

## Record construction; Car sales soar 22 per cent

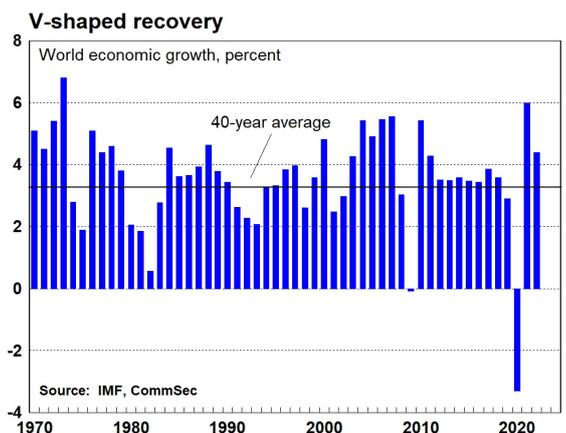
Consumer confidence; New vehicle sales; Construction gauge; Services activity

- **Construction sector:** The Australian Industry Group (AiGroup) and HIA Performance of Construction Index (PCI) rose by 4.4 points in March, up from 57.4 to a record (16-year) high of 61.8 points. Readings above 50 indicates an expansion of activity.
- **Consumer confidence:** The weekly ANZ-Roy Morgan consumer confidence rating fell by 4.6 points or 4.1 per cent to 107.7 points (long-run average since 1990 is 112.6). It was the biggest decline in nine months. Confidence is still up by 64.9 per cent since hitting record lows of 65.3 on March 29, 2020 (lowest since 1973).
- **New vehicle sales:** New vehicle sales totalled 100,005 units in March, up 22.4 per cent on a year ago.
- **Purchasing managers' indexes (PMI):** The 'final' IHS Markit services purchasing manager index rose from 53.4 in February to 55.0 in March. The composite index, which measures combined services and manufacturing output, rose from 53.7 to 55.5. Readings above 50 indicates an expansion of activity.
- **Global economy:** The International Monetary Fund now expects the global economy to grow by 6 per cent in 2021, up from the previous estimate of 5.5 per cent made in January.

*New vehicle sales data provides insights into business and consumer spending and provides guidance on conditions for the Autos and Components sector of the sharemarket. The Performance of Construction index provides insights for business conditions in the sector. The purchasing manager index gives a guide to conditions in manufacturing and services sectors. The consumer confidence figures have implications for retailers, and other consumer-focussed businesses.*

### What does it all mean?

- After the biggest contraction for the global economy since 1946, growth this year is tipped to be the fastest in 47 years. Governments and central banks responded quickly to the pandemic, and just as importantly, vaccines were able to be developed within a year of the outbreak occurring. The speed and breadth of the vaccine rollout will fundamentally determine whether the global economy rebounds by 6 per cent as expected.
- Australian businesses continue to expand. The good news is that employment continues to grow. The area to watch is costs – higher raw material and wage costs. It appears that costs are still being absorbed by businesses but the question is how long can this continue. The wages index in the construction survey hit 12-year highs in March.
- Consumer confidence slumped last week in response to fresh lockdowns, border closures and restrictions on business and social activity. But the crisis eased as quickly as it began and we would expect consumer confidence to bounce back in the next weekly report.
- Vehicle sales are bouncing back after Covid-driven supply shortages. SUVs and Utes are the wheels of choice, accounting for 8 of the top 10 vehicles sold.



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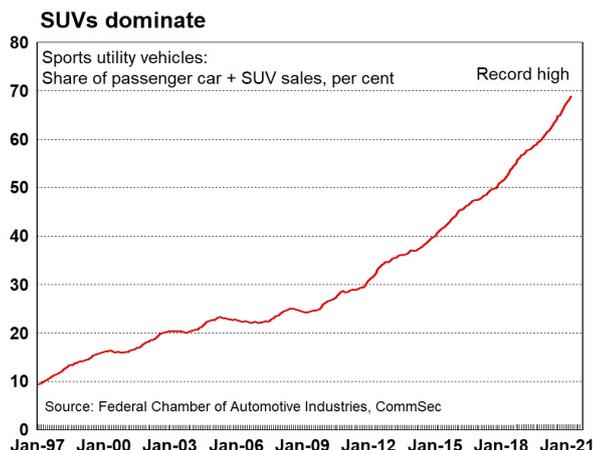
## What do you need to know?

### New vehicle sales - March

- New vehicle sales totalled 100,005 units in March, up 22.4 per cent on a year ago. While sales have now grown in annual terms for five months, it follows 31 months of falling sales.

#### The Federal Chamber of Automotive Industries reported:

- “The March 2021 market of 100,005 new vehicle sales is an increase of 18,315 vehicle sales or 22.4 per cent on March 2020 (81,690) vehicle sales. March 2021 had 26.5 selling days compared to March 2020 with 25.5 and this resulted in an increase of 570.2 vehicle sales per day.
- The Passenger Vehicle Market is down by 423 vehicle sales (-1.9 per cent) over the same month last year; the Sports Utility Market is up by 12,543 vehicle sales (32.0 per cent); the Light Commercial Market is up by 5,090 vehicle sales (28.0 per cent); and the Heavy Commercial Vehicle Market is up by 1,105 vehicle sales (42.8 per cent) versus March 2020.
- SUV sales were up 32 per cent and Light Commercial vehicles were up by 28 per cent. Eight of the top ten selling vehicles for the month were SUVs or Light Commercials, driven by increasing demand from the Private buyers.
- Sales of electric vehicles reached 411 in March, an increase of 248 compared with the same month in 2020.
- Toyota was the leading brand in March with sales of 21,319 vehicles (21.3 per cent of the market), followed by Mazda with 10,785 (10.8 per cent), Hyundai with 6,852 (6.9 per cent), Mitsubishi with 6,430 (6.4 per cent) and Ford with 5,977 (6.0 per cent).
- The Toyota Hilux was the best-selling vehicle in March 2021 with sales of 5,319 vehicles, followed by the Ford Ranger (3,983), the Toyota RAV4 (3,522), the Toyota Landcruiser (3,392) and the Mazda CX-5 (3,022).”
- Sales across states and territories over the year to March: NSW (up 22.1 per cent); Victoria (up 19.1 per cent); Queensland (up 32.7 per cent); South Australia (up 28 per cent); Western Australia (up 30.5 per cent); Tasmania (up 30 per cent); Northern Territory (up 43.4 per cent); ACT (down 43.8 per cent).
- In the 12 months to March, sales totalled 947,255 – a nine month high – but 7.8 per cent down on a year ago. In the year to March, SUVs accounted for a record 68.8 per cent of combined SUV and passenger car sales.



### Consumer sentiment – Week ended April 4

- The **weekly ANZ-Roy Morgan consumer confidence rating** fell by 4.6 points or 4.1 per cent to 107.7 points (long-run average since 1990 is 112.6). It was the biggest decline in nine months. Confidence is still up by 64.9 per cent since hitting record lows of 65.3 on March 29, 2020 (lowest since 1973).
- **All of the five major components of the index fell last week:**

### **ANZ-Roy Morgan Australian Weekly Consumer Confidence index**

	As at April 4	Previous week
Estimate of family finances compared with a year ago	-2.5	3.3
Estimate of family finances over the next year	22.5	26.8
Economic conditions over the next 12 months	-0.9	3.1
Economic conditions over the next 5 years	7.7	8.5
Good time to buy a major household item?	11.7	19.6
<b>Consumer confidence rating</b>	<b>107.7</b>	<b>112.3</b>
<b>Four week moving average</b>	<b>110.3</b>	<b>111.4</b>
<b>Inflation expectations</b>	<b>3.7</b>	<b>3.7</b>

Source: CommSec, Roy Morgan, ANZ

### Performance of Construction index (PCI) – March

- The Australian Industry Group (AiGroup) Performance of Construction Index (PCI) rose by 4.4 points in March, up from 57.4 to a record (16-year) high of 61.8 points. Readings above 50 indicates an expansion of activity.
- In seasonally-adjusted terms activity fell 3.7 points to 57.7 points. But employment rose 1.4 points to a record high of 63.1 points. And new orders rose by 14.6 points to a record high of 64.7 points. Supplier deliveries also rose 5.2 points to a record high of 62.1 points.

- Ai-Group noted: “Residential builders continued to report high levels of customer inquiries, orders and requests to ‘commence as soon as possible’ through March. Conditions were positive but slower in apartment building, commercial building and engineering construction.
- Concerns about supply chain delays and high pricing for imported inputs (and high freight costs) are apparent across all four segments of construction in 2021. Supply constraints plus strong customer demand saw both the input and selling price indexes in the Australian PCI® hit record highs in March (highest since these two data series commenced in 2005 and 2008, respectively). The average wages index surged to its highest monthly result since 2008.”

### **IHS Markit Purchasing Managers’ indexes (PMI) – March**

- The ‘final’ IHS Markit services purchasing manager index rose from 53.4 in February to 55.0 in March. The composite index, which measures combined services and manufacturing output, rose from 53.7 to 55.5. Readings above 50 indicates an expansion of activity.
- **IHS Markit economists reported**, “Stronger demand conditions encouraged private sector firms to increase aggregate employment levels for the fifth consecutive month in March, with job creation reported in both the manufacturing and services sectors.”
- “Inflationary pressures remained at Australian private sector firms in March. Input prices increased at a series record pace, surpassing the previous record set in February. Businesses widely commented that rising input prices were the result of higher raw material and wage costs. Increased cost burdens led to private sector businesses raising output charges for the fifth time in as many months in March. The rate of inflation was broadly unchanged from February and was moderate overall.”

### **What is the importance of the economic data?**

- **The ANZ/Roy Morgan weekly survey of consumer confidence** closely tracks the monthly Westpac/Melbourne Institute consumer sentiment index but the former measure is a timelier assessment of consumer attitudes and is now closely tracked by the Reserve Bank.
- The **Federal Chamber of Automotive Industries** releases estimates of **new vehicle sales** on the third business day of the month. The figures highlight the strength of consumer spending as well as conditions facing auto & components companies.
- The Australian Industry Group compile the **Performance of Manufacturing Index**, the **Performance of Services index** and the **Performance of Construction index** each month (the latter with the Housing Industry of Australia). **IHS Markit** also compile **purchasing manager surveys** for manufacturing and services sectors. The surveys are amongst the timeliest economic indicators released in Australia. The surveys are useful not just in showing how key sectors are performing but also in providing some sense about where they are headed. The key ‘forward looking’ components are orders and employment.

### **What are the implications for investors?**

- The Aussie economy is in a good place. But the risks are tilted on the upside – to stronger-than-normal activity and thus the potential wage and price pressures. While the Reserve Bank has seemingly locked the cash rate at record lows for the next three years, much can change in that time.
- Still, the short, sharp lift in economic activity may not be sustained as supply responds to the higher demand. And the continued closure of foreign borders will also serve to limit activity in housing, education and tourism sectors. (Home builders are wary of a slump after HomeBuilder). New Covid waves as well as issues with vaccine rollouts are also constant threats.
- There are marked differences in construction sector activity with house building and engineering construction soaring while apartment building and commercial construction are contracting. The trends have different implications for listed developers, contractors, building material companies and infrastructure firms.
- Sales of new and used vehicles are slowly getting back to ‘normal’ after production delays that were caused by Covid. There are ‘V-shaped’ recoveries everywhere and this includes new vehicle sales, with March 2021 sales the best for any March in the past three years.

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