



CCF National Infrastructure Outlook Report 2017

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ECONOMICS



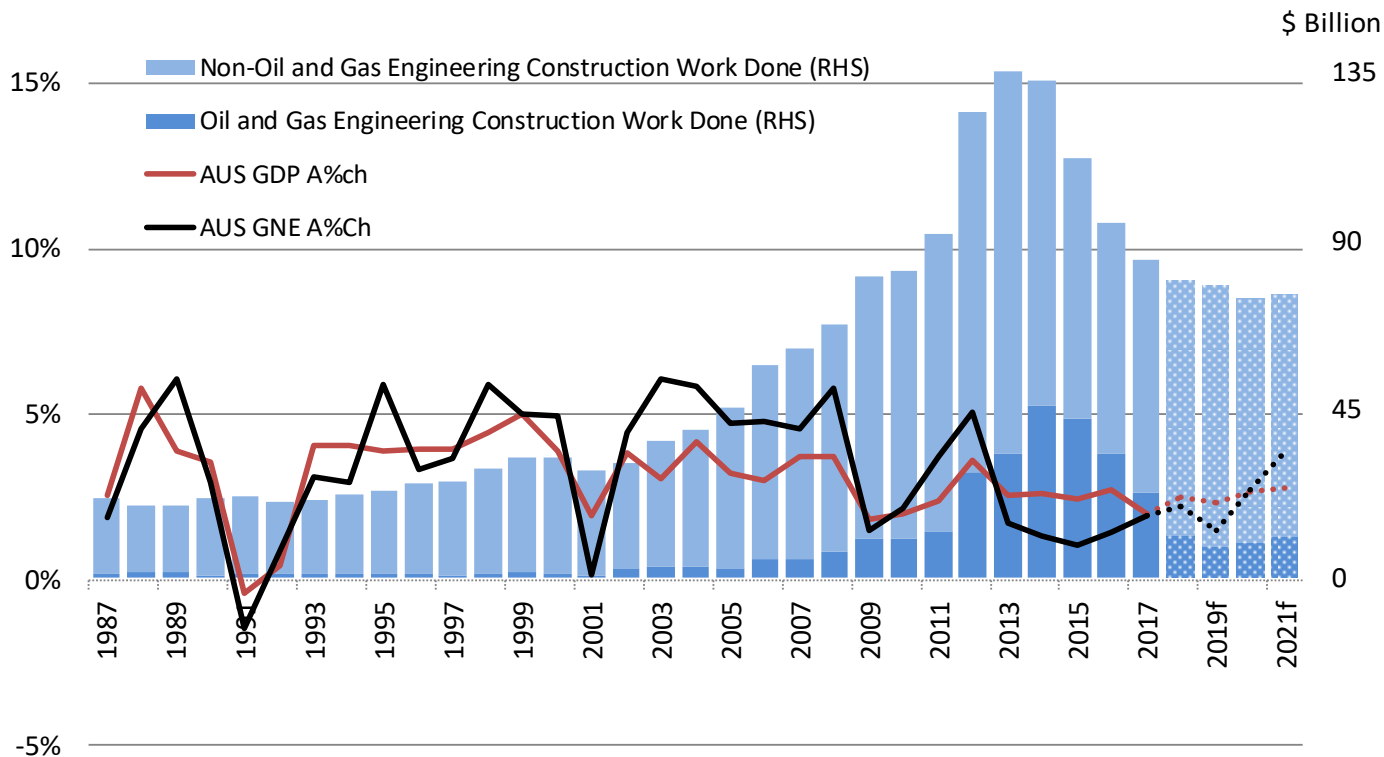
Key Messages

Economic Outlook

Construction Outlook

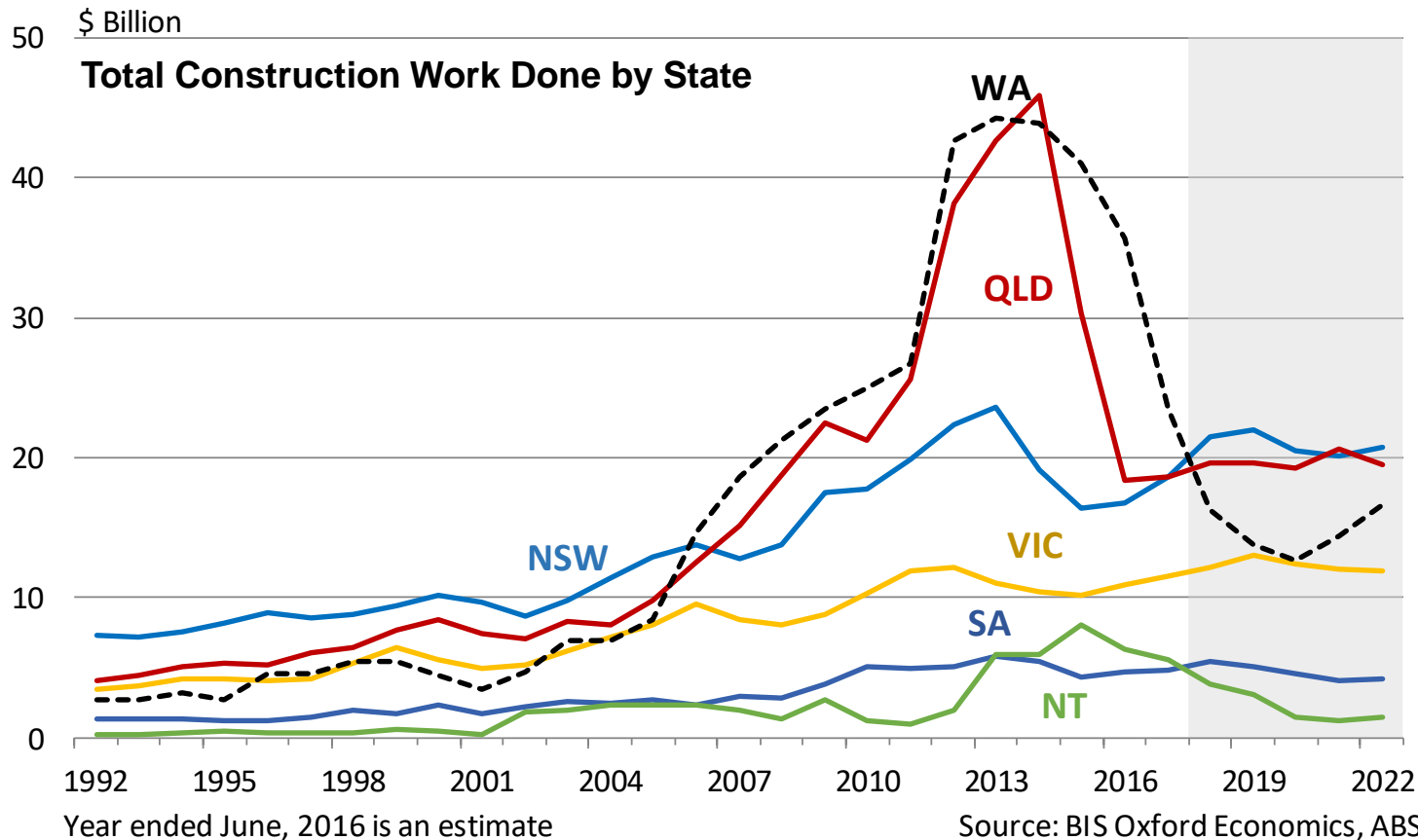
Implications and Challenges

Key Messages: Australian economy still in the slow lane

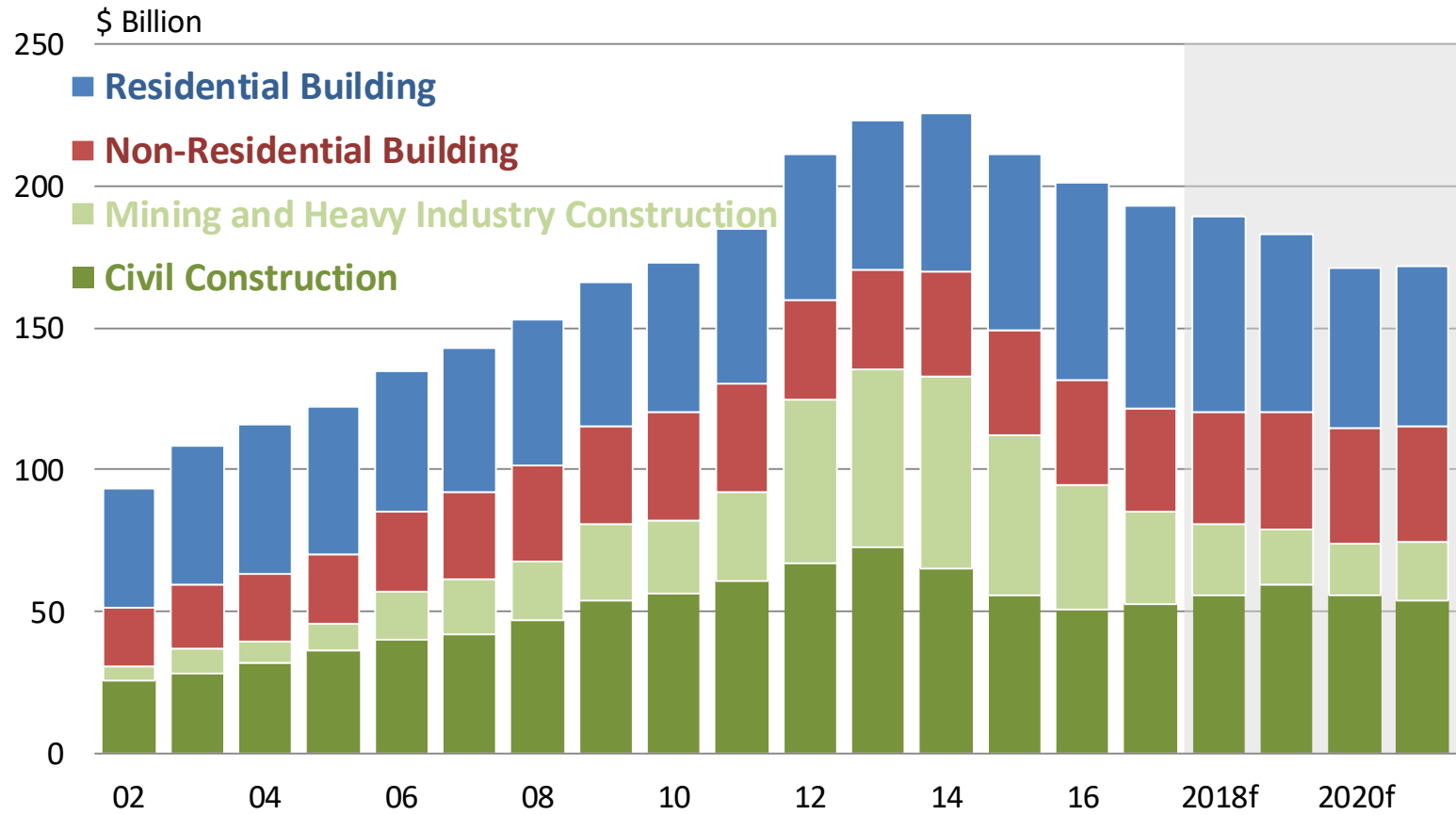


Year ended June

Source: BIS Oxford Economics, ABS data



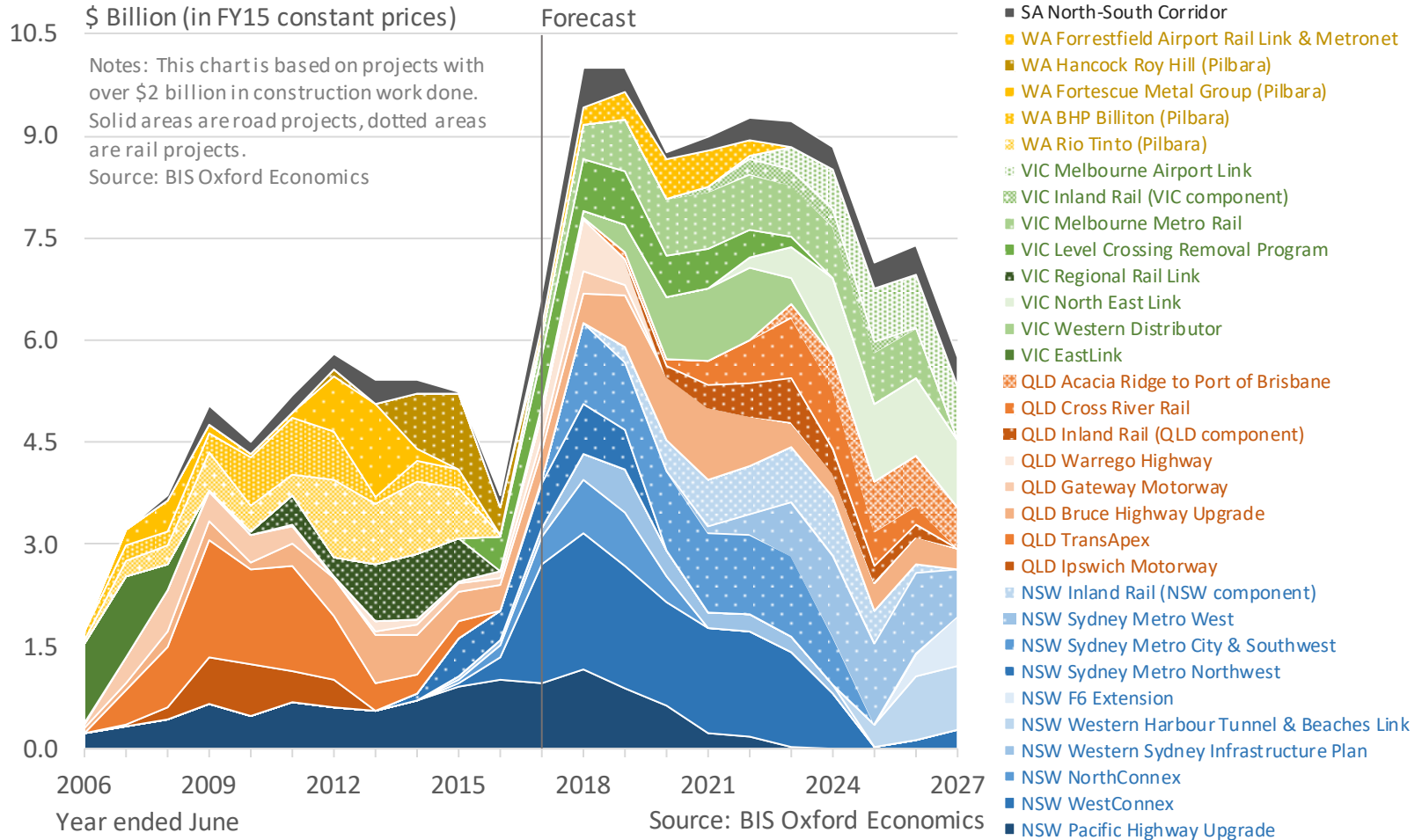
...masking recovery in non-mining civil construction work



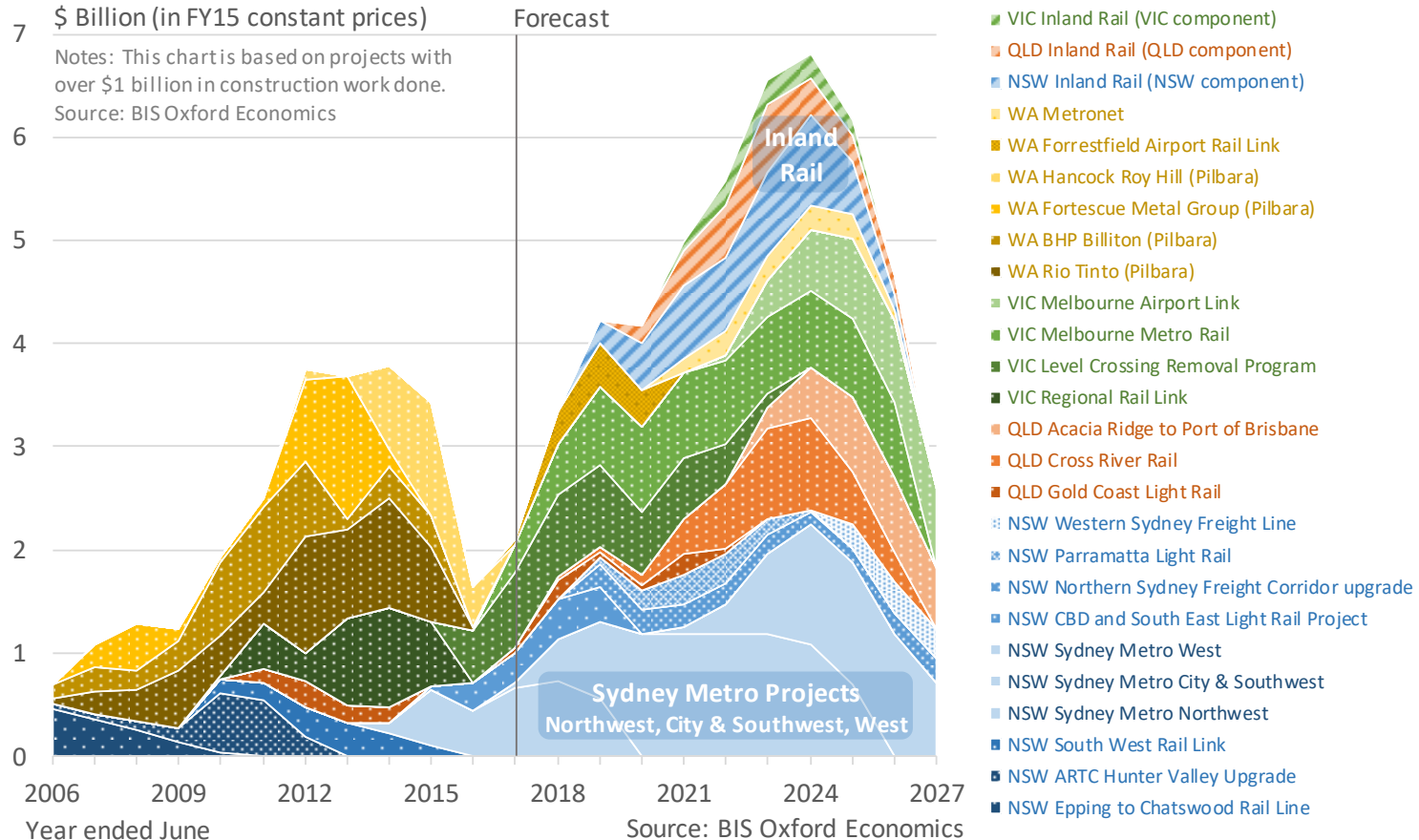
As at June

Source: BIS Oxford Economics, ABS

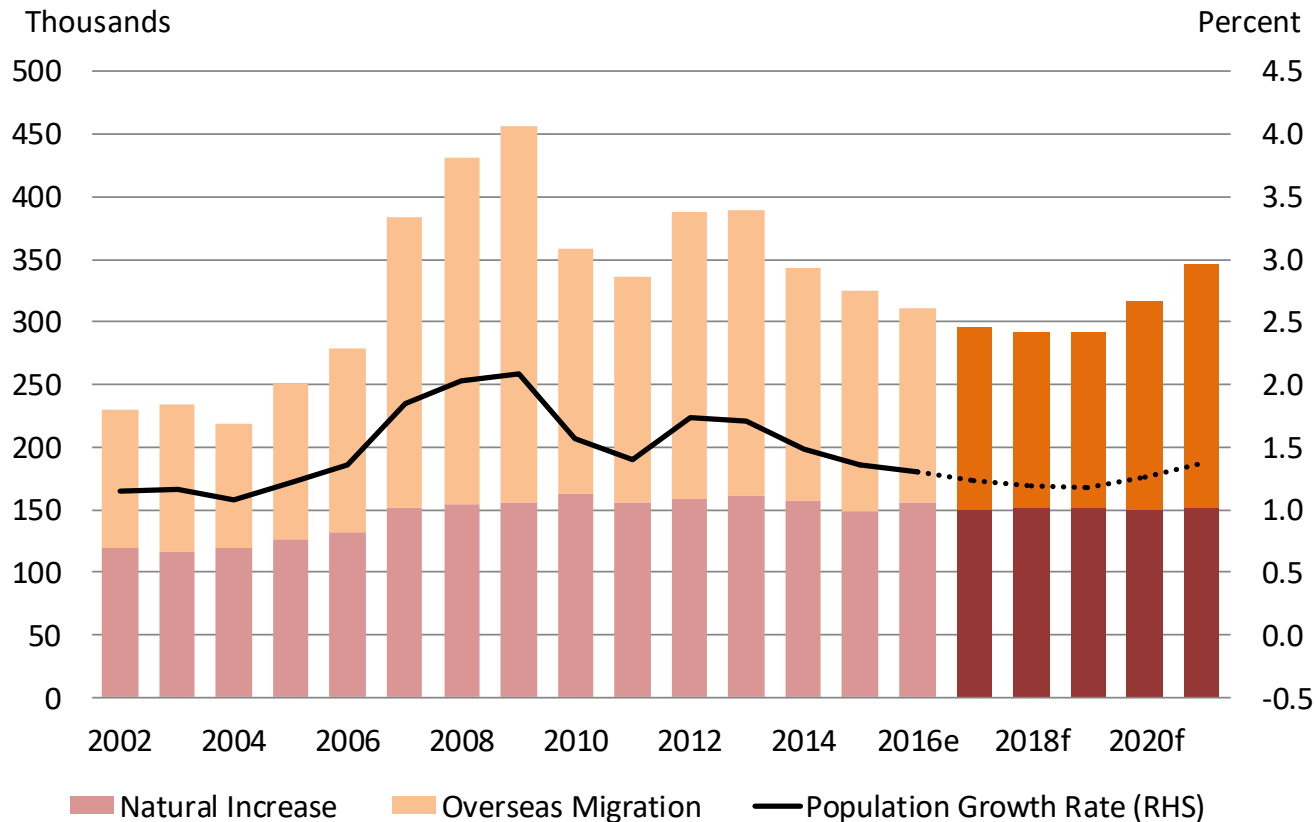
Major Transport Projects (over \$2 billion)



Major Railways Projects (over \$1 billion)



Population Growth by Source – Australia

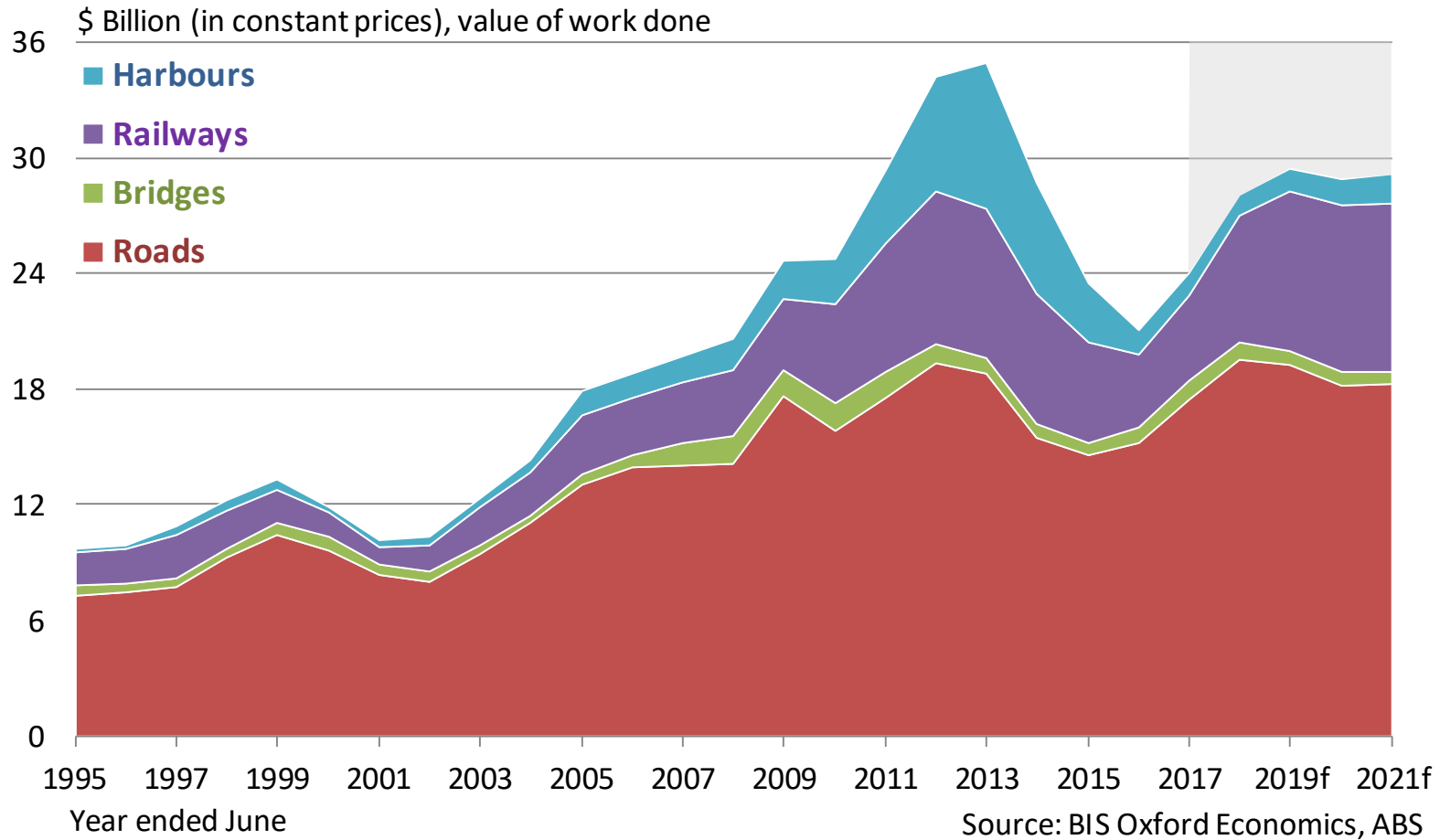


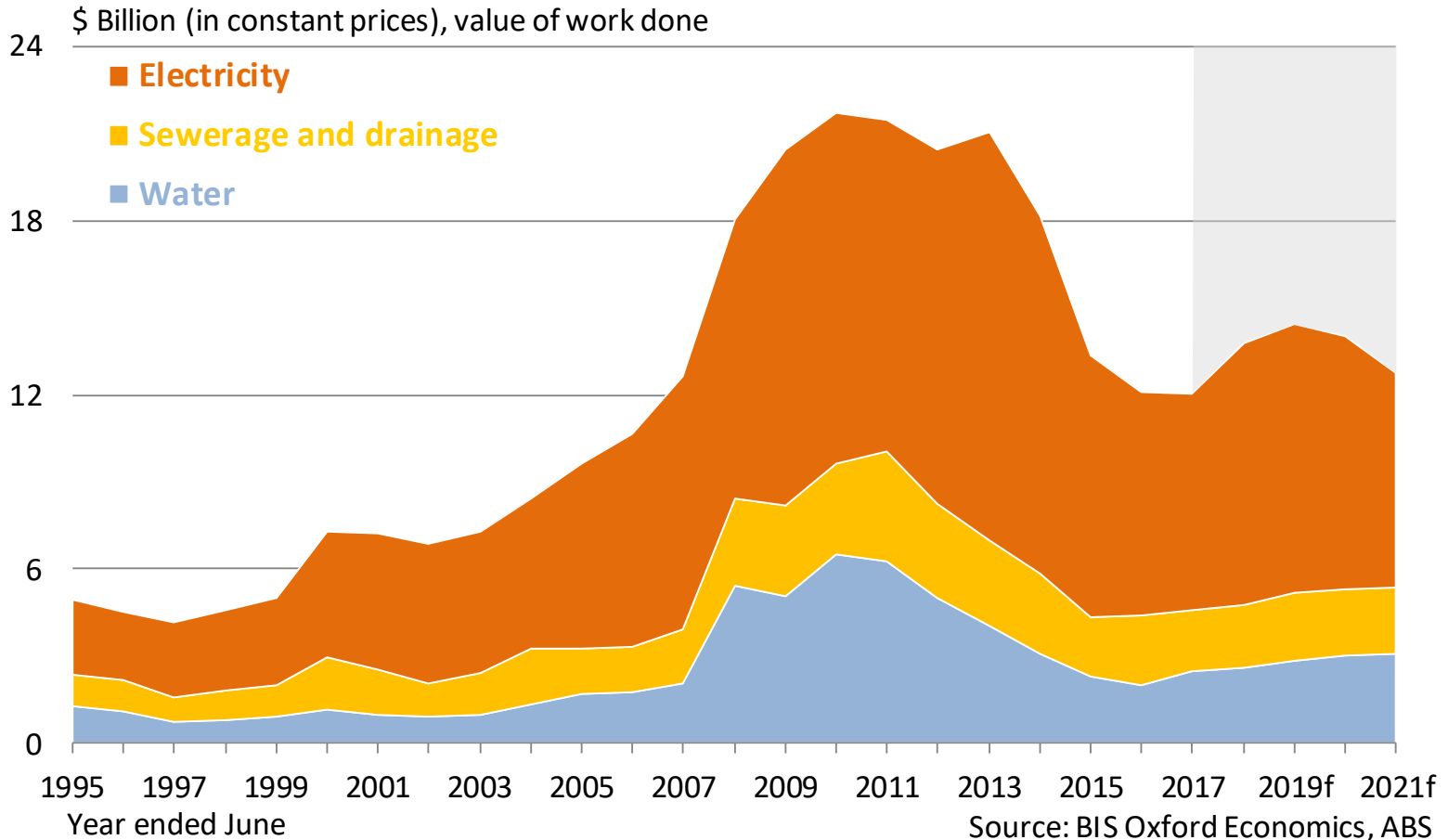
Year ended June

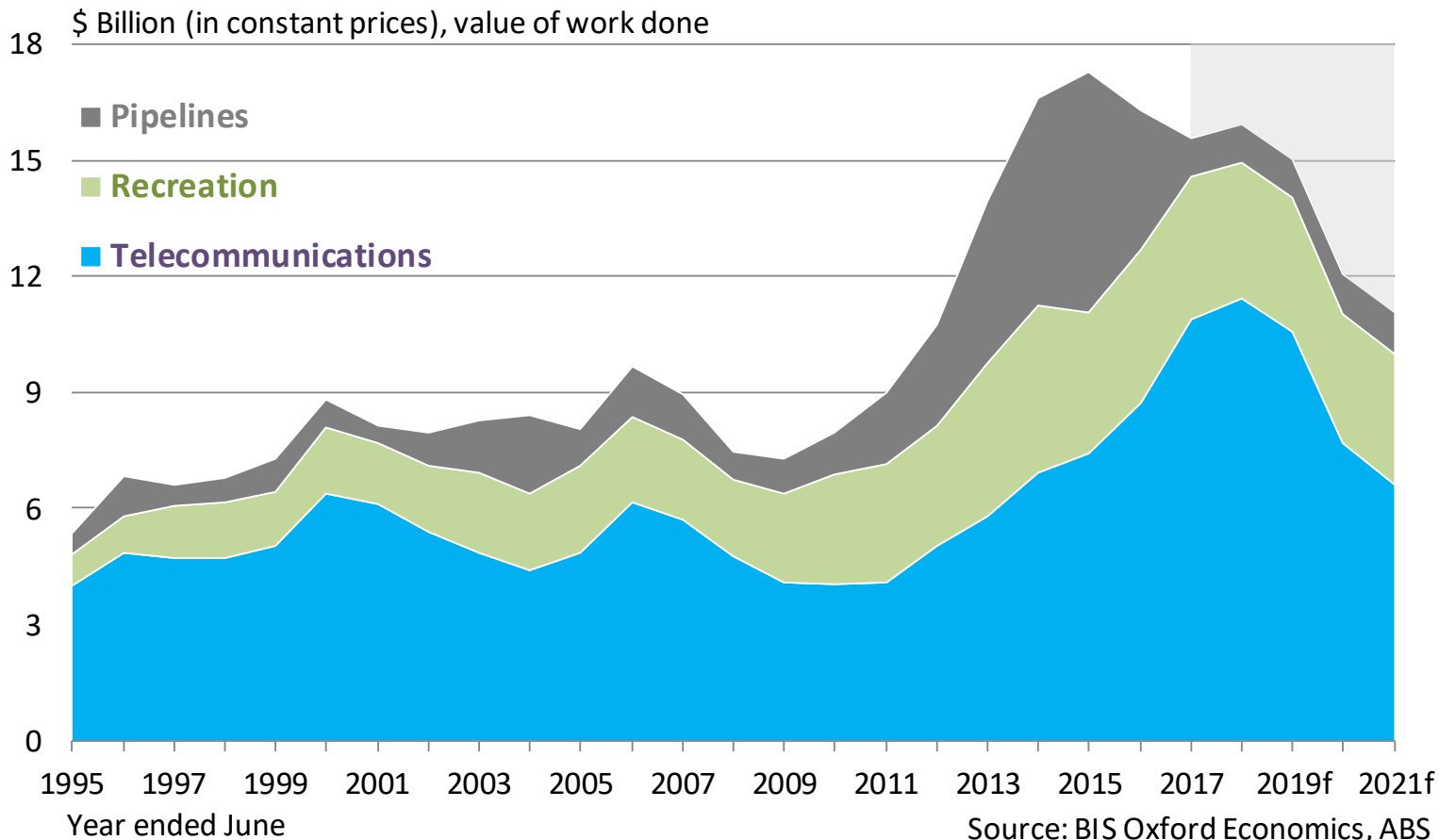
Source: BIS Oxford Economics, ABS data

Civil Construction – Australia

Value of Work Done

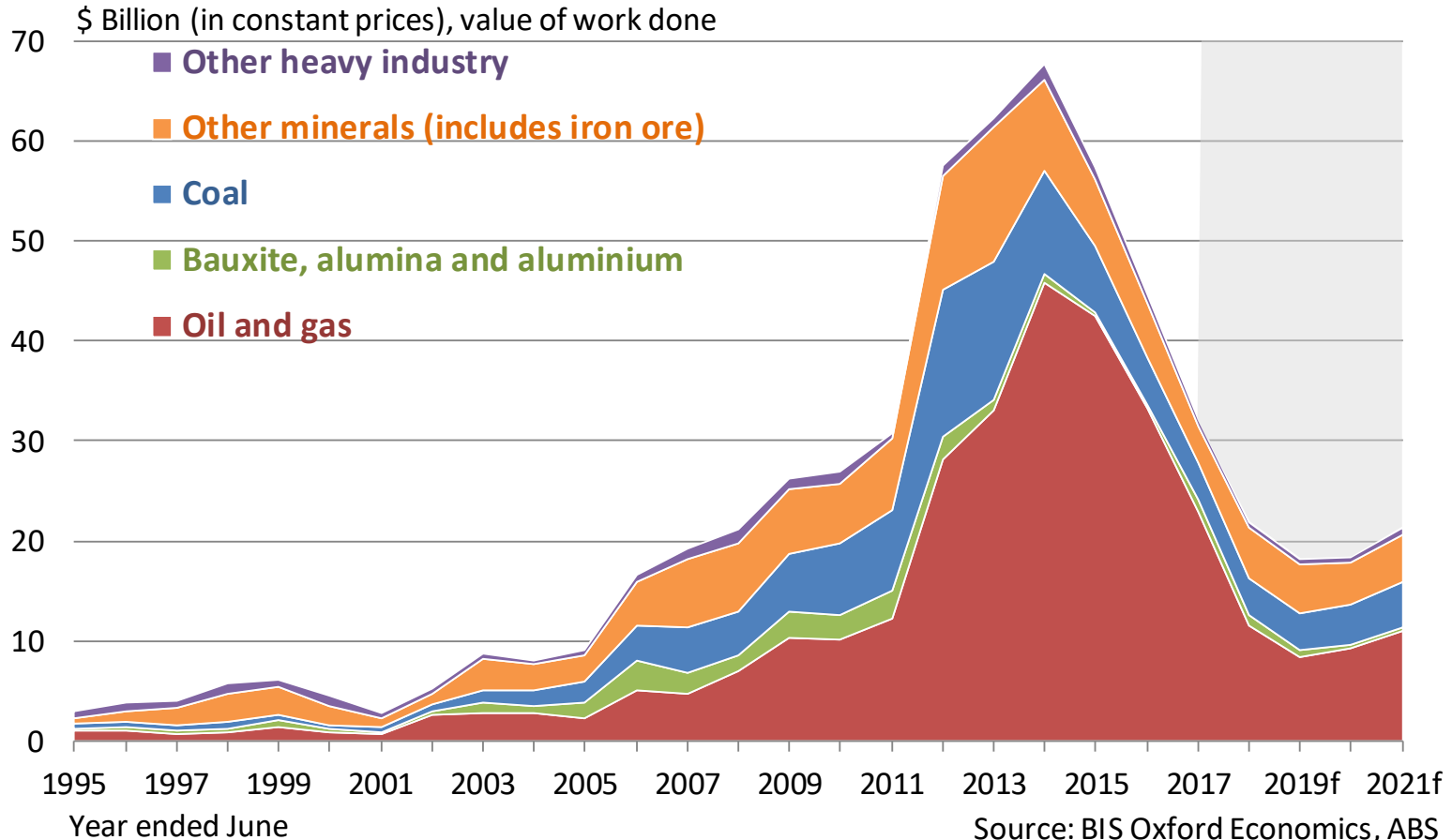






Mining and Heavy Industry Construction – Australia

Value of Work Done



Economy requires new drivers for growth:

“Robust demand growth from advanced economies has not yet emerged despite continued very low interest rates and easing of brakes to the recovery ... in this context **an increase in public infrastructure investment, particularly for advanced economies with clearly identified infrastructure needs and efficient public investment processes**, could provide a boost to demand in the short term and help raise potential output in the medium term.”

– IMF World Economic Outlook (2014)

Economy requires new drivers for growth:

“Restoring full employment and growth after the end of the China resources boom ... **requires real currency depreciation supported by public investment in productive infrastructure** and uninhibited productivity-raising reform.”

– Ross Garnaut (2015)

Economy requires new drivers for growth:

“**Monetary policy alone can't deliver everything we need** and expecting too much from it can lead, in time, to much bigger problems... Meanwhile, as often remarked, **infrastructure spending has a role to play in sustaining growth and also in generating confidence.**”

– Glenn Stevens, former RBA Governor (2015)

Economy requires new drivers for growth:

“A third issue is the task of providing adequate high-quality infrastructure to help our citizens be as productive as they can and enjoy a high quality of life. Our population is growing strongly which is a source of dynamism for our economy. But this growth can put strains on our infrastructure, including on transport infrastructure. These strains can reduce public support for a growing population. They can also impair our ability to compete and to be as productive as we can be.

Infrastructure investment does of course need to be paid for. **The positive news here is that there is no shortage of finance for the right projects.”**

– Philip Lowe, current RBA Governor (February 2017)

- **Public infrastructure investment** is driving growth now, but won't be a driver of growth by the end of the decade. And there will be other challenges to deal with along the way, such as the **inevitable decline in residential building**.
- **Longer term, what is required is a recovery in non-mining private investment**, which has stalled since the GFC. Here, there are positive signs in terms of profits and capacity utilisation – and forward projections of economic activity. Already, the lower dollar is stimulating trade-exposed industries – this needs to extend to other sectors.
- What is needed across the broader private sector is a change in psychology, from cost constraint to a 'go for growth' mindset. **Good government policy and regulatory frameworks** can help in this regard.

Governments can drive economic growth through creating incentives for private investment, boosting confidence, and establishing a strong economic direction.

Used effectively, public infrastructure investment can help stimulate private investment in trade-exposed industries benefiting from the lower dollar, and can be an important tool in establishing sensible policy settings that will help boost productivity and competitiveness in the long term.

For weaker states, the aim of economic plans should be to stimulate private decisions on where to invest and live.

For stronger states, there should be focus on meeting perceived capacity and capability gaps and avoiding 'boom time' construction risks

National economy to remains sluggish until there is a strong recovery in private investment. Investment cycles are unsynchronised, with stronger public investment now expected to give way to stronger private investment later.

But there is cause for optimism. Global growth is robust. The lower dollar is stimulating trade-exposed industries. Commodity prices are well above their early 2016 lows. Inflation remains in check – interest rates should remain low. Profitability and capacity utilisation is rising.

For businesses, its time to plan and prepare for the substantial shifts in construction work taking place over next 3-5 years, regionally and by segment. Be aware of the drivers, opportunities and risks – and try to lock in lower costs for as long as possible.



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