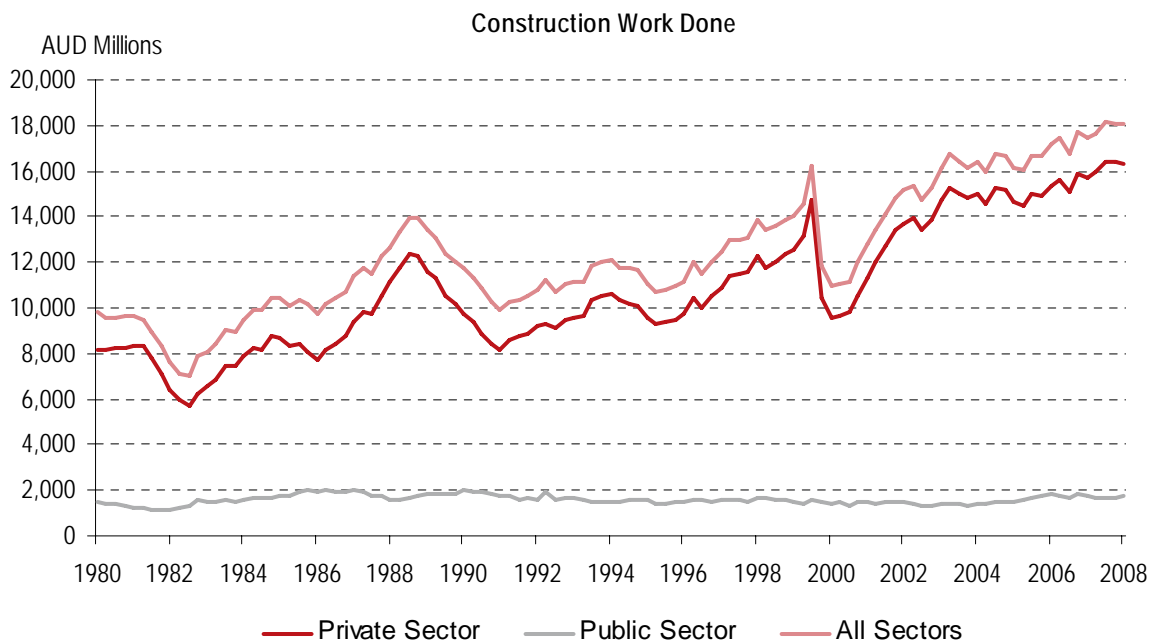


Construction Work Climbs to Record Levels



Source: ABS

Figure 1

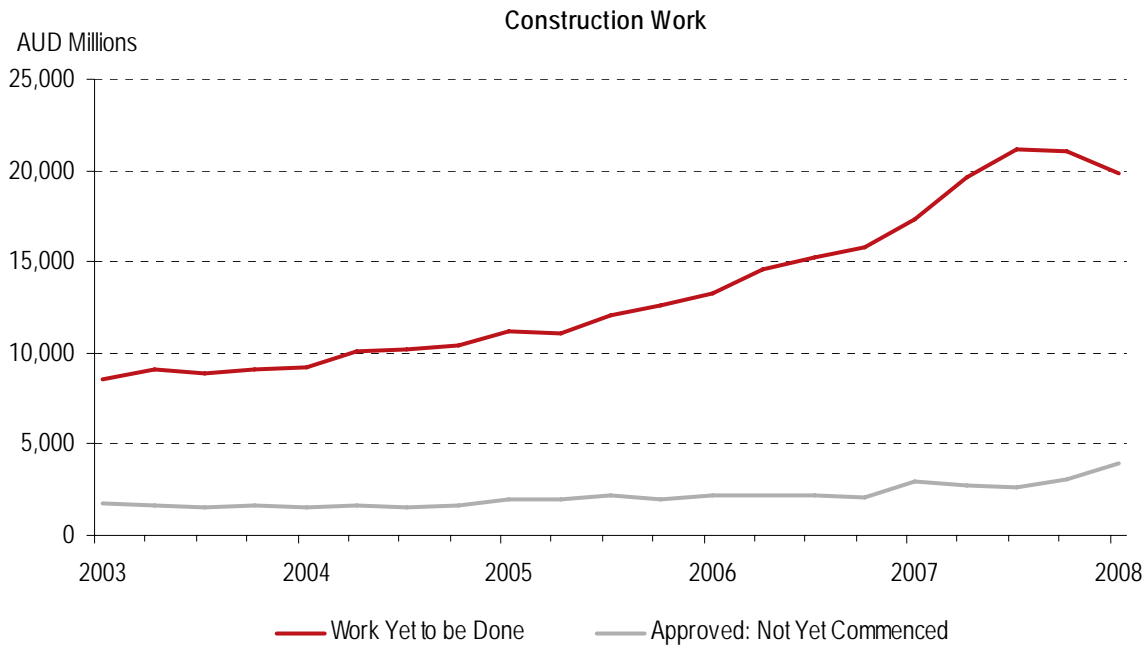
What happened?

Construction activity continues to climb. Measured in real (inflation adjusted) terms, Work Done rose by 1.7% in the December quarter (or by 13.0% on the year). Both private and public sectors posted growth in the December quarter.

Total construction work is subdivided into Engineering Construction and Building. It was Engineering Construction that made the running in the December quarter, recording rises of 3.9% (private sector) and 3.1% (public sector). Overall, Engineering Construction was up 24.3% on December 2007.

Building (which comprises non-residential and non-residential activity) posted a flat result for the December quarter, the growth in the public sector (6.7%) offset by a modest fall in private sector activity (Figure 1). But activity remains close to record highs.

This may be as good as it gets for this cycle. The pipeline of work (Work Yet To be Done) declined for the second quarter. Work Approved posted another rise, although this may reflect a growing logjam of approvals that have been put on hold in the current uncertain economic environment (Figure 2).



Source: ABS

Figure 2

Implications

These data clearly contains the seeds of an impending slowdown in activity through 2009. Building approvals data, a leading indicator for construction activity, has declined sharply in recent months. Anecdotal evidence points firmly in the same direction. However, while the construction sector is obviously destined to slow in the next few quarters, it shows little evidence that the volume of construction activity is falling off a cliff. As private non-residential construction slows, the public sector will move in to take up at least some of the slack. Residential construction activity is also earmarked for an upturn in the second half of 2009.

Today's numbers will feed into the fourth quarter National Accounts, to be released on the 4th of March. Continued strength in construction will help to offset other negatives, such as the slowdown in consumer spending – but will the continuing boom in construction be enough to drag the bottom-line GDP growth number across the line into positive territory?

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