

The coming Construction Upswing: Implications and Risks?

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Key Messages

National economy is weak, not strong. Household spending is anaemic. Key drivers of investment are missing or in flux. It is investment which drives growth and construction is the key realisation of investment on the real economy.

Construction growth has slowed. We are in the midst of a compositional shift in investment – by sector and region. On the engineering side, the long transport cycle is nearing a peak while the next phase of growth in utilities and resources is just starting. On the building side, falling commercial and industrial activity offsets growth in health – and the coming residential boom is not here yet.

A flat 12-18 months ahead for construction overall as new growth in engineering from utilities and resources is offset by weakness in building before...

Strengthening residential building drives the next major cycle in construction.

Implications

Business conditions to remain tough over next 12 months. Interest rates will remain high. Inflation likely to remain stubbornly above the RBAs target band this year. Wage pressures will be sustained in the construction industry given demands and chronic shortages of trades, managers and professionals. \$A will rise, assisting some easing in price pressures for imported equipment and materials.

Look to position for the next growth drivers. The compositional shift in investment by sector and region will see new opportunities arise – now is the time to position for this. QLD and WA will see the strongest lift in work, while subsectors such as water, electricity, harbours, oil and gas, mining and heavy industry will outperform.

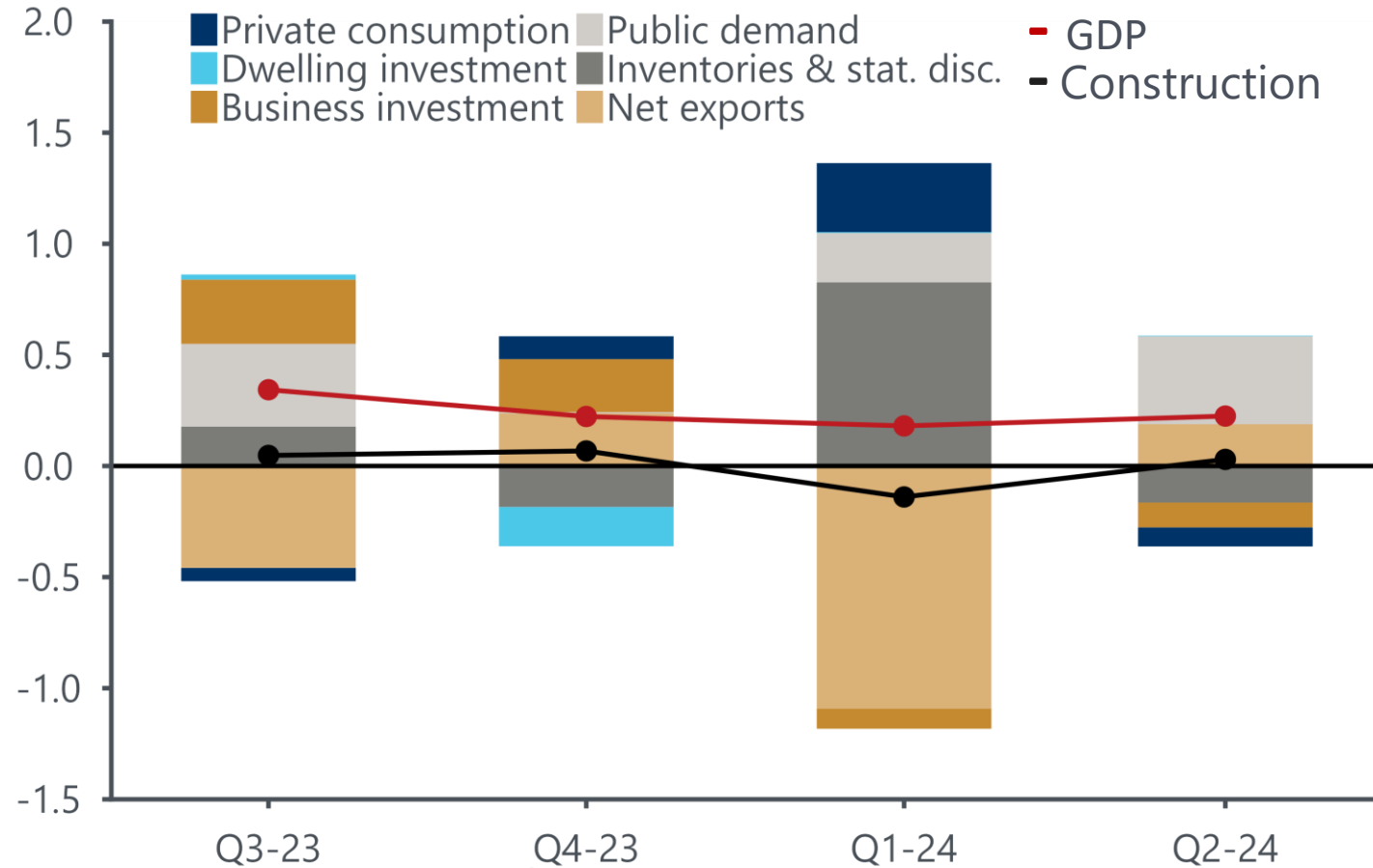
A strong cycle is emerging from FY27 as residential investment recovers, alongside a number of commercial and industrial segments.

Capacity and cost escalation risks will remain while productivity is not addressed.

Economy is very weak, not strong, supported by public spending

Quarterly GDP contributions

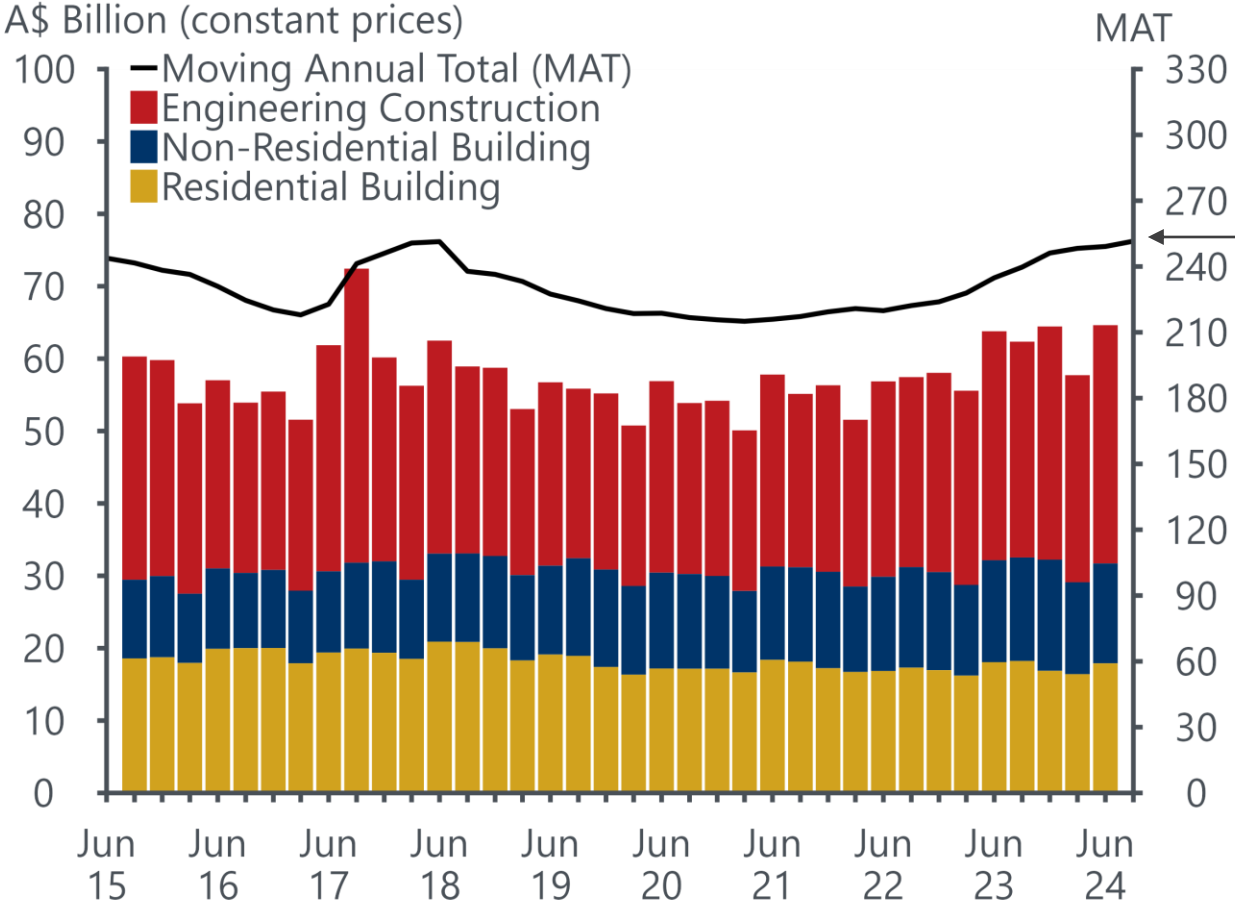
%pt quarterly contribution



Source: Haver Analytics, Oxford Economics Australia

In part due to publicly funded social and economic infrastructure

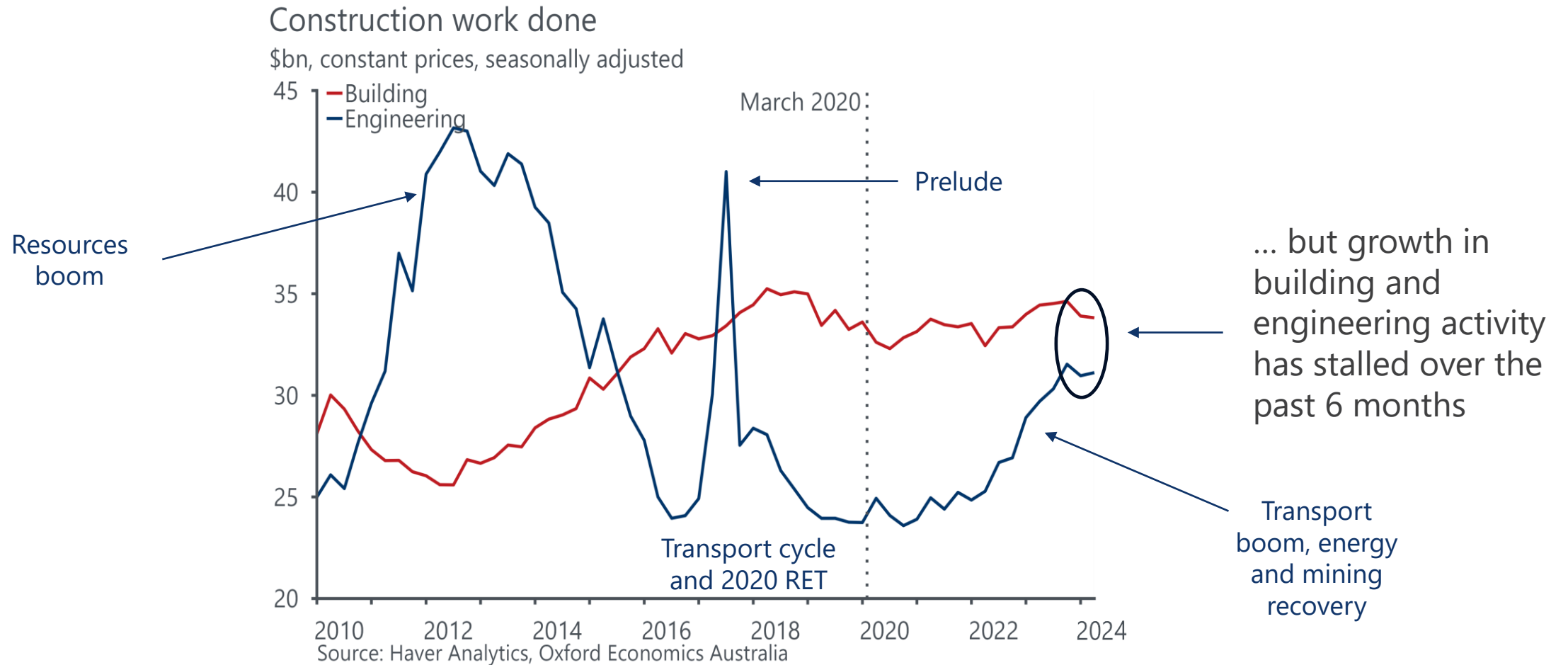
Total Building & Construction Work Done



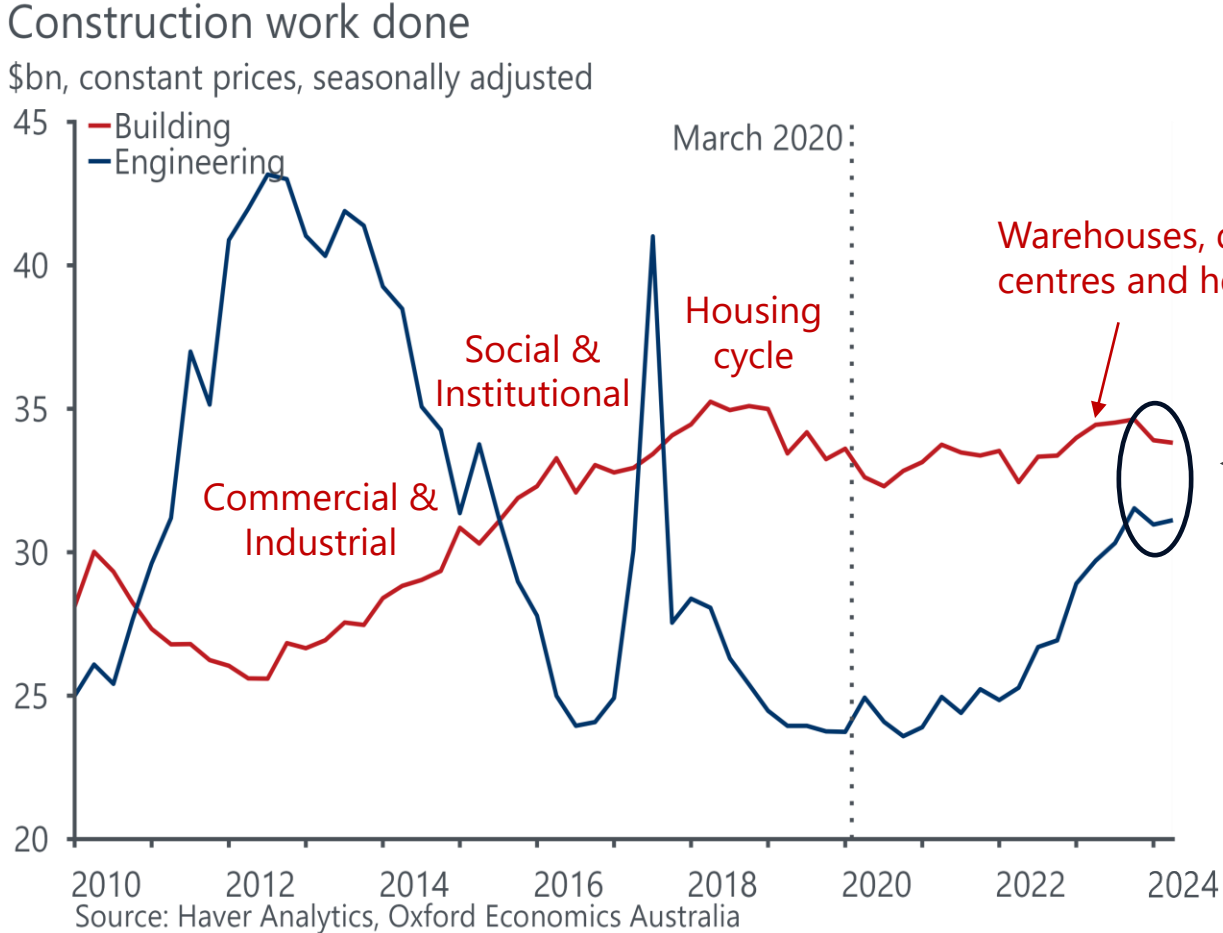
Source: Haver Analytics, Oxford Economics Australia

In annual terms, total construction activity has edged higher although the pace of growth has slowed

... but its been a poor first half of 2024



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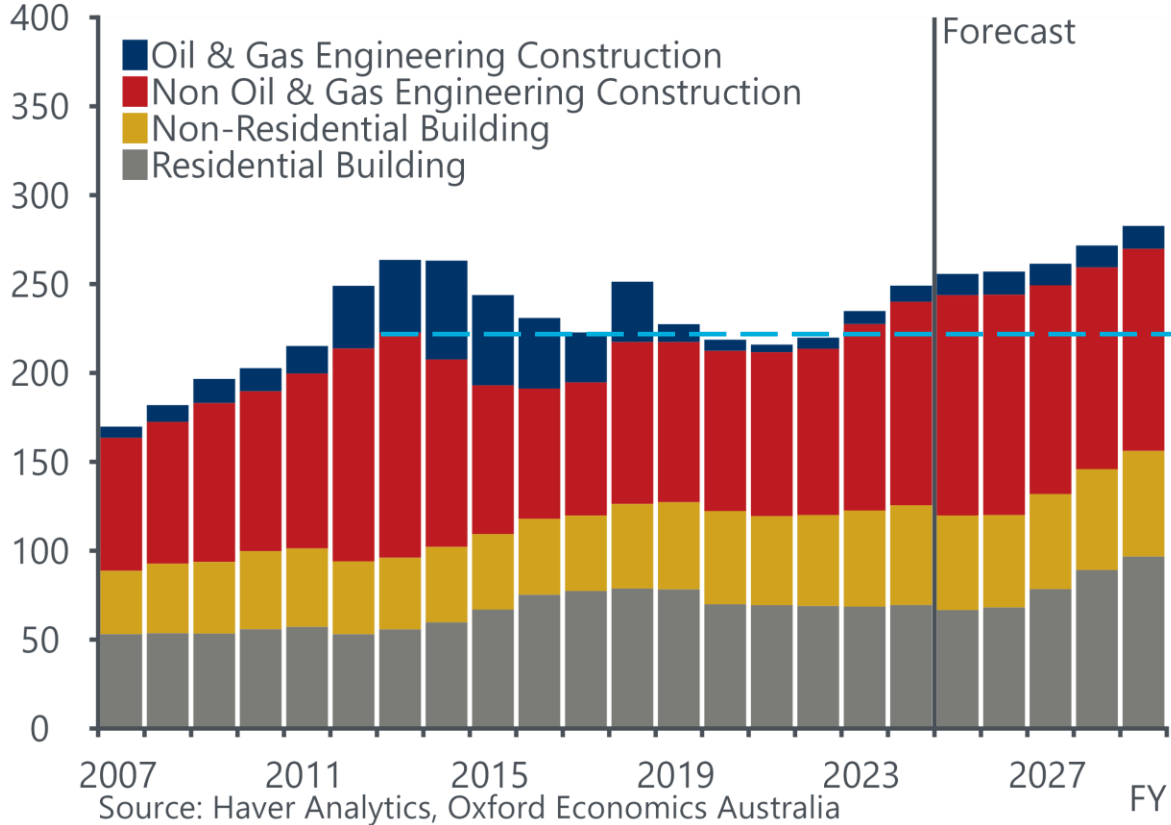


... but growth in building and engineering activity has stalled over the past 6 months

Composition of growth is changing – but growth will return

Total Construction Work Done

A\$ Billion (constant prices)



Resource boom peak in non-oil and gas work

Capacity and capability to remain stretched

Risks to the outlook are finely balanced

Macro pressure on government budgets and infrastructure funding

Compositional factors may see construction growth continue to stall

Capacity and skills constraints in emerging sectors

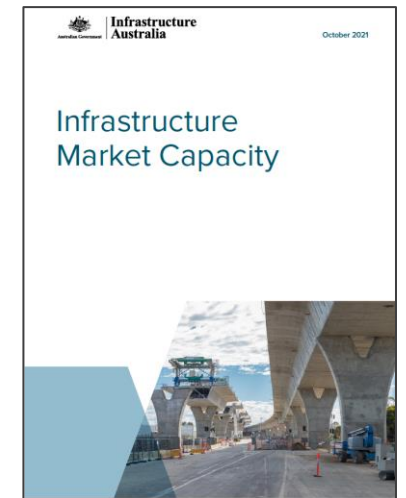
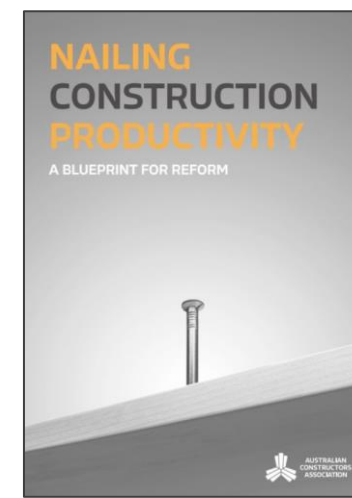
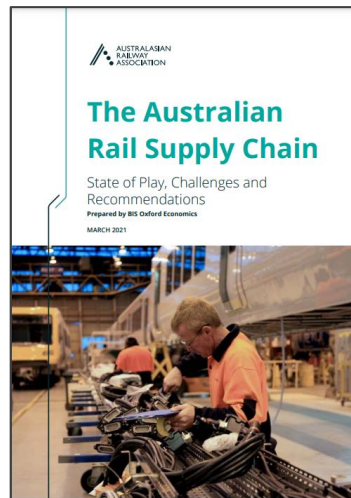
Risks to timing of resources and energy projects

Pace of recovery in residential building

Poor productivity outcomes continue

Our recent construction consulting work mirrors industry concerns

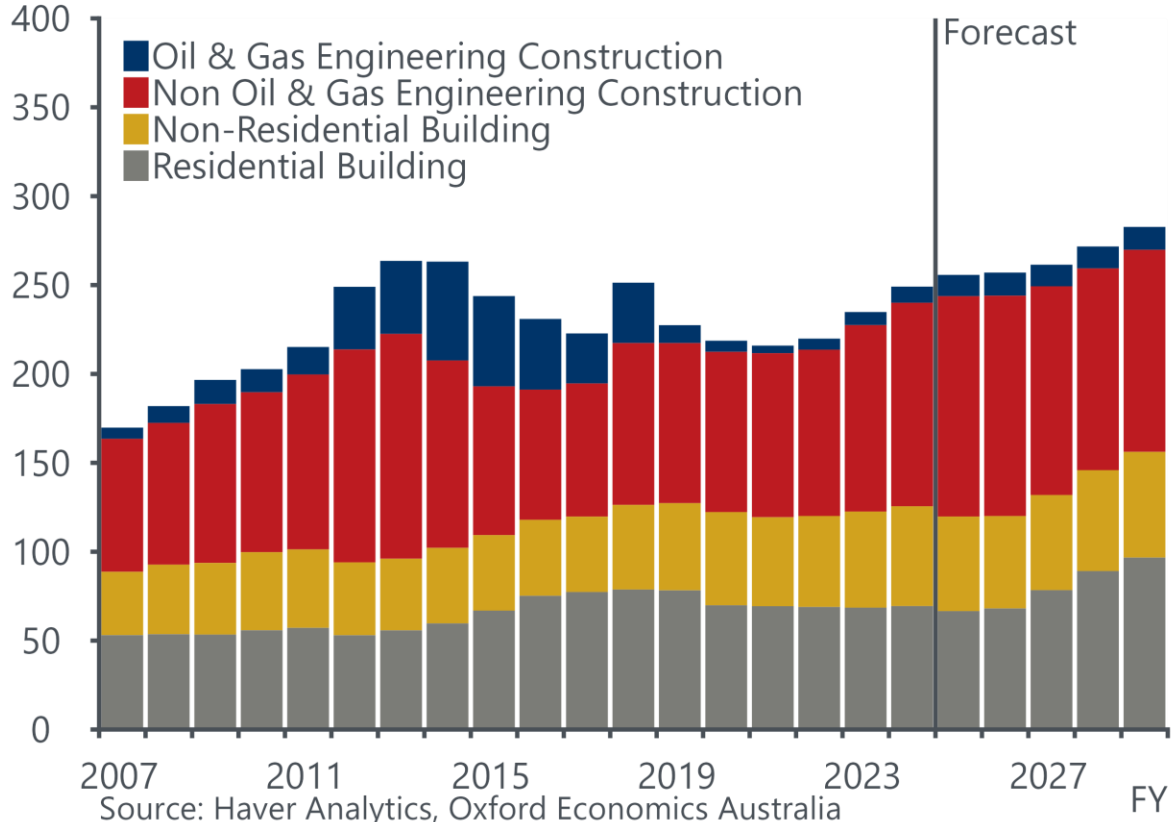
- ❑ MANY cost escalation analyses and forecasts for specific projects or sectors
- ❑ Cost review, capacity, DFM and economic impact projects
- ❑ 2024 Queensland Bulk Water Delivery Assessment – Qld State Government
- ❑ 2024 Australia and New Zealand Roads Workforce Capability – Austroads – Update
- ❑ 2024 Market Sizing for Construction, Maintenance and FM Services – Private Clients
- ❑ 2023 Market Capacity Report – Infrastructure Australia (as in 2021 and 2022)
- ❑ 2023 Regional Queensland Quarry Supply and Demand – Qld State Government / CCAA



Industry drivers to switch from engineering to residential

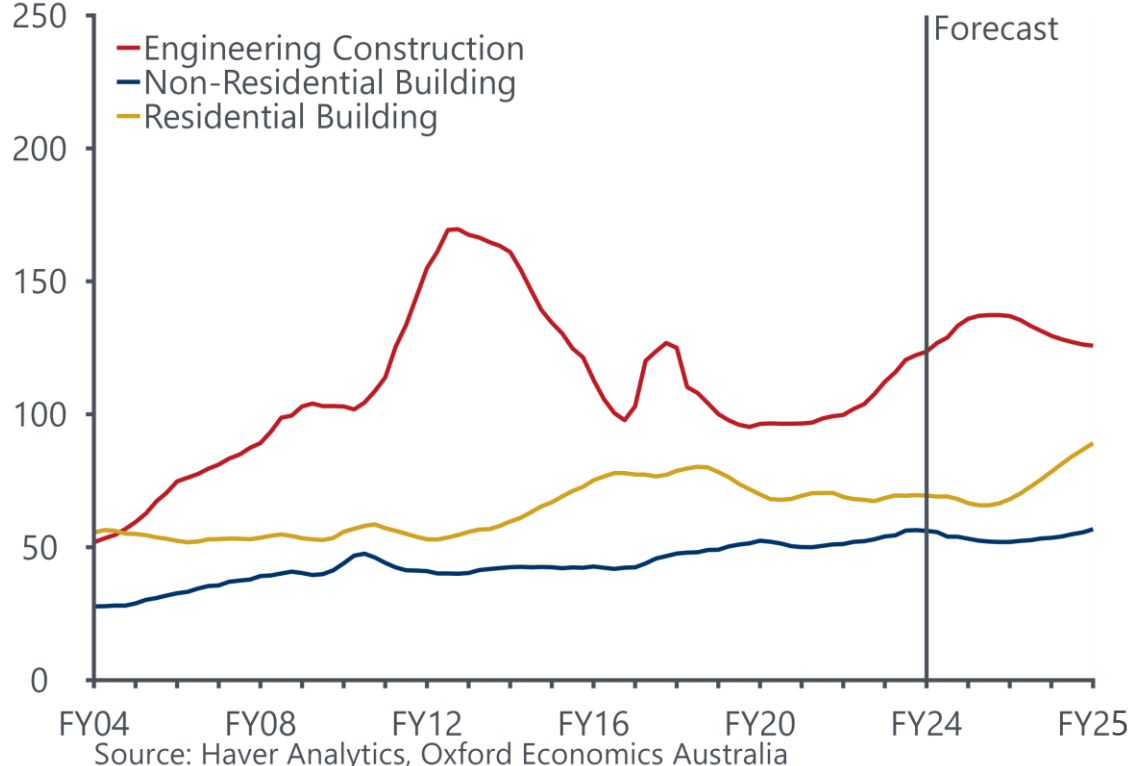
Total Construction Work Done

A\$ Billion (constant prices)



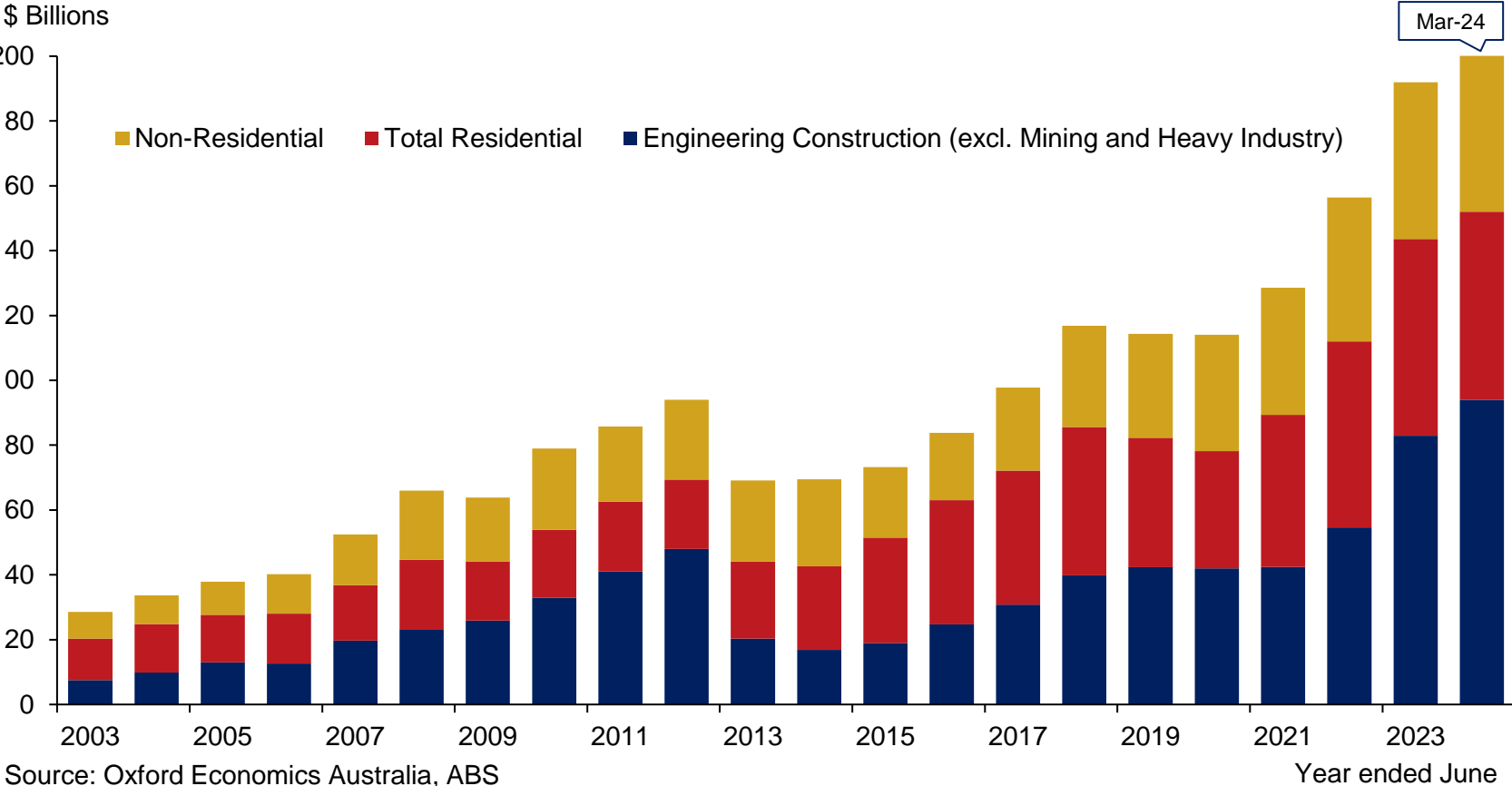
Construction Work Done, Australia

A\$ Billion (constant prices)



Work in the pipeline should sustain near-term activity

Construction Work Yet to be Done (excl. Mining and Heavy Industry)



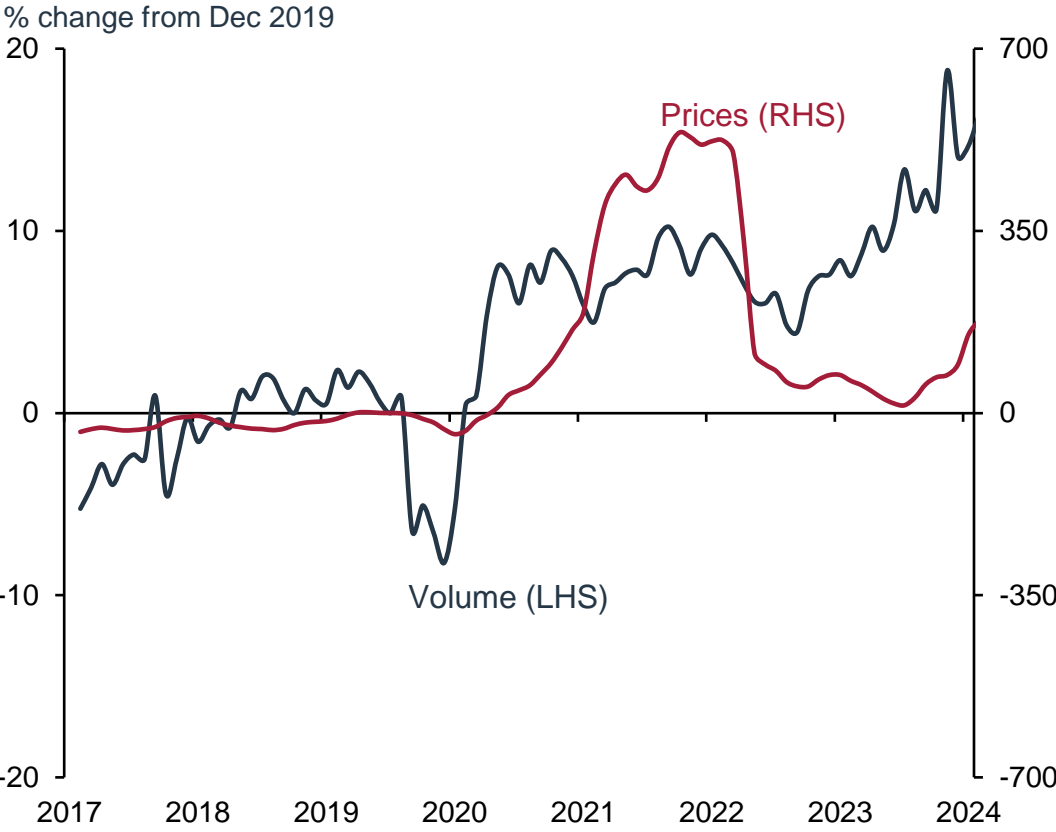
Source: Oxford Economics Australia, ABS

Planned activity is slowing in residential building, with 'work yet to be done' falling by \$2.6 billion over the first 3 quarters of FY24. However, a strong rise in the engineering construction pipeline by \$11 billion over the same period will support near-term activity, with notable sectors including:

- Water (up \$6.0 billion)
- Electricity (up \$3.6 billion)
- Roads (up \$2.1 billion)

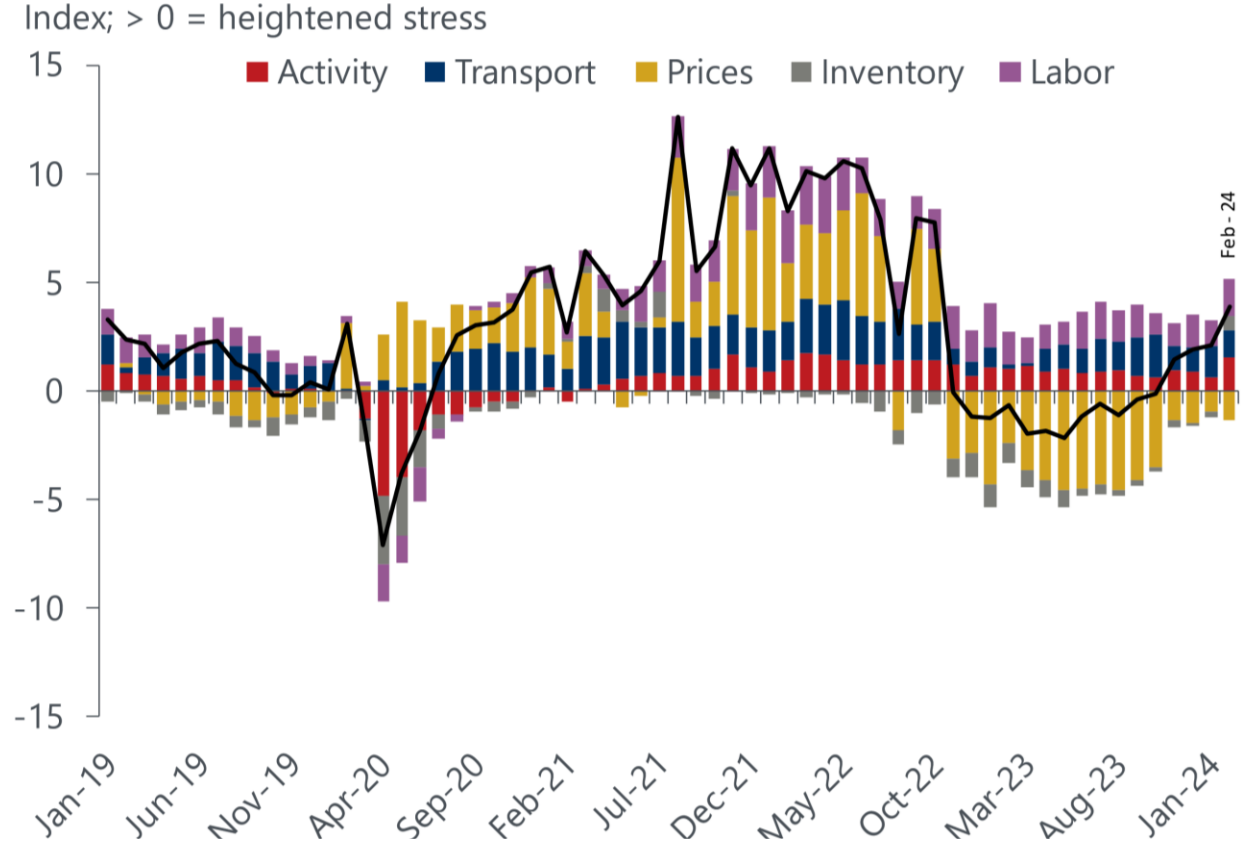
Industry soundings tell us local constraints are now trumping global challenges for market capacity and capability

Global Container Throughput Index and Freight Prices



Source: Haver Analytics

US Supply Chain Stress Tracker



Industry soundings tell us local constraints are now trumping global challenges for market capacity and capability

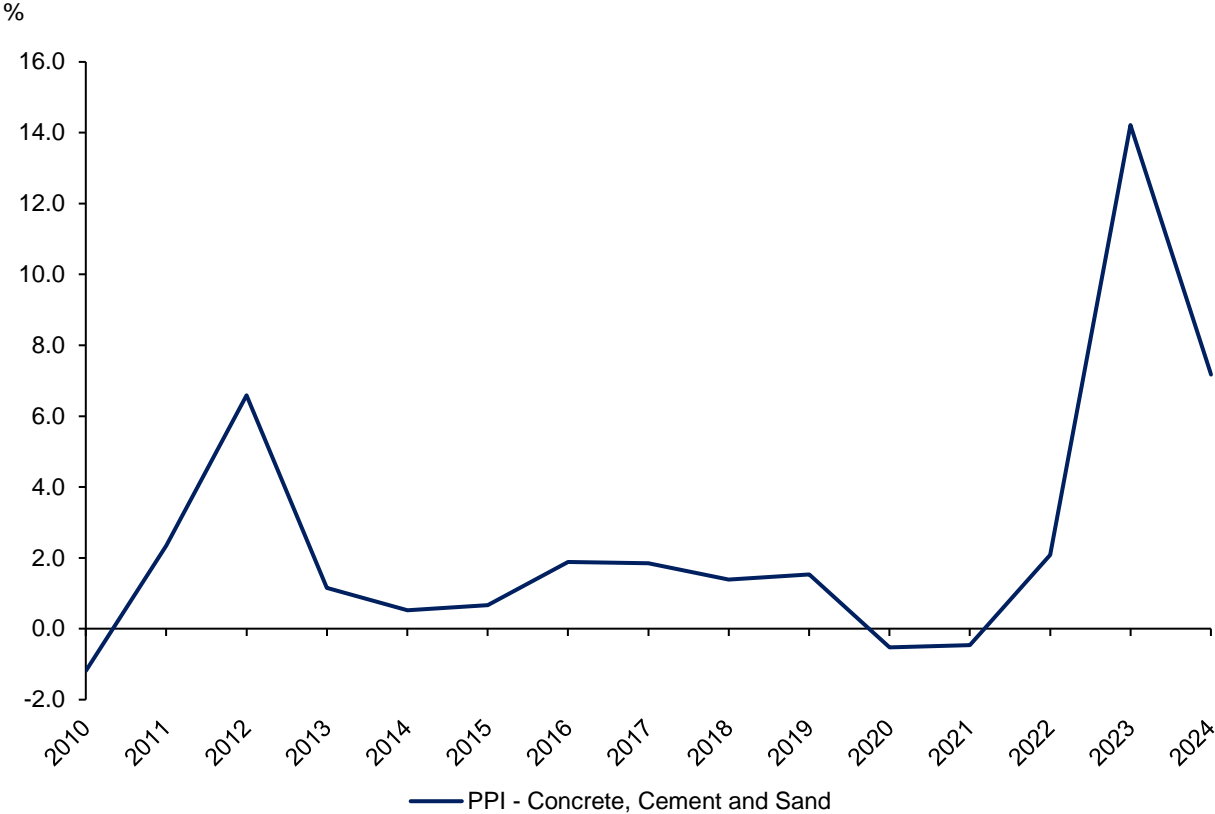
Construction Wage Price Index



Source: Oxford Economics Australia, ABS

Year ended June

Concrete, Cement and Sand Producer Price Index

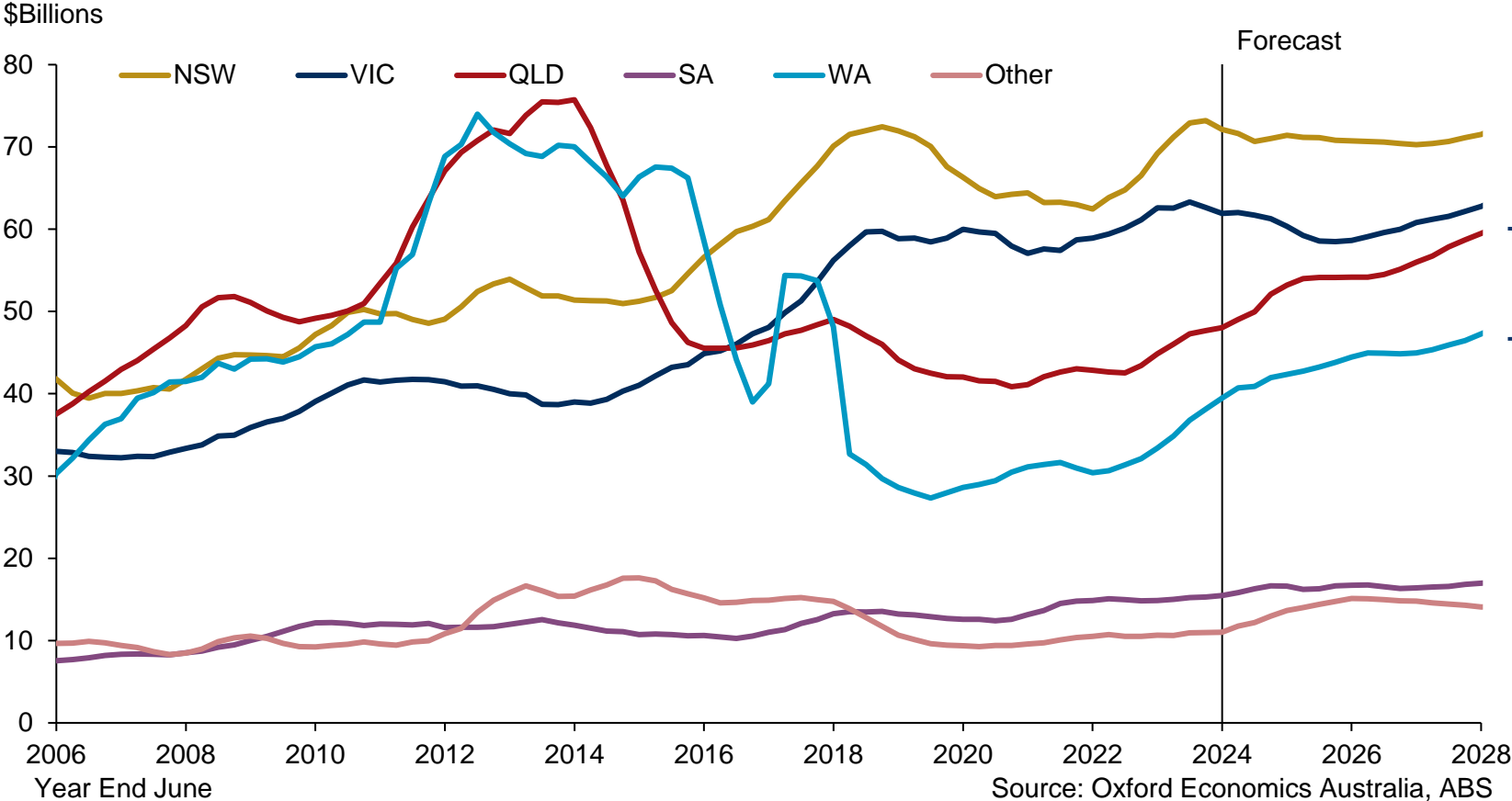


Source: Oxford Economics Australia, ABS

Year ended June

Substantial variation in state and territory construction demands

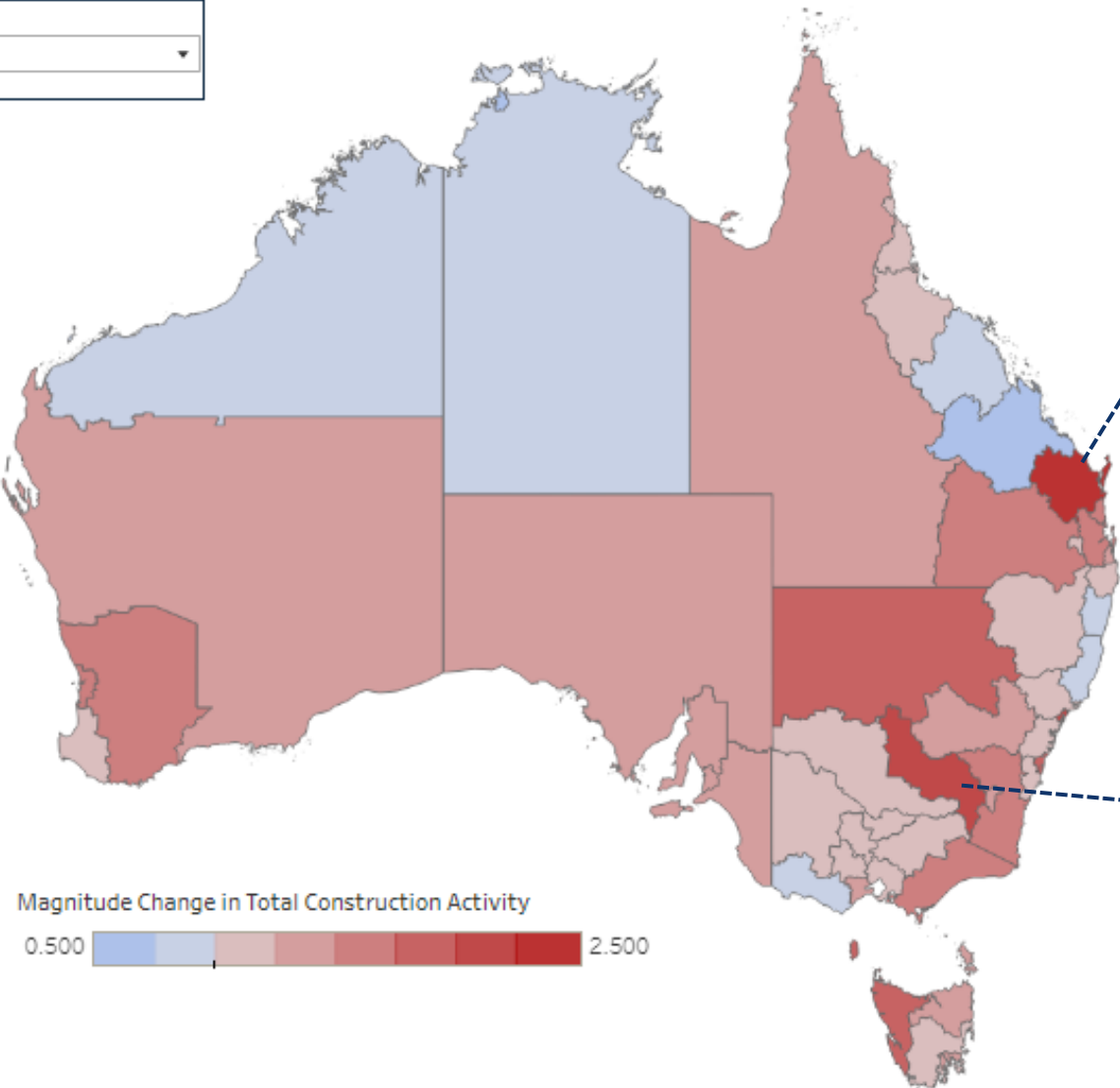
Total Construction Work Done, by State



QLD and WA have the best prospects – but may need to draw on emerging capacity in NSW and Victoria to support their investment programs

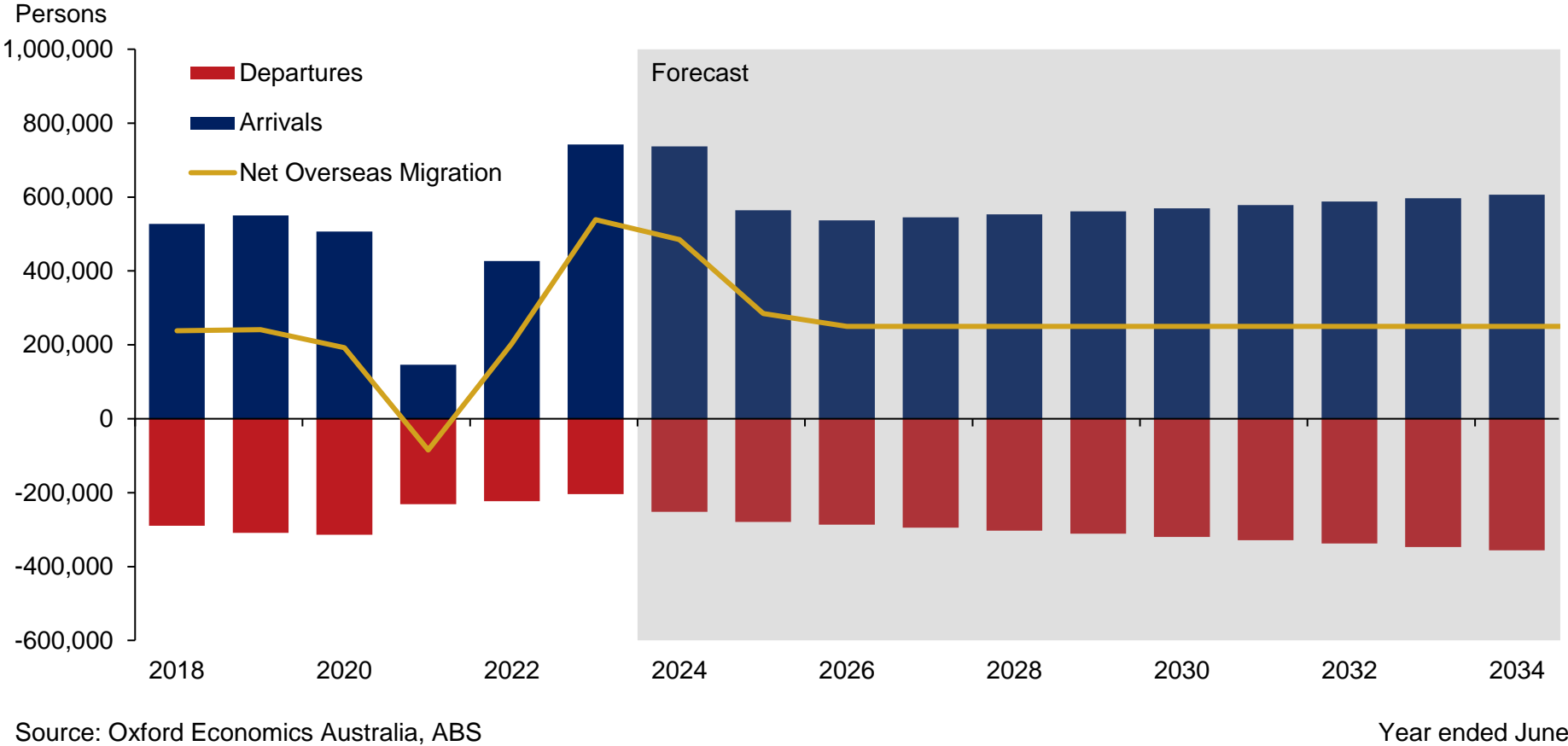
But there is also regional 'heat' within states and territories which will challenge capacity to deliver

Period
2024-2033



Population pressure will be sustained through migration

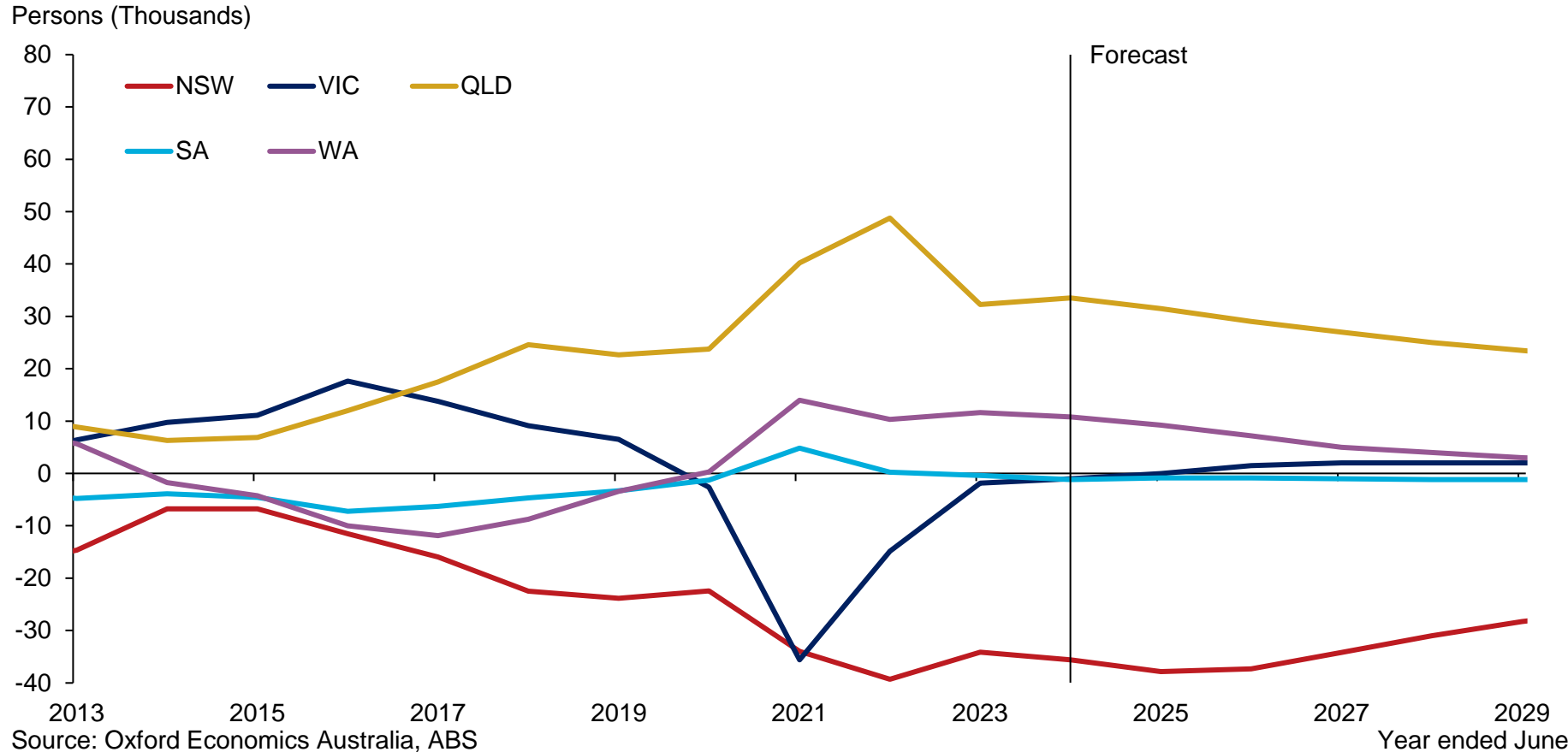
Net Overseas Migration - Australia



Source: Oxford Economics Australia, ABS

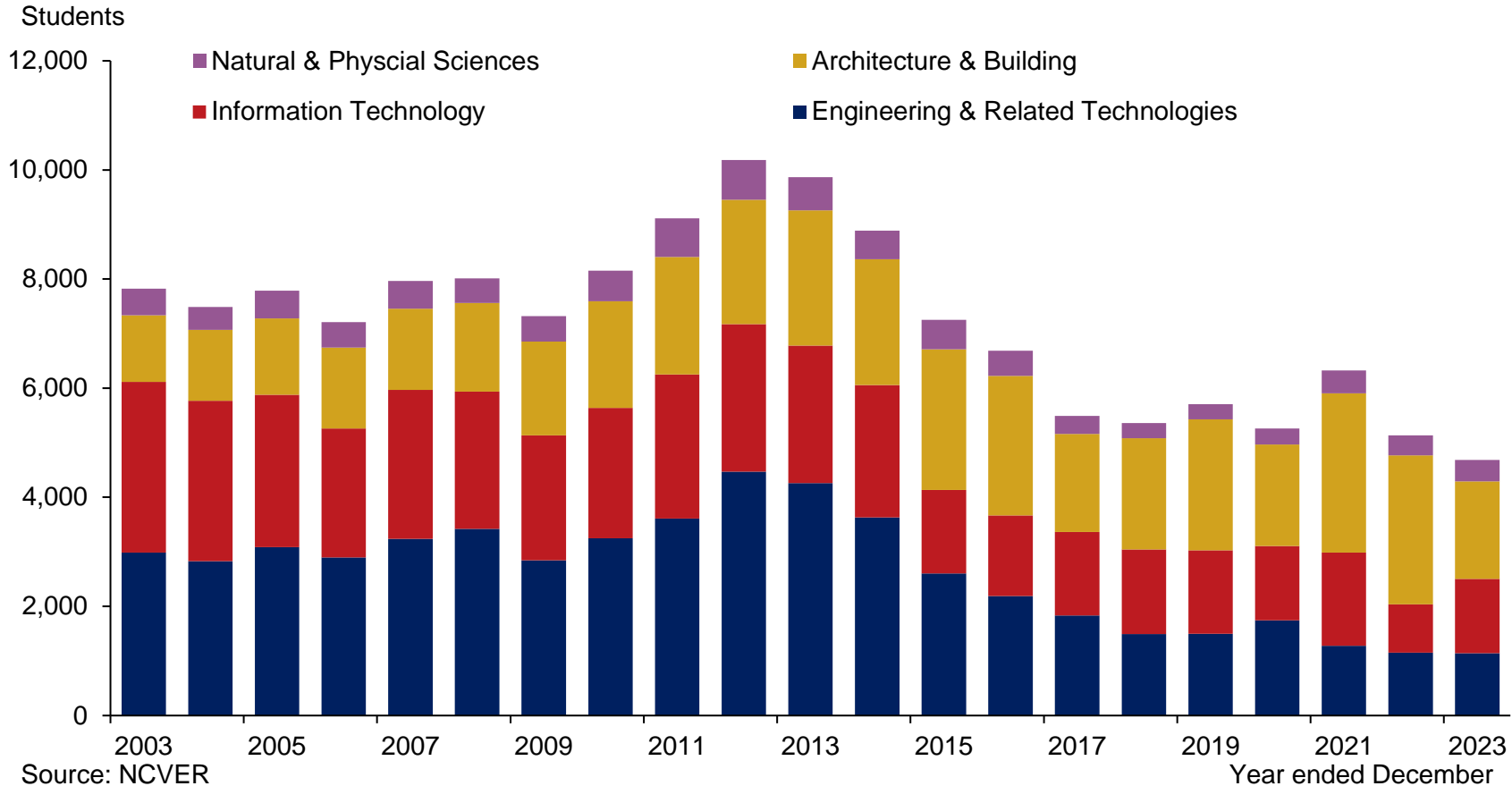
Net interstate migration will favour QLD and WA

Net Interstate Migration



Where do we get the skills?

Vocational Education and Training (VET) Completions - Australia

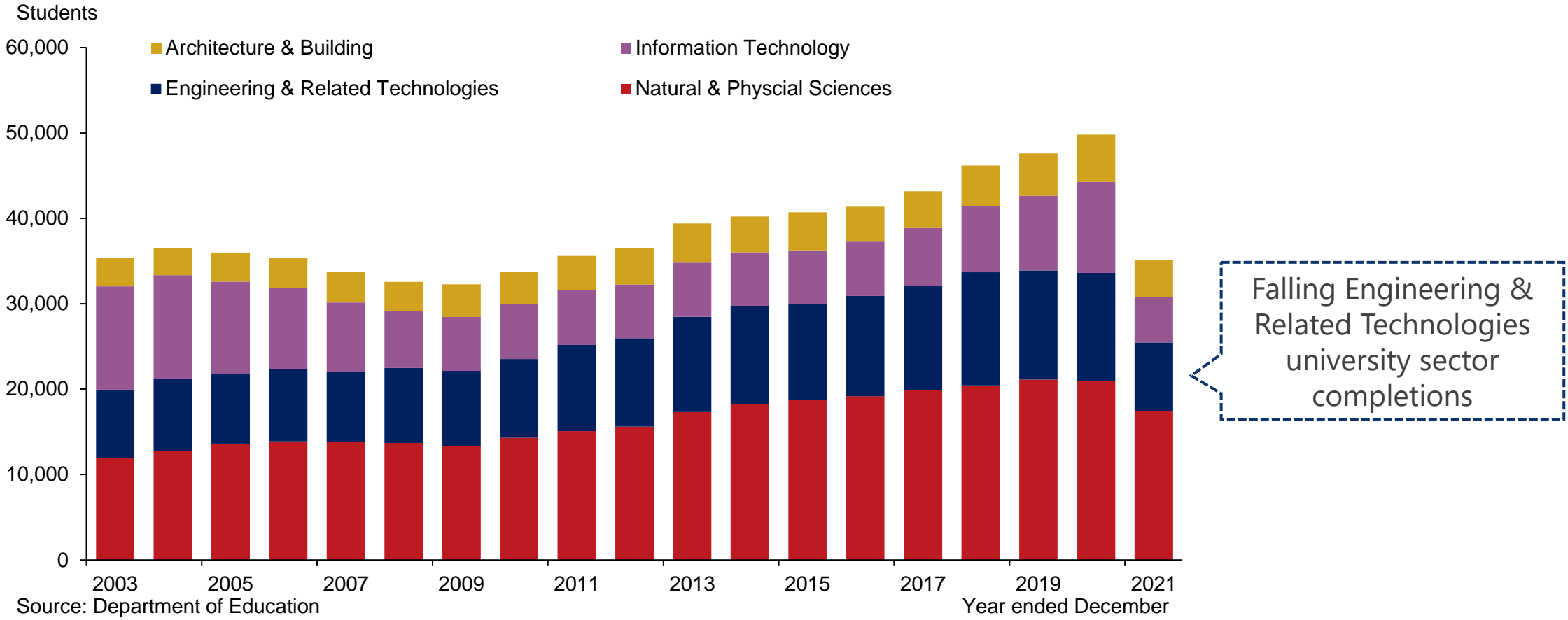


Low number of Engineering & Related Technologies VET sector completions

Source: NCVET

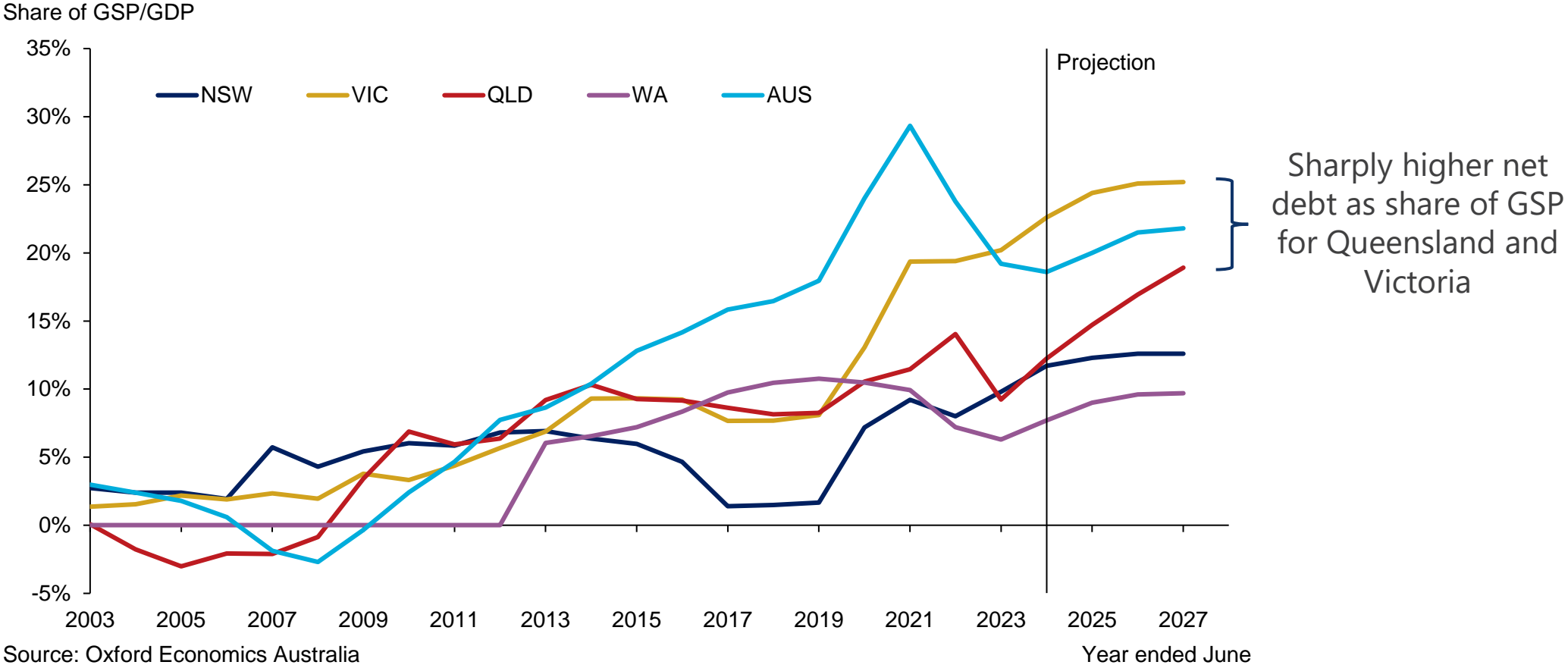
Where do we get the skills?

University Completions - Australia



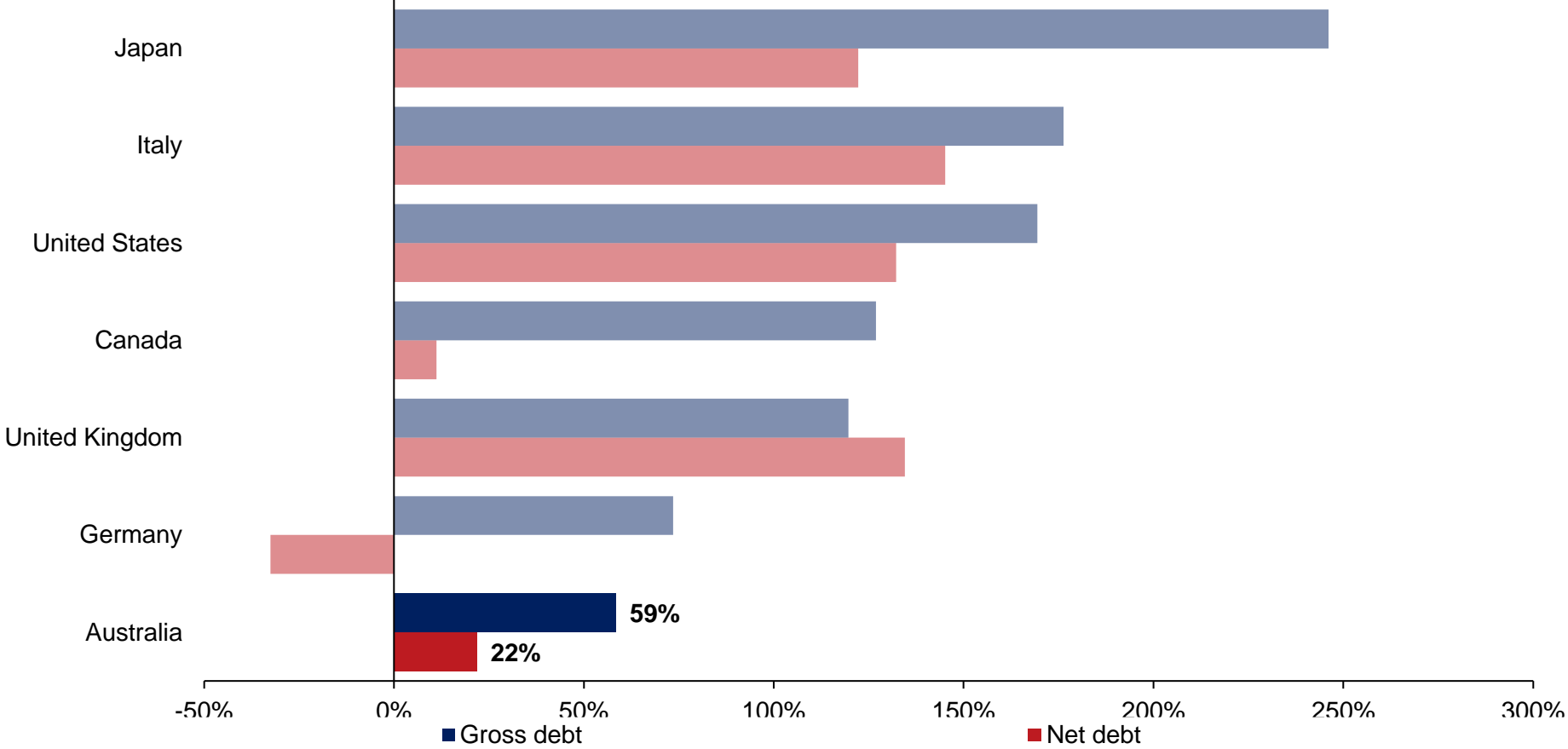
Funding and financing public infrastructure is more challenging

Total Non-Financial Public Sector Net Debt Share of GSP, by State



But Australian government debt remains low as a share of GDP

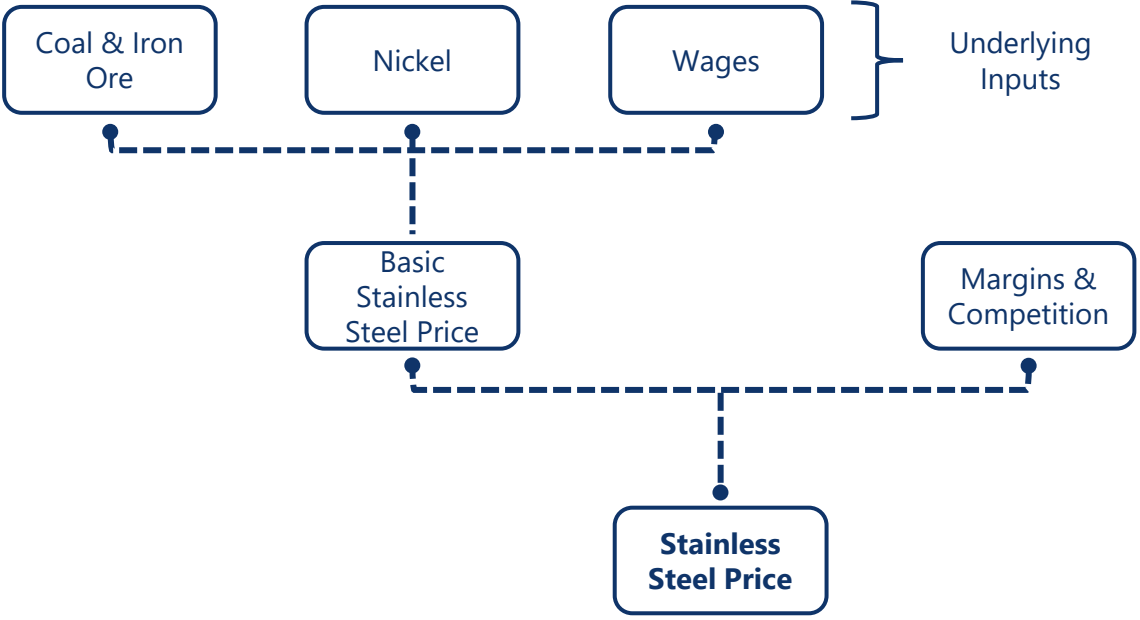
Gross and Net Debt as a Share of GDP



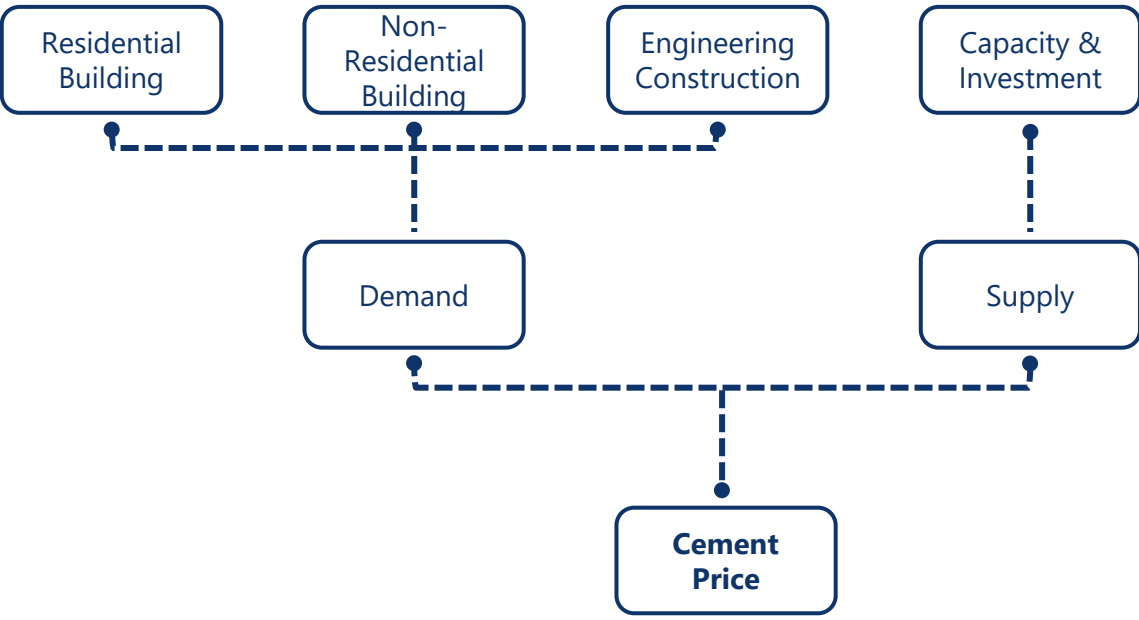
We consistently monitor & undertake cost escalation forecasts

- ❑ For major infrastructure projects and programmes, particularly in transport
- ❑ For utility regulatory determinations across electricity, water and gas
- ❑ For mining projects and ongoing operations (Australia and internationally)

Example methodology for stainless steel – a globally driven product

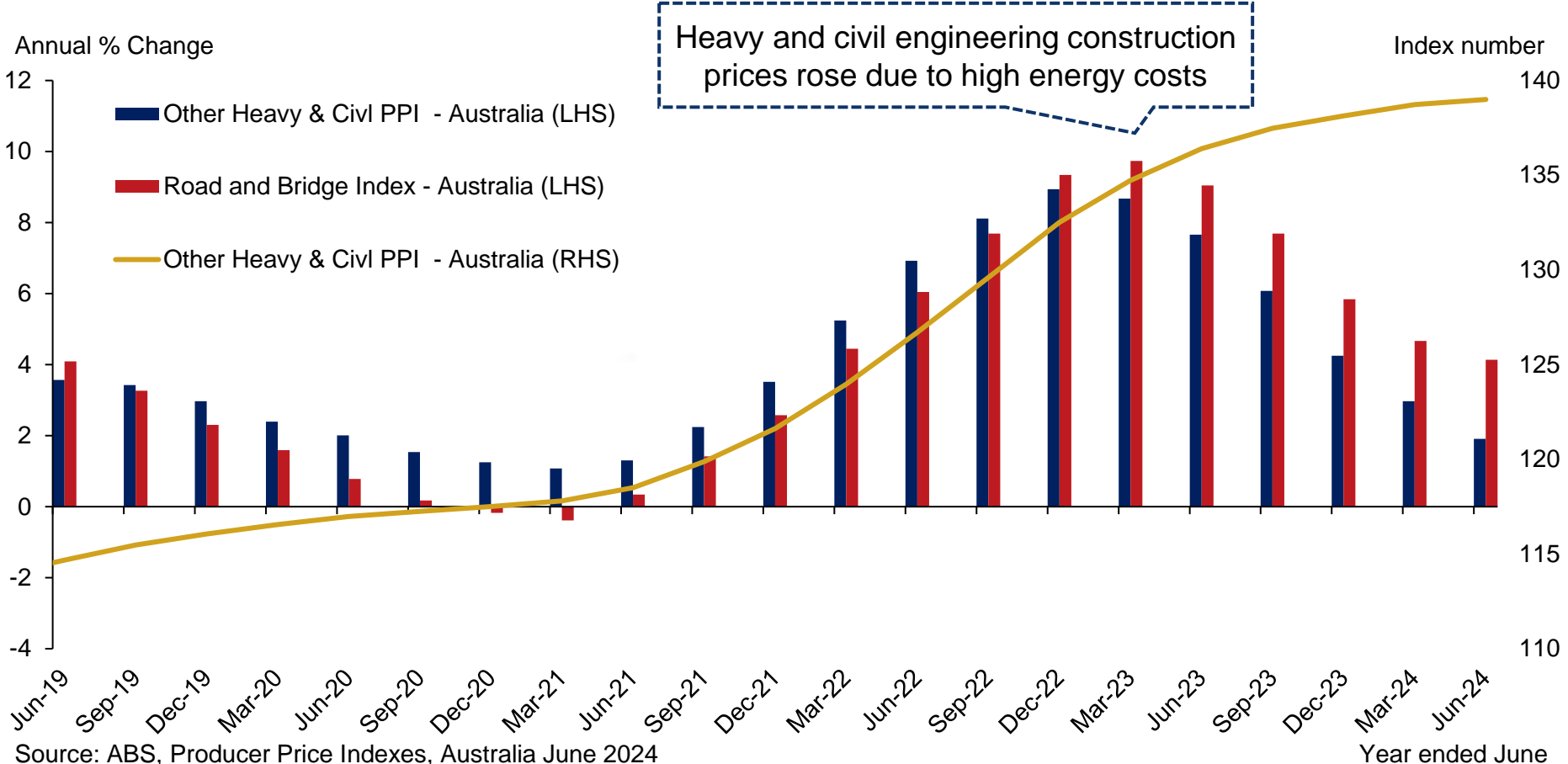


Example methodology for cement – a locally driven product



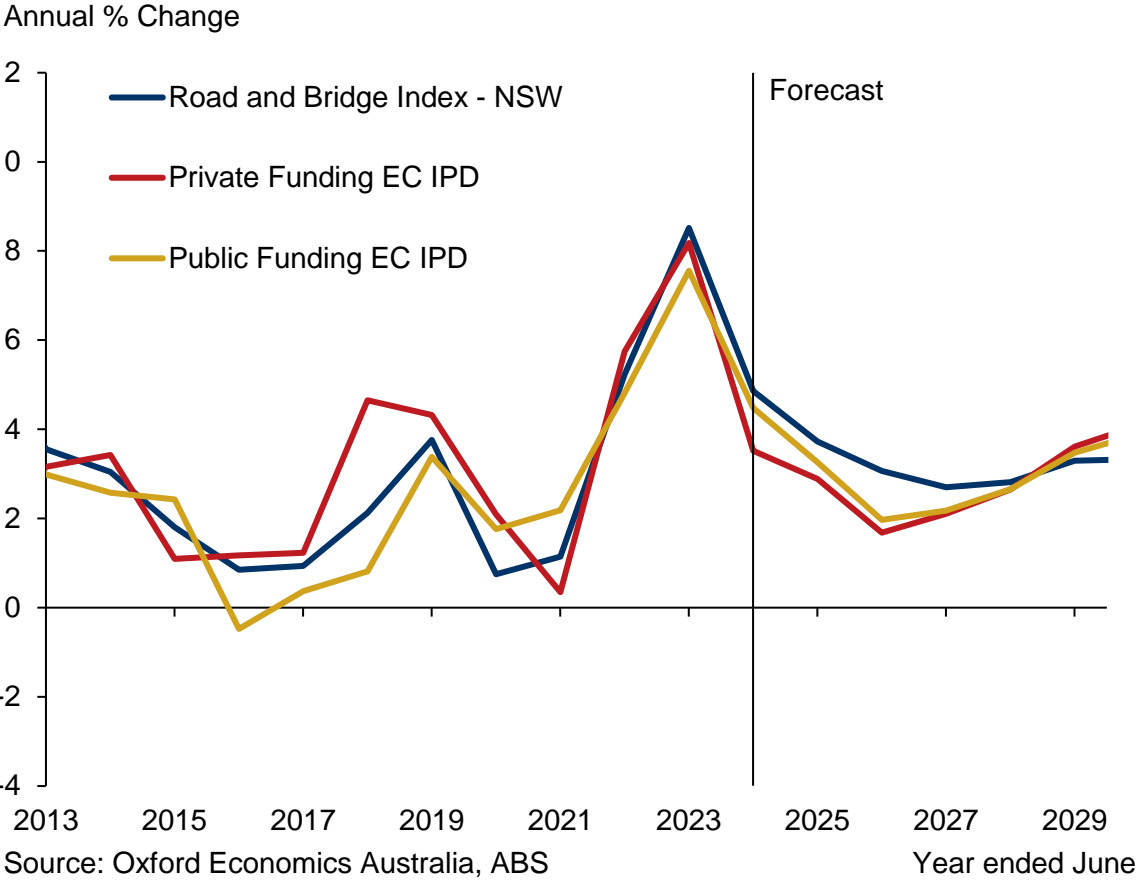
Price growth in construction is slowing... but not reversing

Heavy and civil engineering construction prices

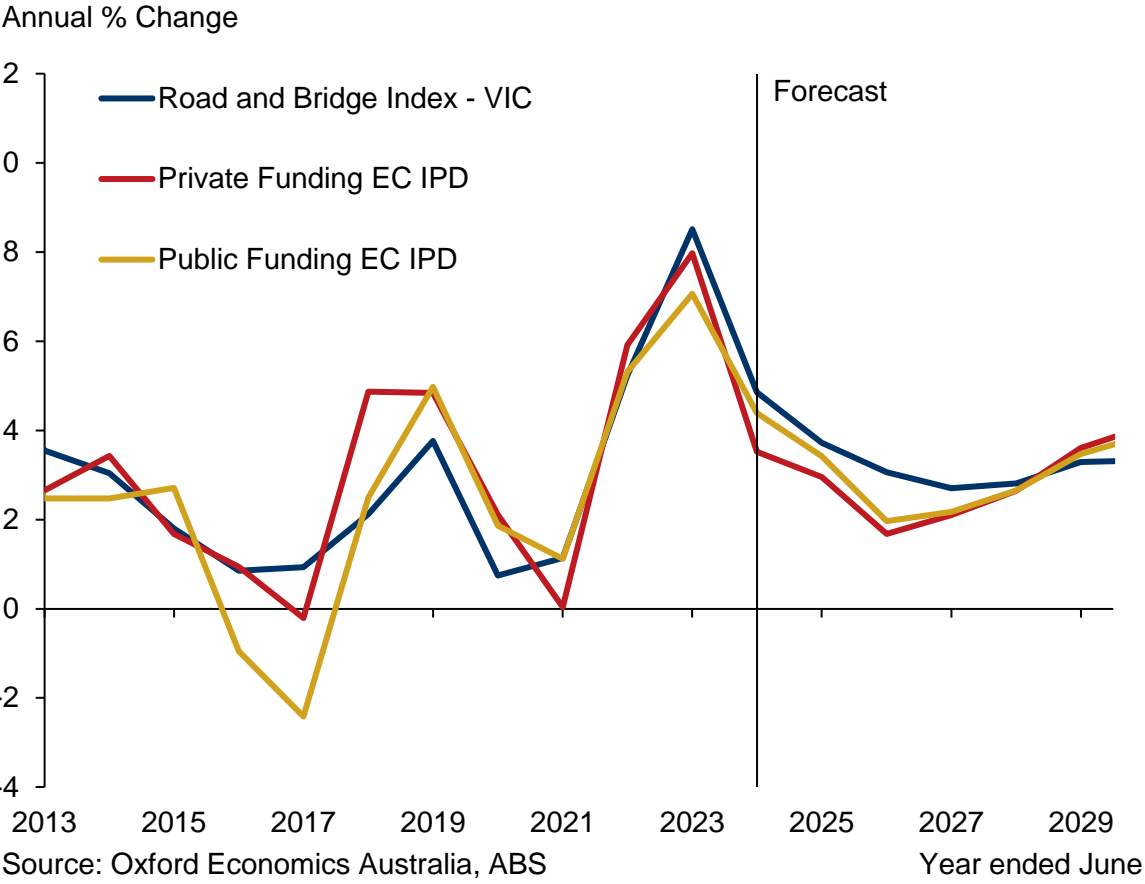


Construction costs have pared back, but will reaccelerate later on

Construction cost indices: NSW

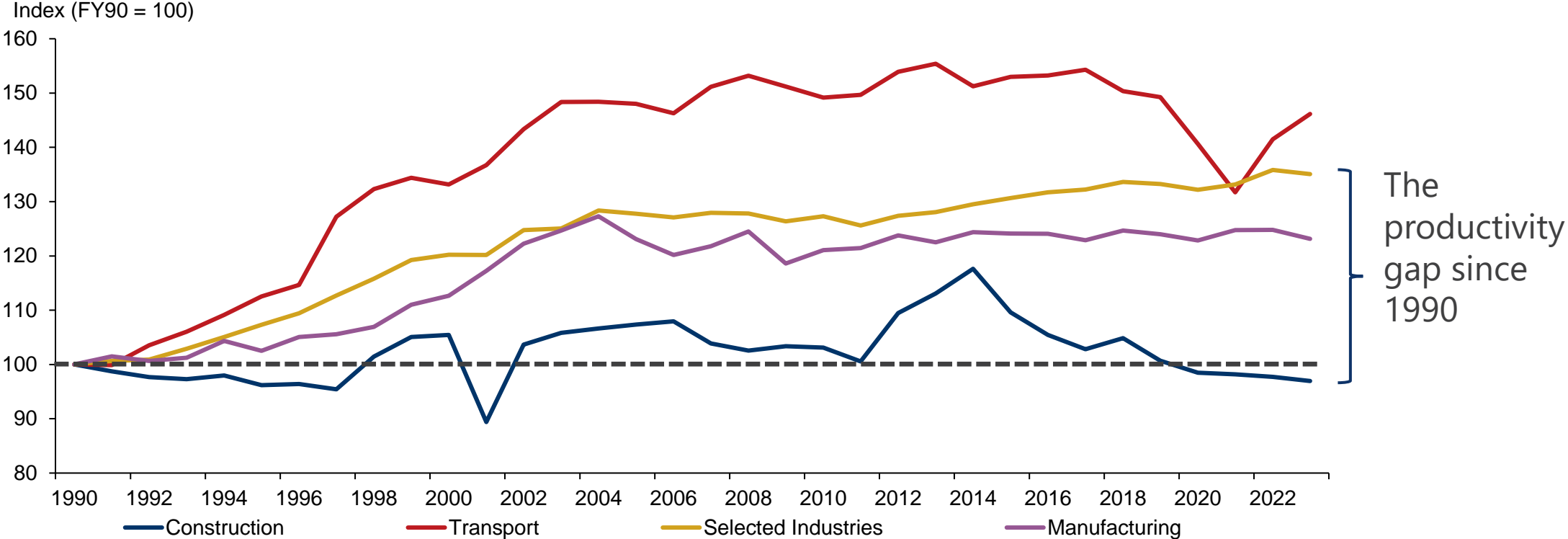


Construction cost indices: VIC



Industry productivity growth now a \$62bn problem

ABS Multifactor Productivity Index: 1989/90=100



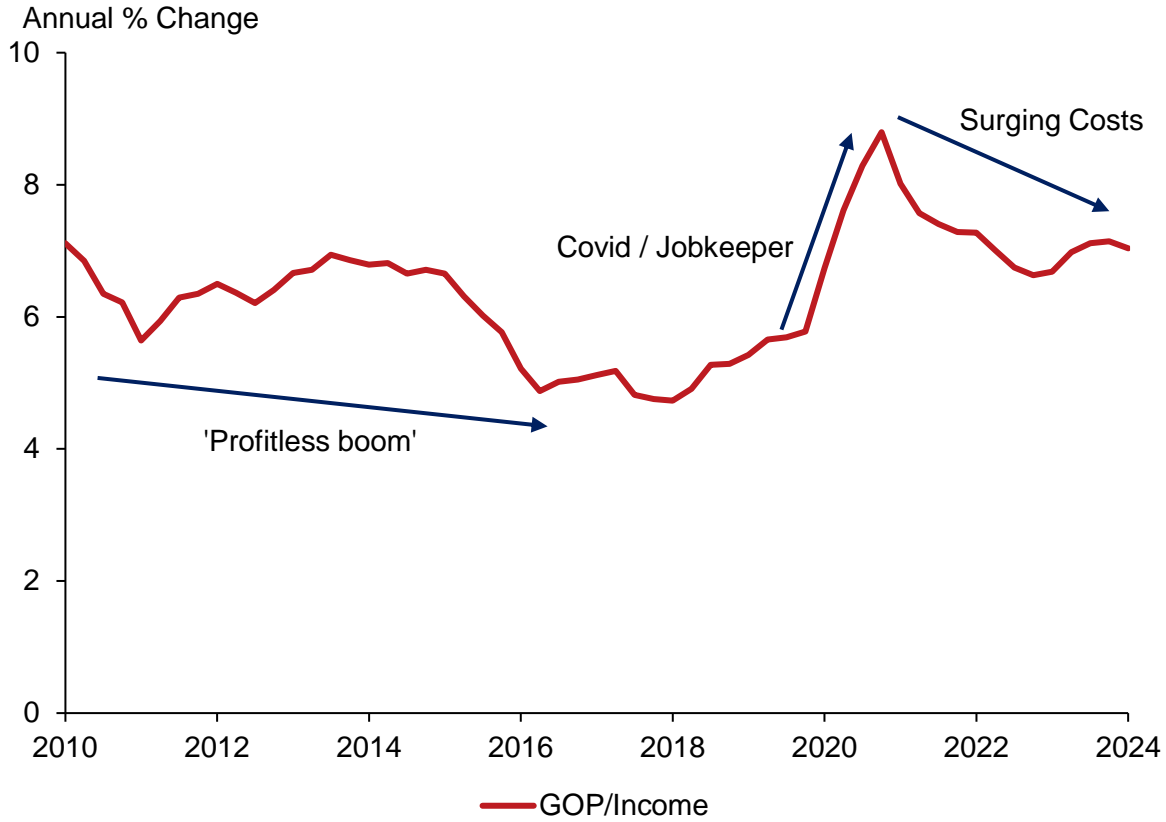
Source: Oxford Economics Australia, ABS

Year ended June

Selected Industries: Agriculture; Forestry and Fishing; Mining; Manufacturing; Electricity; Gas; Water and Waste Services; Construction; Wholesale Trade; Retail Trade; Accommodation and Food Services; Transport, Postal and Warehousing; Information, Media and Telecommunications; Financial and Insurance Services; Arts and Recreation Services.

... putting further pressure on industry financial sustainability

Construction Industry Margins



Source: Oxford Economics Australia, ABS

Year ended June

Implications

Contractors

Short and medium term

- Get regular updates on the price escalation outlook
- Look for opportunities to innovate and productivity-enhancing procurement
- Position for new growth markets by region and sector.
- Keep focus on a skills strategy

Longer term

- Boost capability through diversity, culture and investment in education & tech

Suppliers

Short & medium term

- Review price and risk strategy where possible to protect margins
- Position to fill supply gaps as construction composition changes by region/sector
- Look at opportunities and risks from carbon emission reporting standards
- Hedge against currency fluctuations

Longer term

- Invest in new capacity where long run pipeline is strong

Procurers / Govt

Short & medium term

- Get regular updates on the price escalation outlook
- Better understand the regional and sectoral capacity implications and challenges of the pipeline – who is doing what and where?
- Target skills development and other productivity solutions in new procurement

Longer term

- Need to encourage and reward investment in capacity and innovation

Thank you

Leave us some feedback below

