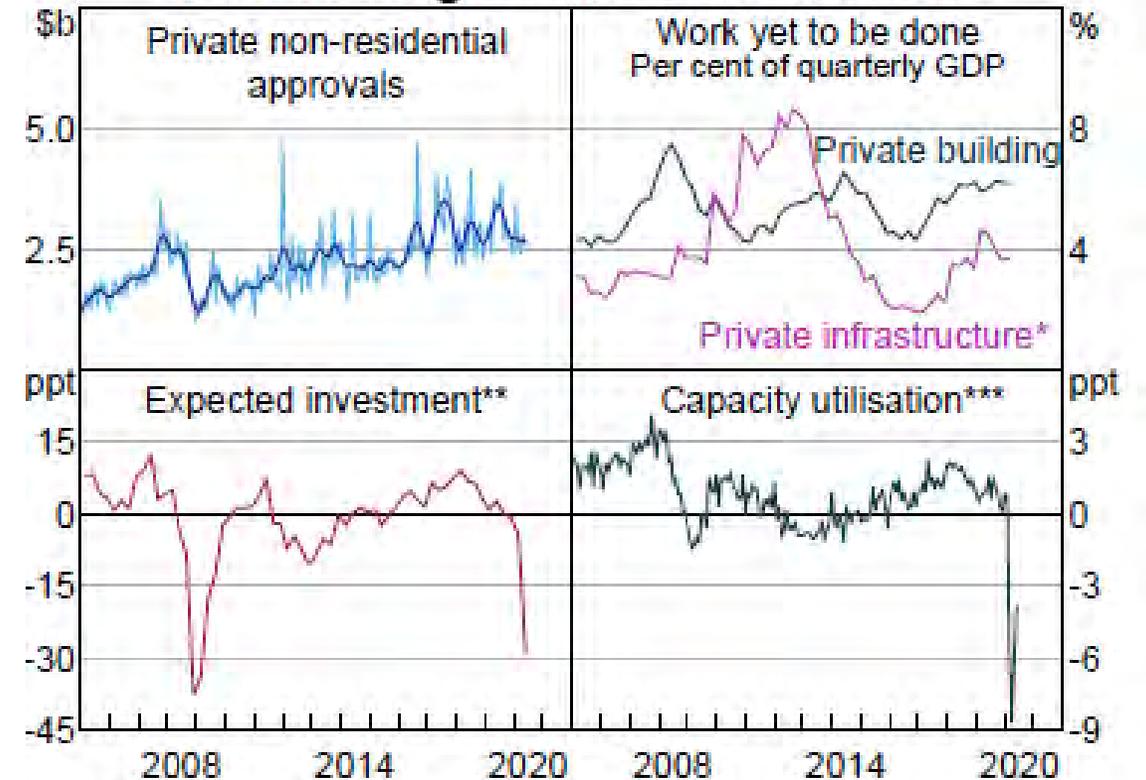
Share of nominal GDP



* Adjusted for second-hand asset transfers between the private and other sectors

Source: ABS

Non-mining Business Indicators



* Excludes resources and other heavy industry

** NAB quarterly survey; expected capital spending 12-months-ahead; net balance; deviation from long-run average

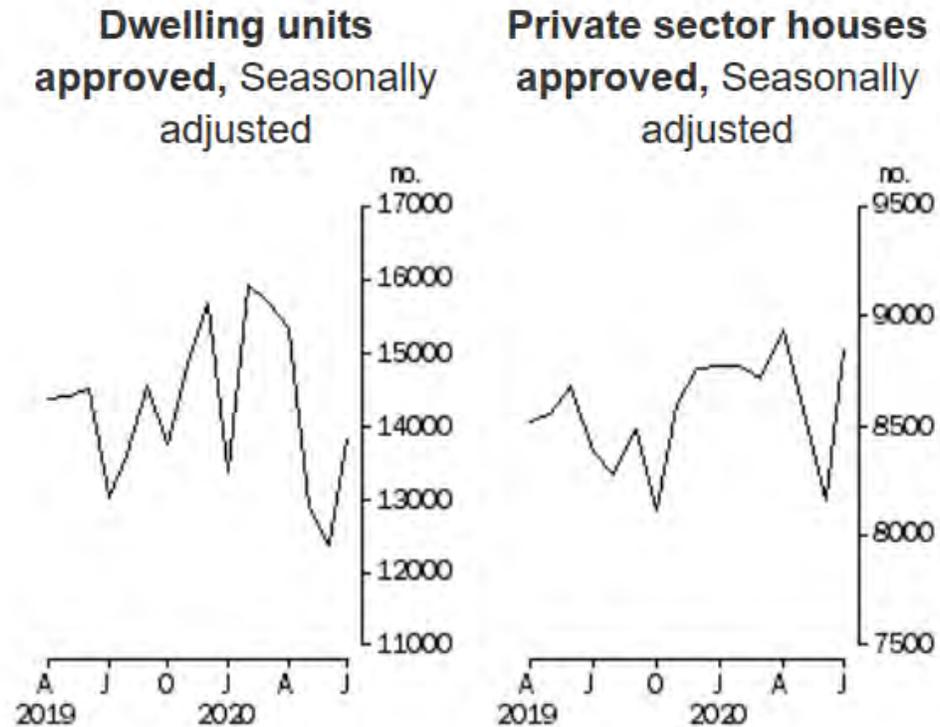
*** NAB monthly survey; net balance; deviation from long-run average

Sources: ABS; NAB; RBA

Conclusion

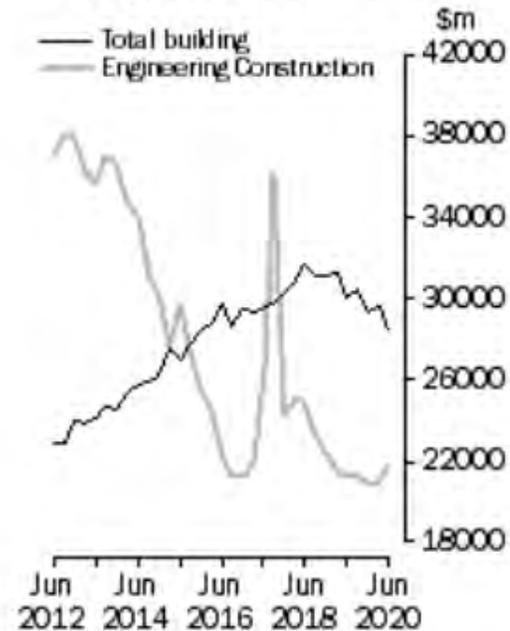
Recent data and three problems for forecasters

Building and Construction



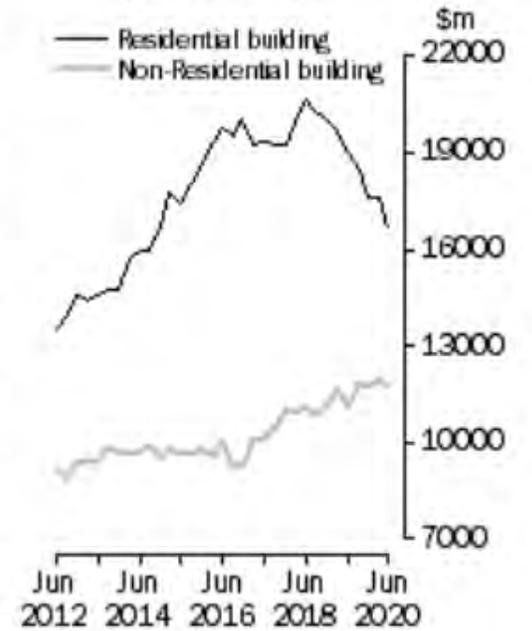
ABS 8731. Building Approvals, July 2020.

Value of construction work done, Chain Volume Measures - Seasonally adjusted estimates



ABS 8755. Construction Work Done, Preliminary, August 2020.

Value of building work done, Chain Volume Measures - Seasonally adjusted estimates



Three Problems for Forecasting

- First, the economic impact and speed of policy changes, with containment measures affecting domestic activity. Varying the date of a lockdown by a couple of weeks deeply affects annual GDP forecasts. Cities and regions reopen at differing rates, and will have outbreaks that need to be restricted.
- Second, the pandemic is undermining the reliability of economic data and macroeconomic models. Lockdown measures reduce response rates to surveys on businesses and households, increasing sampling error. OTOH, new data sources have emerged, e.g. on bank financing, foot traffic, mobility and public transport use rates.
- Third, models are less reliable because economic forecasters are dealing with unfamiliar epidemiological factors in the evolution of the coronavirus pandemic, which varies across countries, states and cities.