



OXFORD
ECONOMICS
AUSTRALIA

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**Will costs and capacity stop
the next construction
upswing?**

4 key messages so far

- Domestic economy improving but facing increasing risks

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- Non-residential outlook mixed, traditional segments to remain soft
- Engineering drivers have shifted already from transport to utilities

4 insights: what does this mean for the construction industry?

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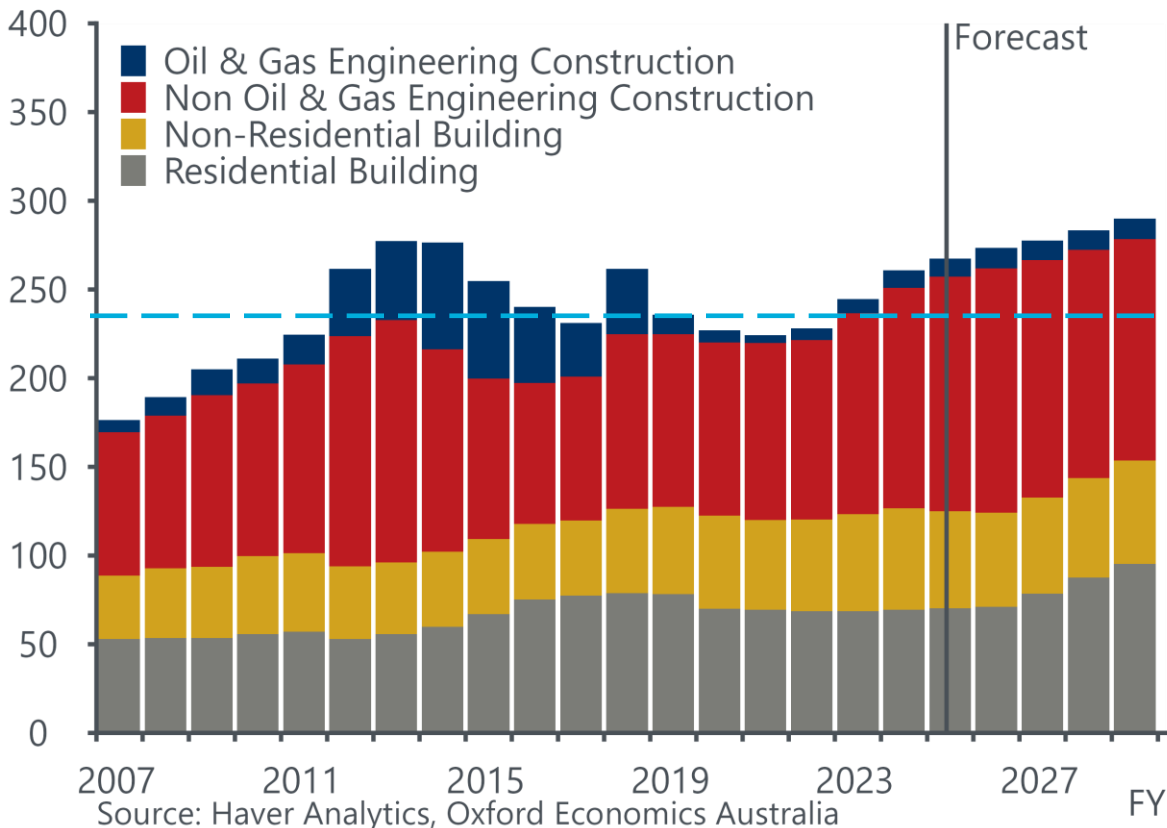
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(The biggest concerns facing the Australian construction industry are domestic)

Construction growth to slow but remains positive

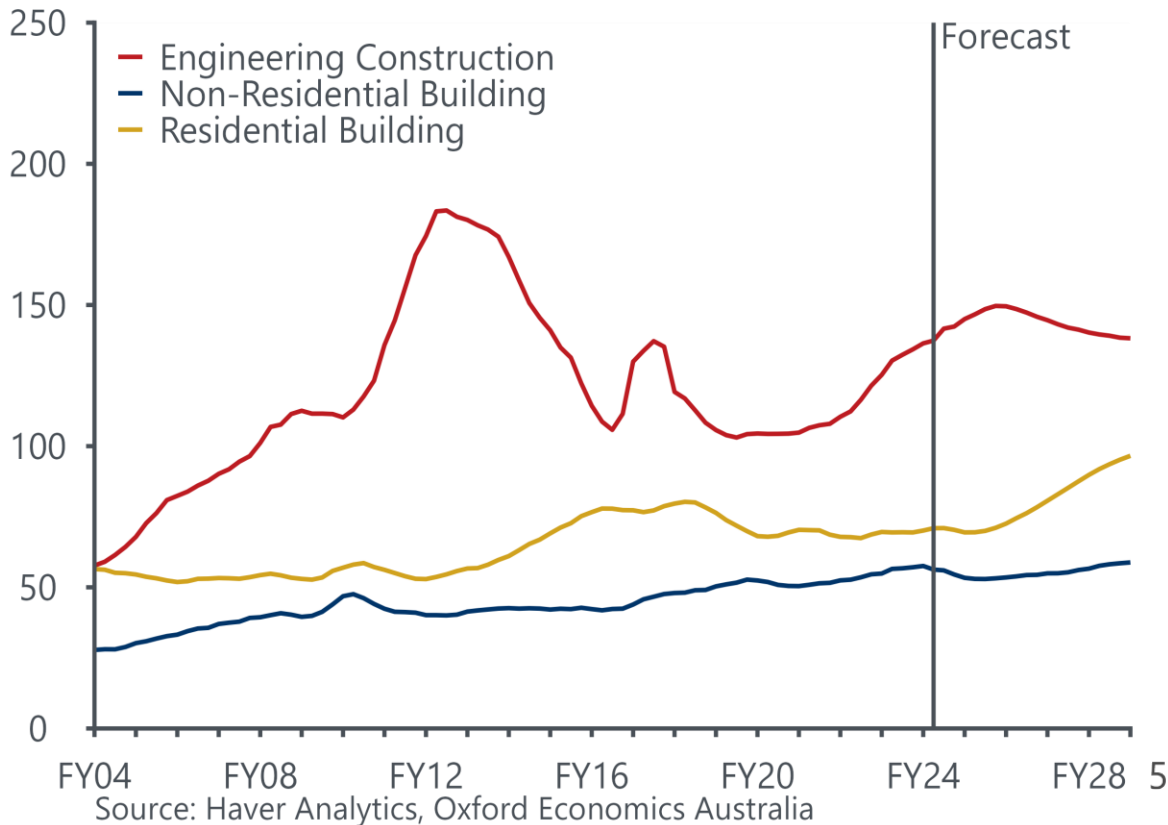
Total Construction Work Done

A\$ Billion (constant prices)



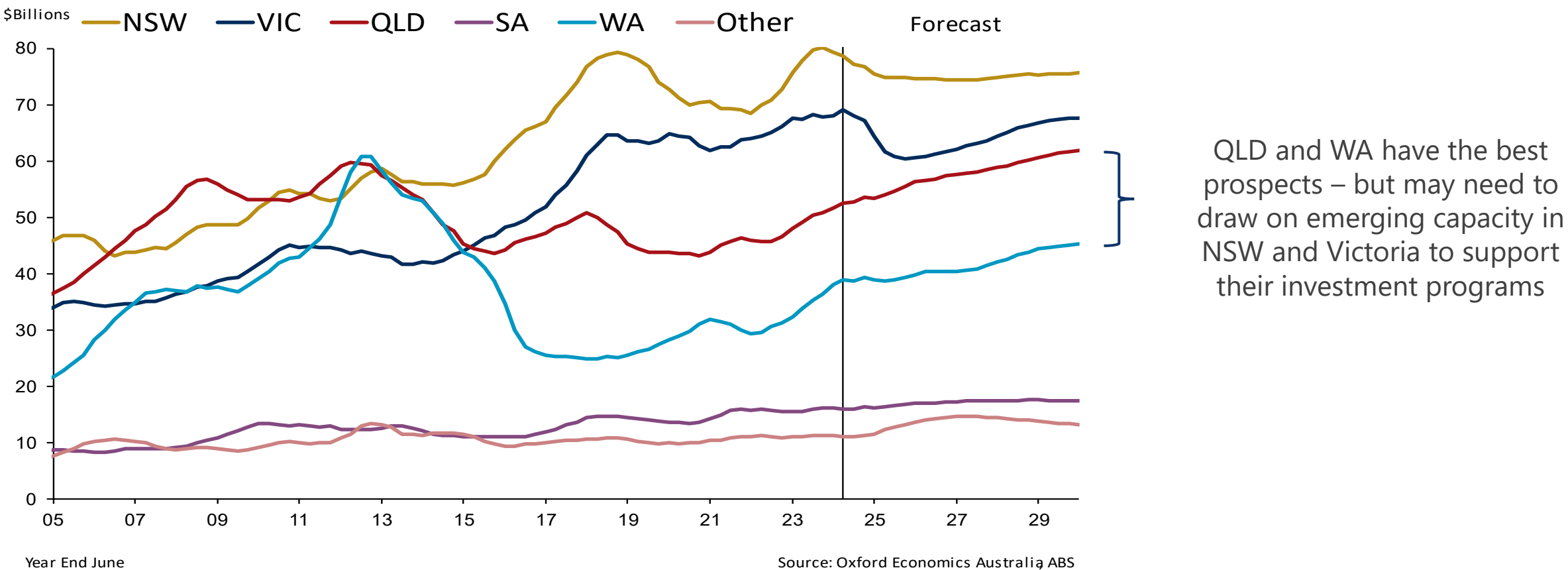
Construction Work Done, Australia

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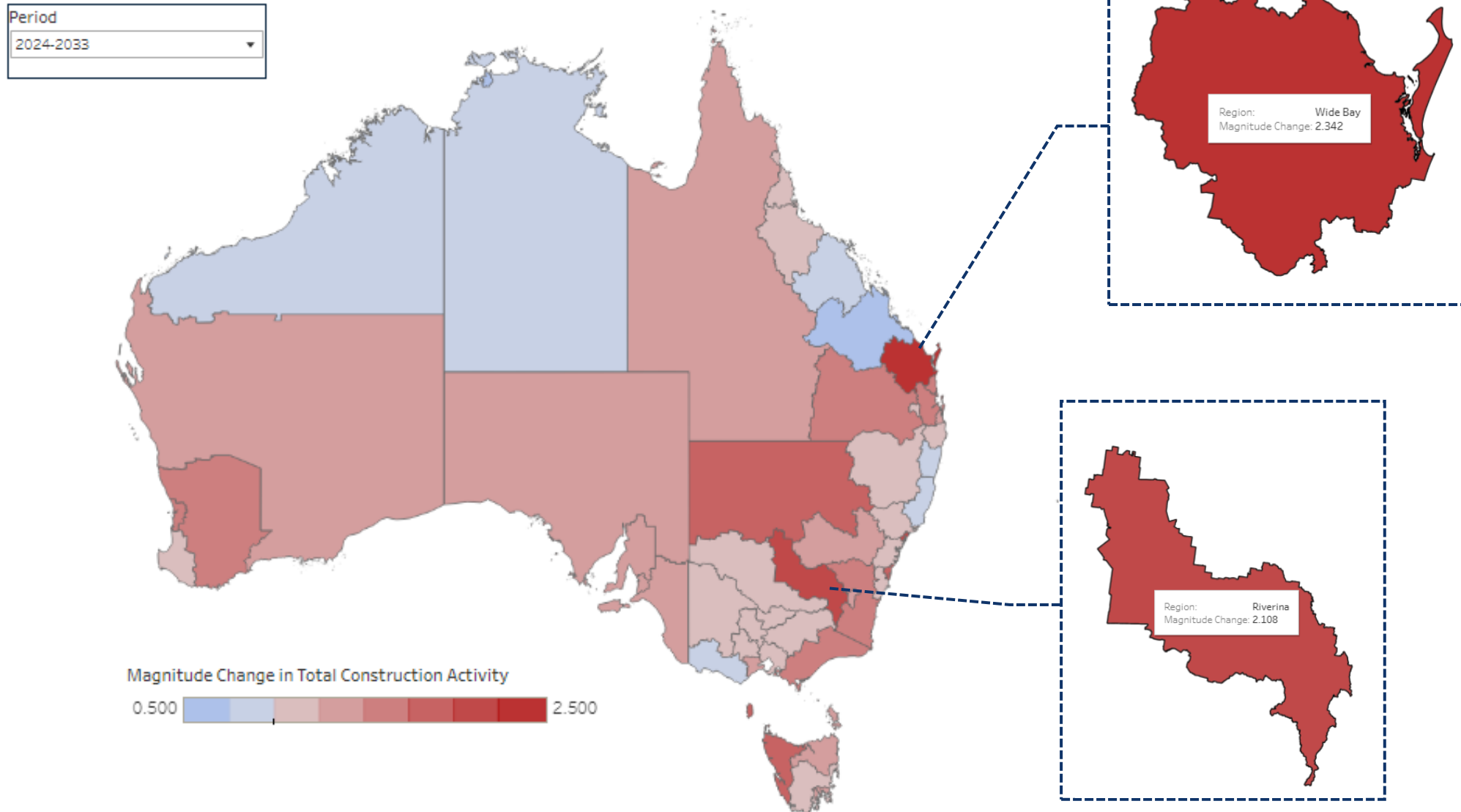


The 2-speed market is back: NSW and Victoria now cooling

Total Construction Work Done, by State

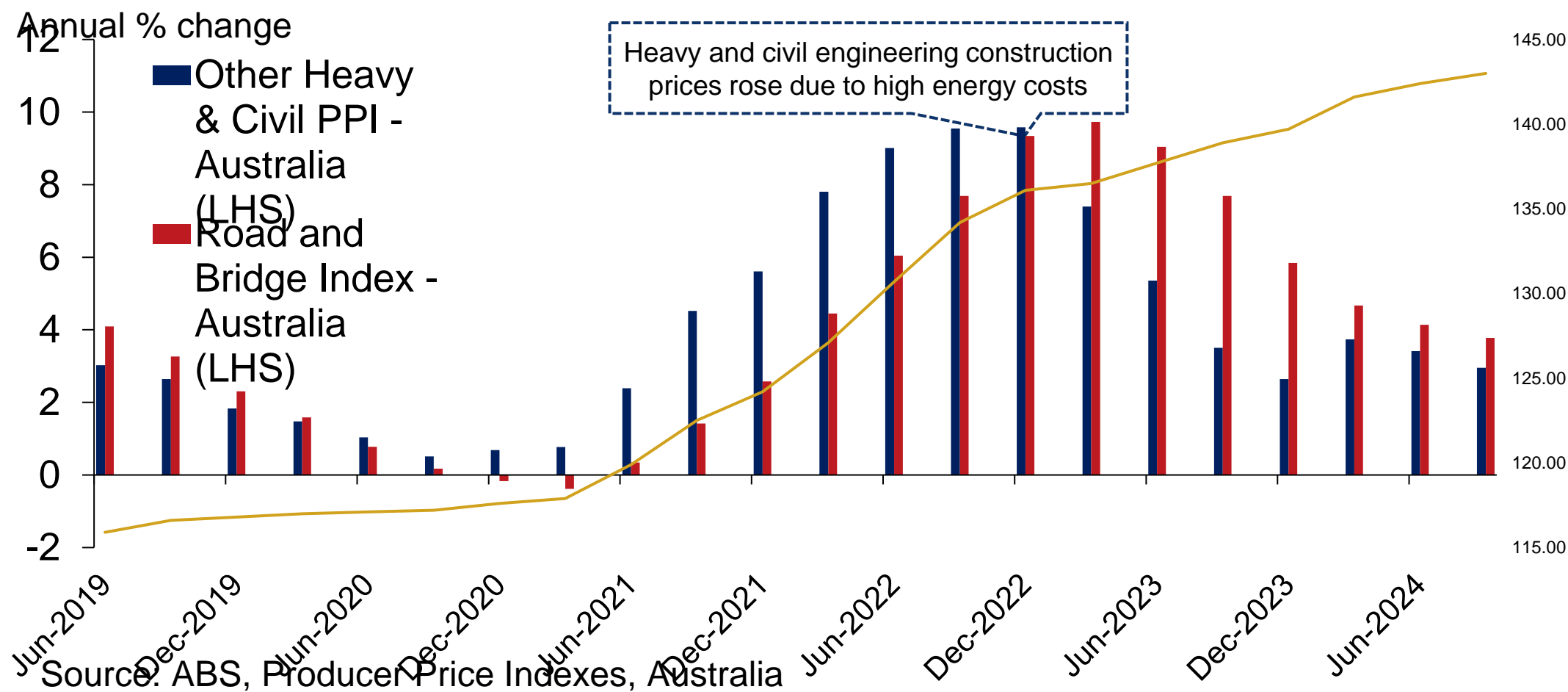


And hot spots are now in regional areas



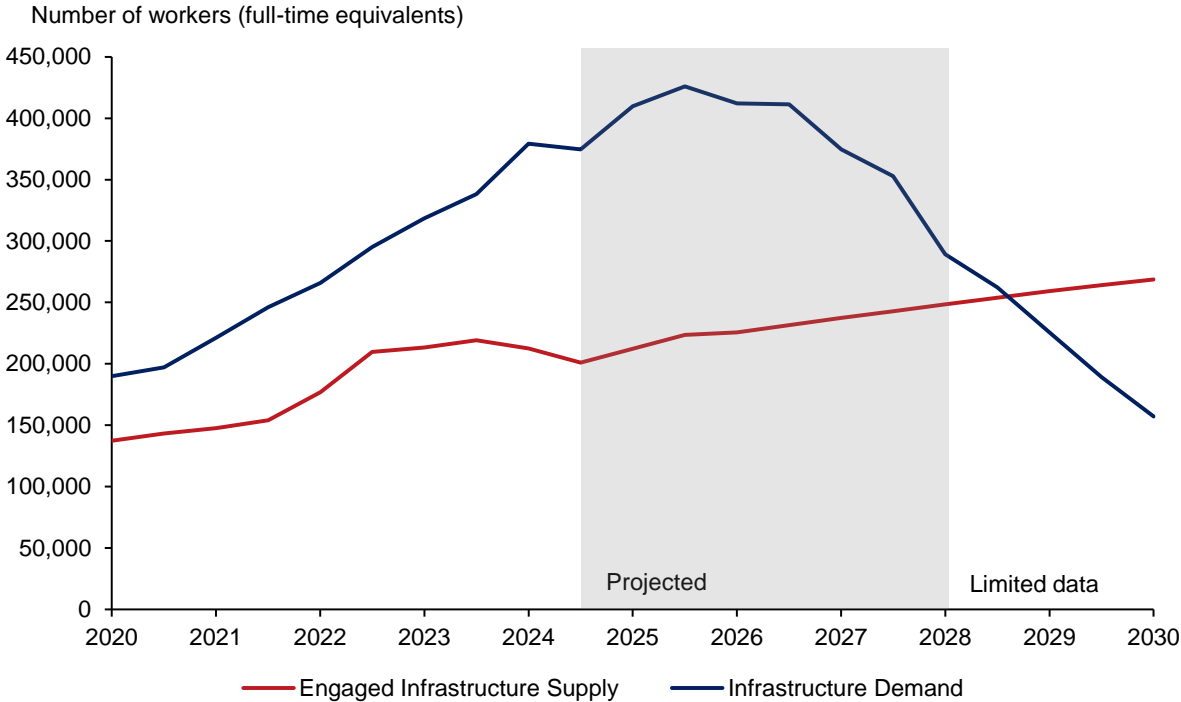
Construction cost growth has slowed, but not reversed

Heavy and civil engineering construction prices



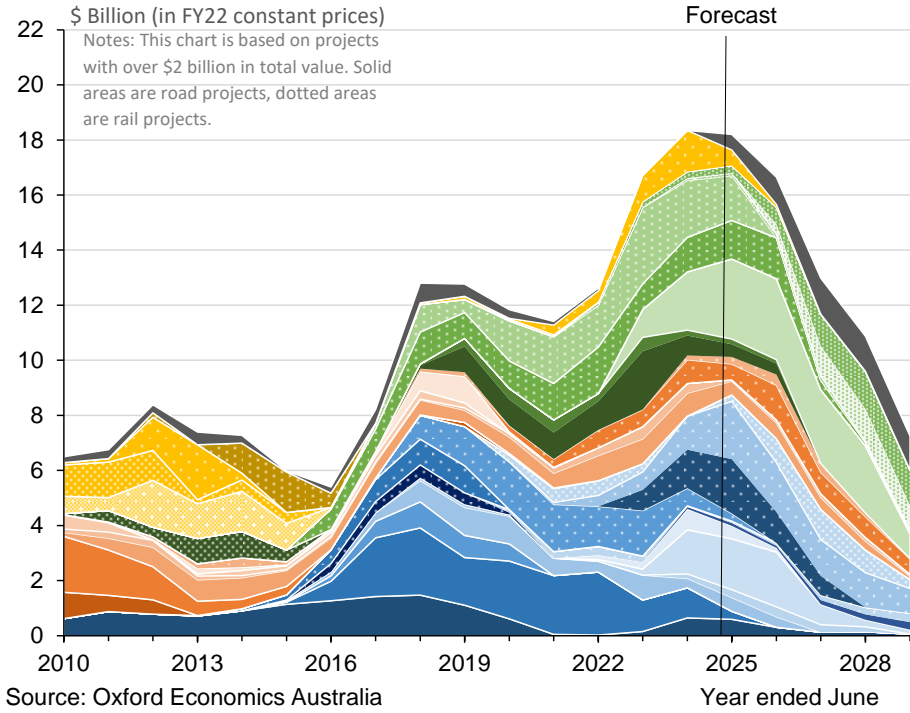
Market capacity and cost challenges to remain this decade (?)

Demand and supply of infrastructure workers



Source: Infrastructure Australia, [2024 Market Capacity Report](#), p51

Major transport project work done

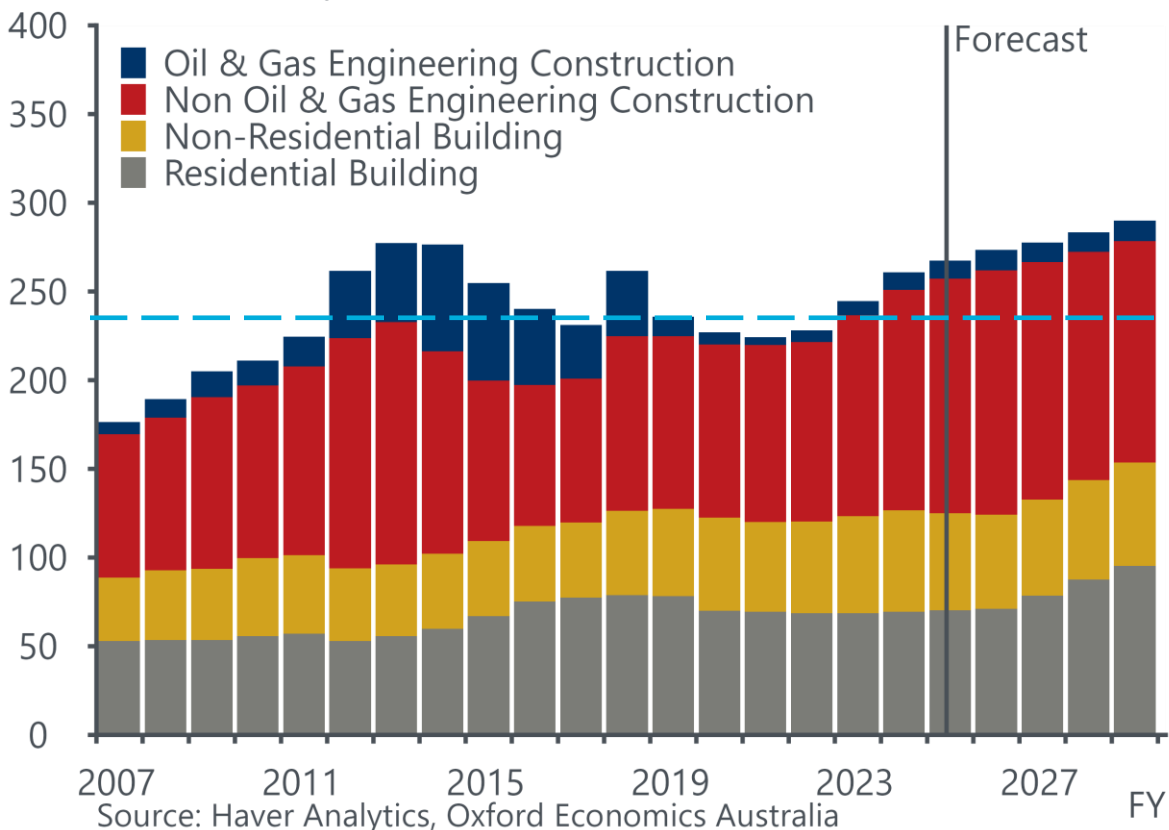


Source: Oxford Economics Australia, [Engineering Construction in Australia](#)

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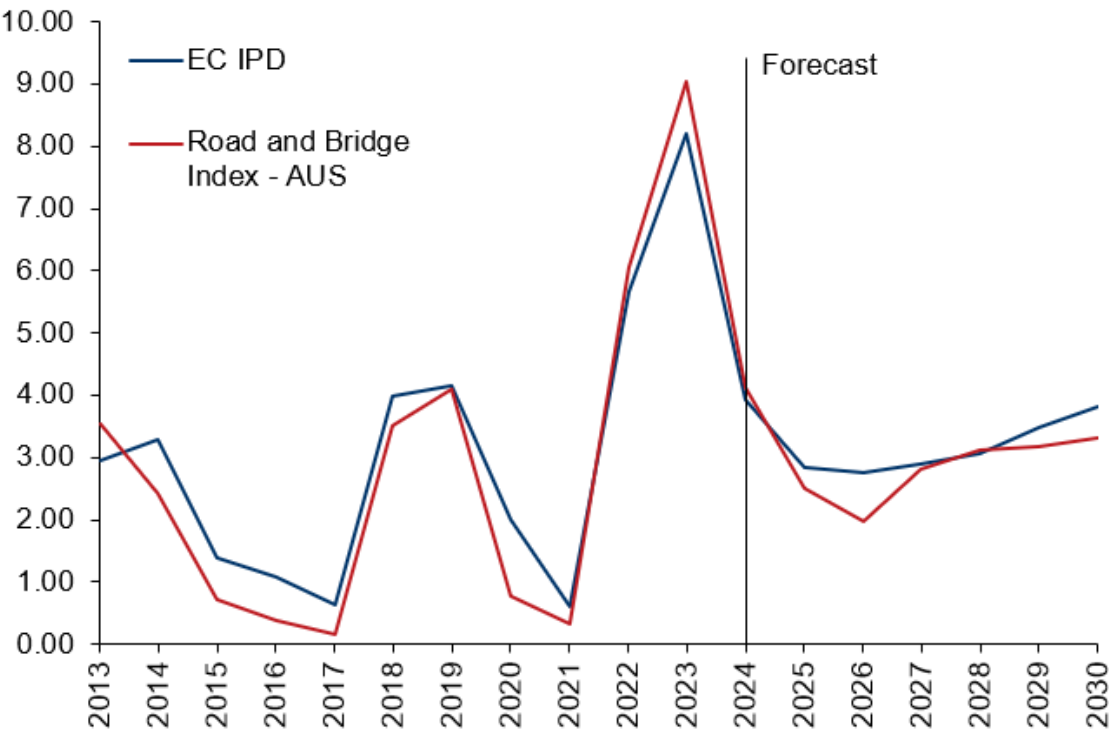
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Construction cost indices

Annual % Change



Source: Oxford Economics Australia, ABS

Year Ended June

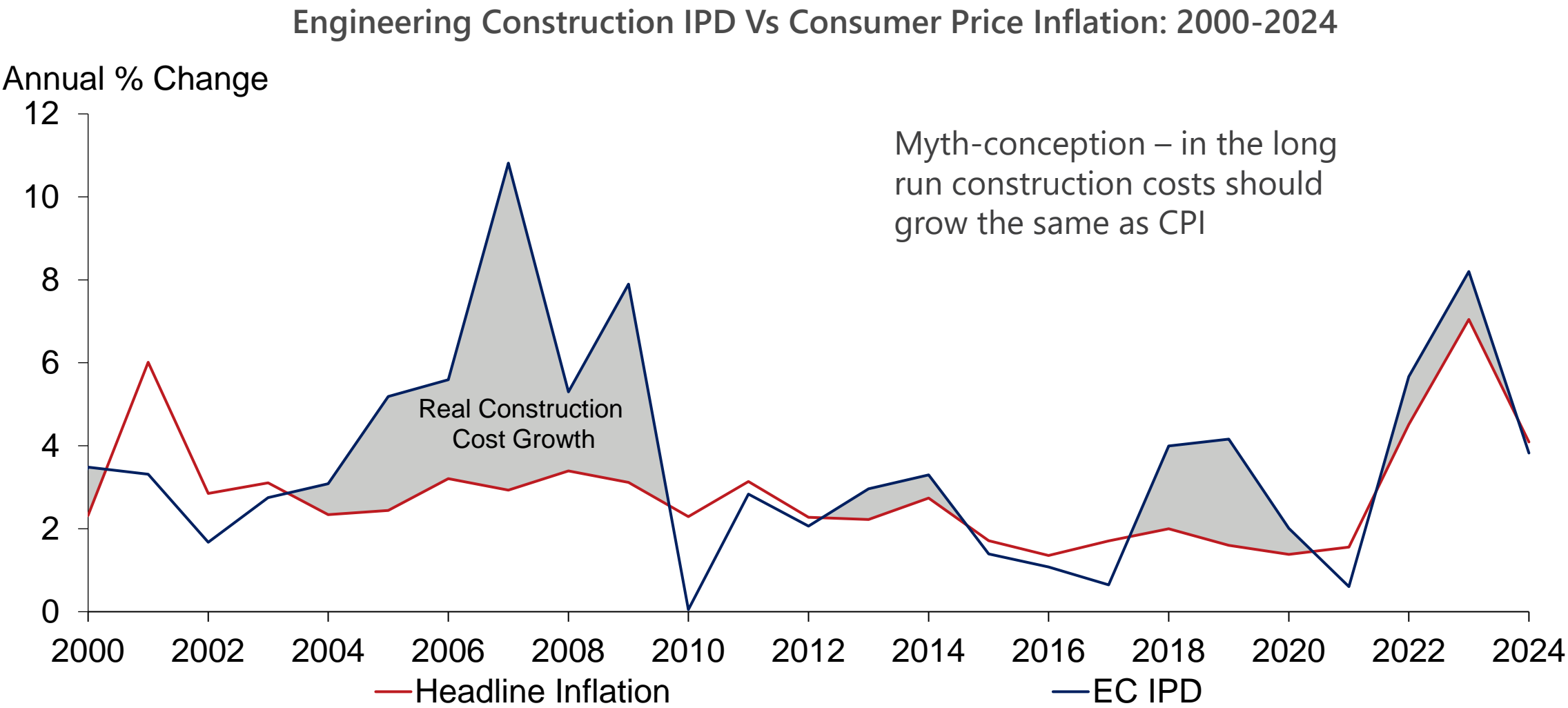
Challenging some 'myth'-conceptions



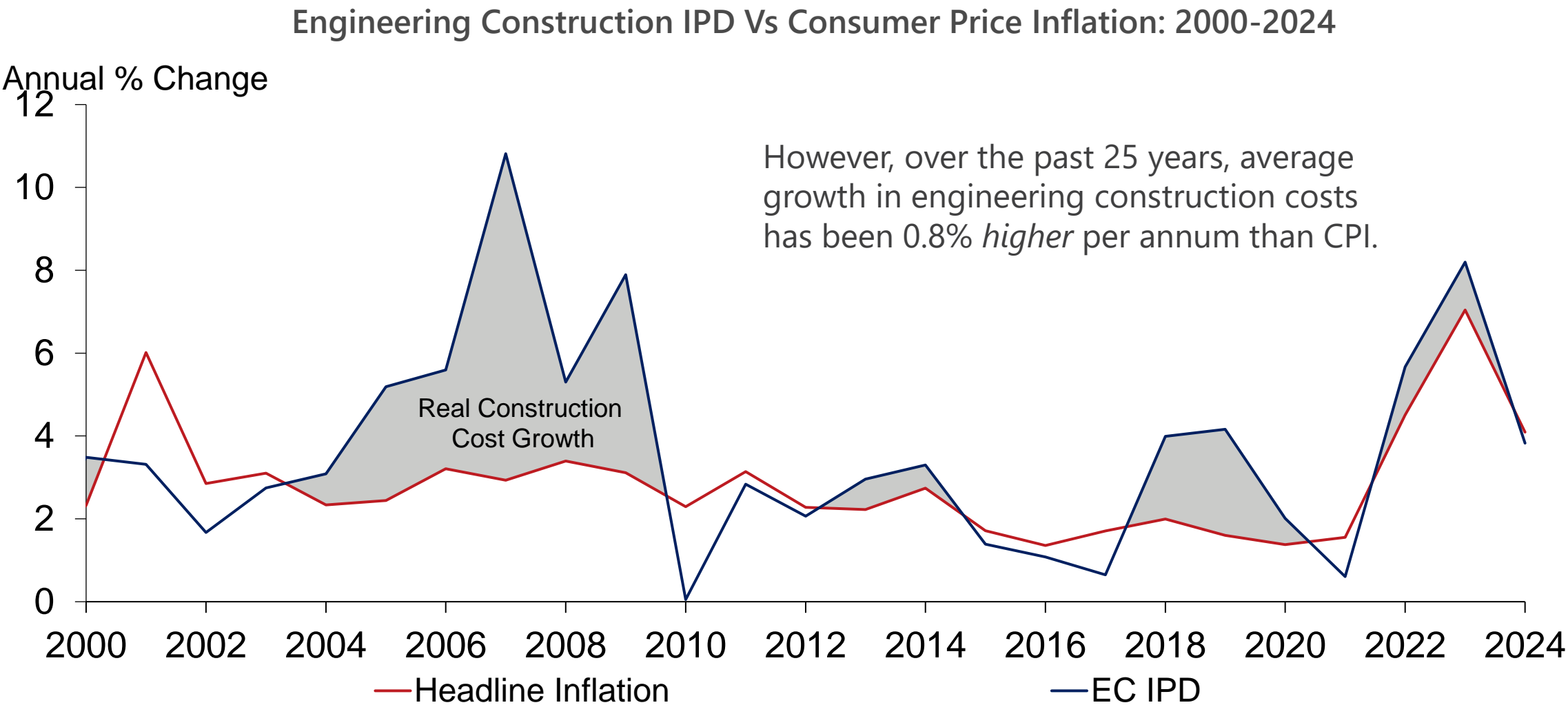
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What is the long run 'normal' for construction cost growth?

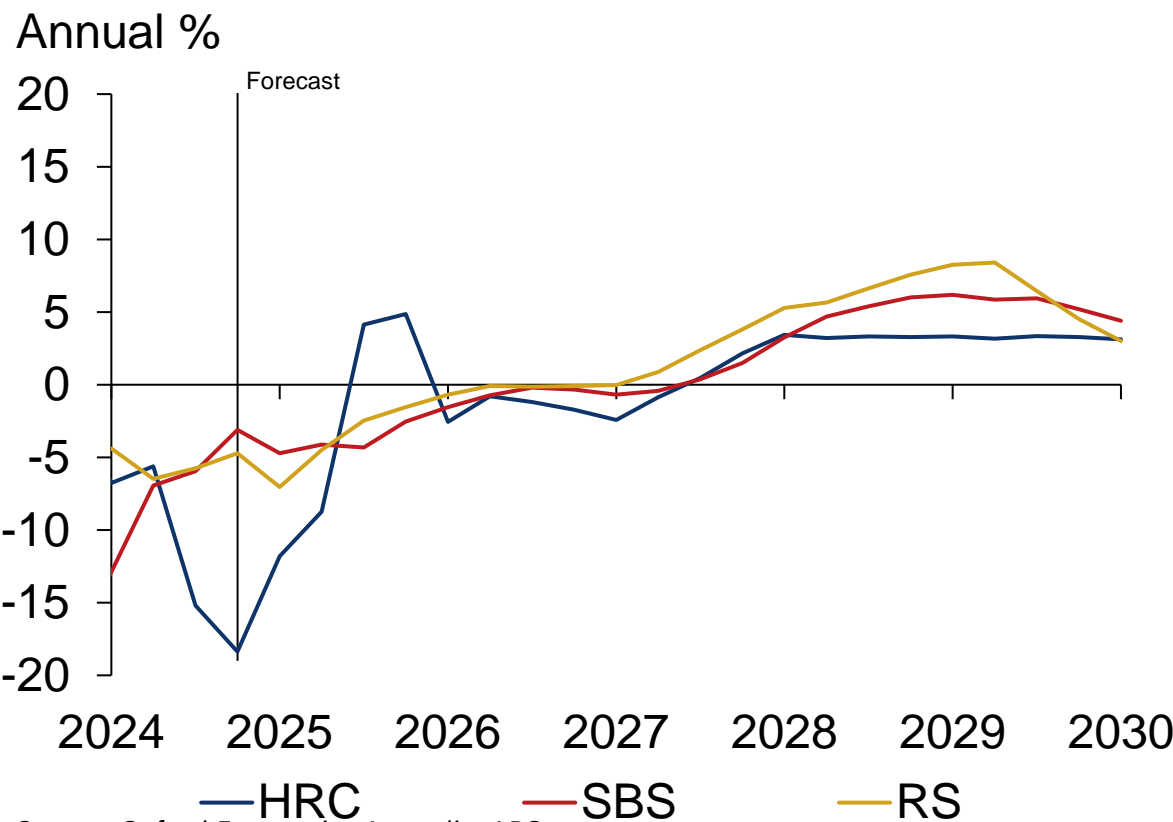


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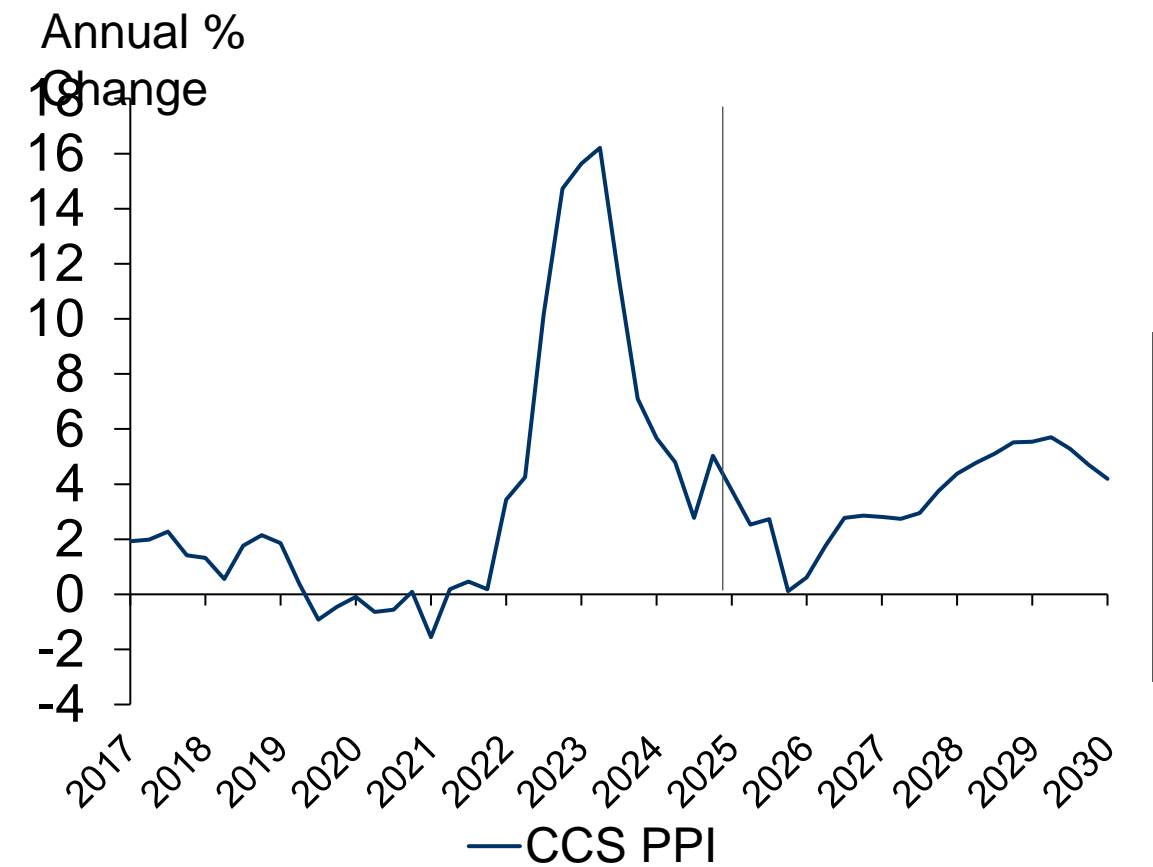
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Steel PPIs (by type)



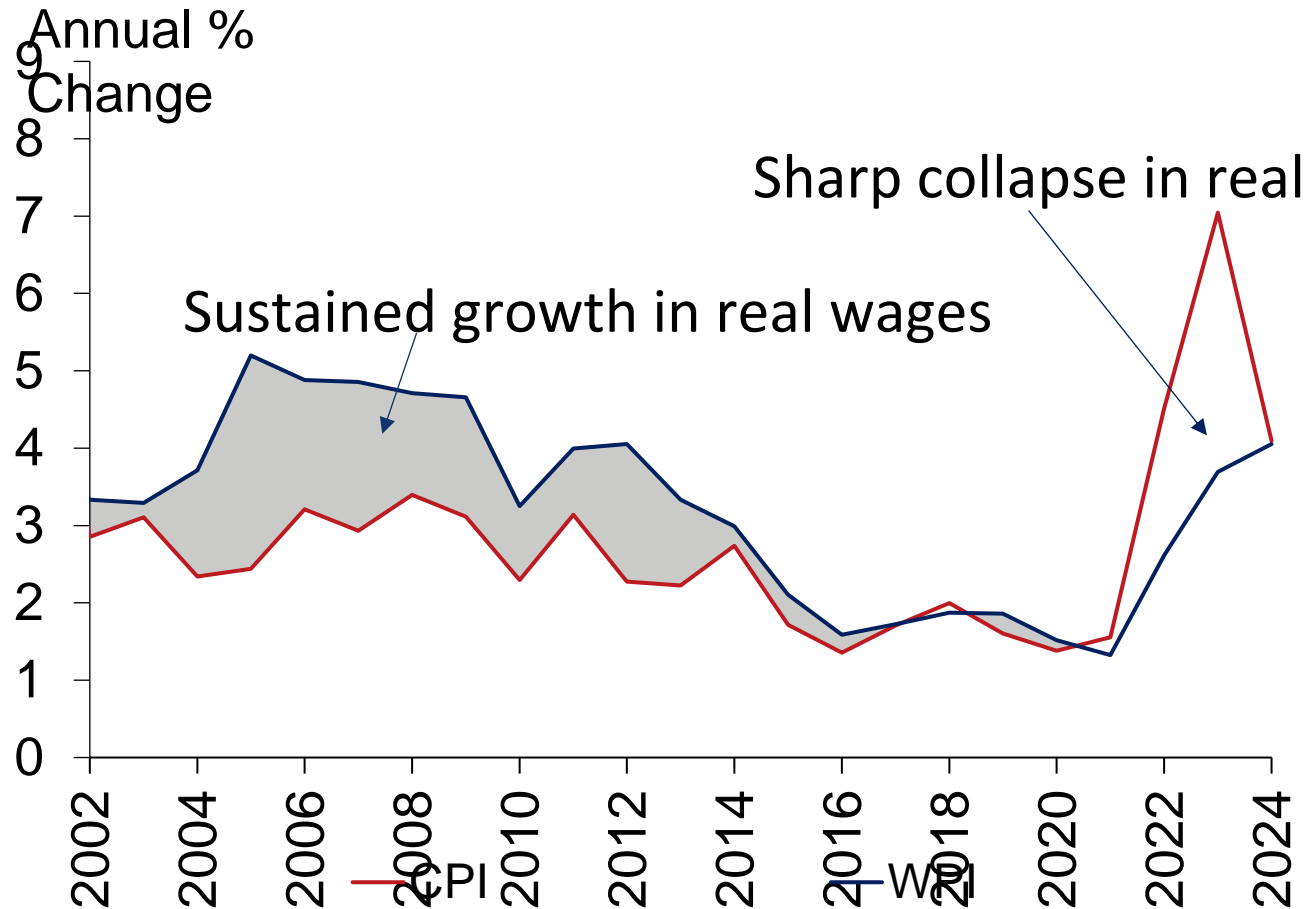
Source: Oxford Economics Australia, ABS

Cement, Concrete and Sand PPIs



What is the long run 'normal' for construction cost growth?

Construction WPI (Real) vs CPI



Real wage growth in the construction industry has contributed to rising real costs in construction over time

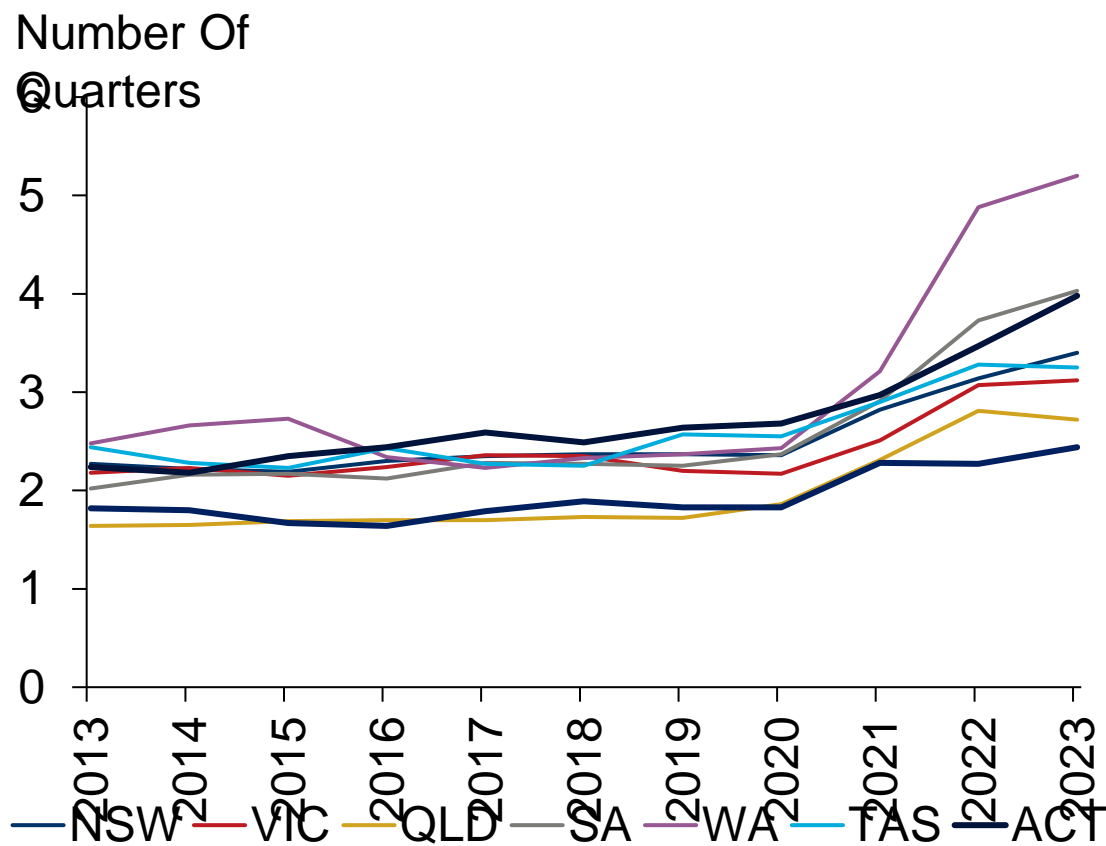
Real wage declines in the construction industry have usually been driven by sharp inflationary shocks (e.g. GST in 2000 or the recent Ukraine/Russia episode).

Higher wage bargains struck recently indicate that construction wage growth will exceed inflation over the next four years

Increasing labour productivity can offset the impact of higher real wage growth

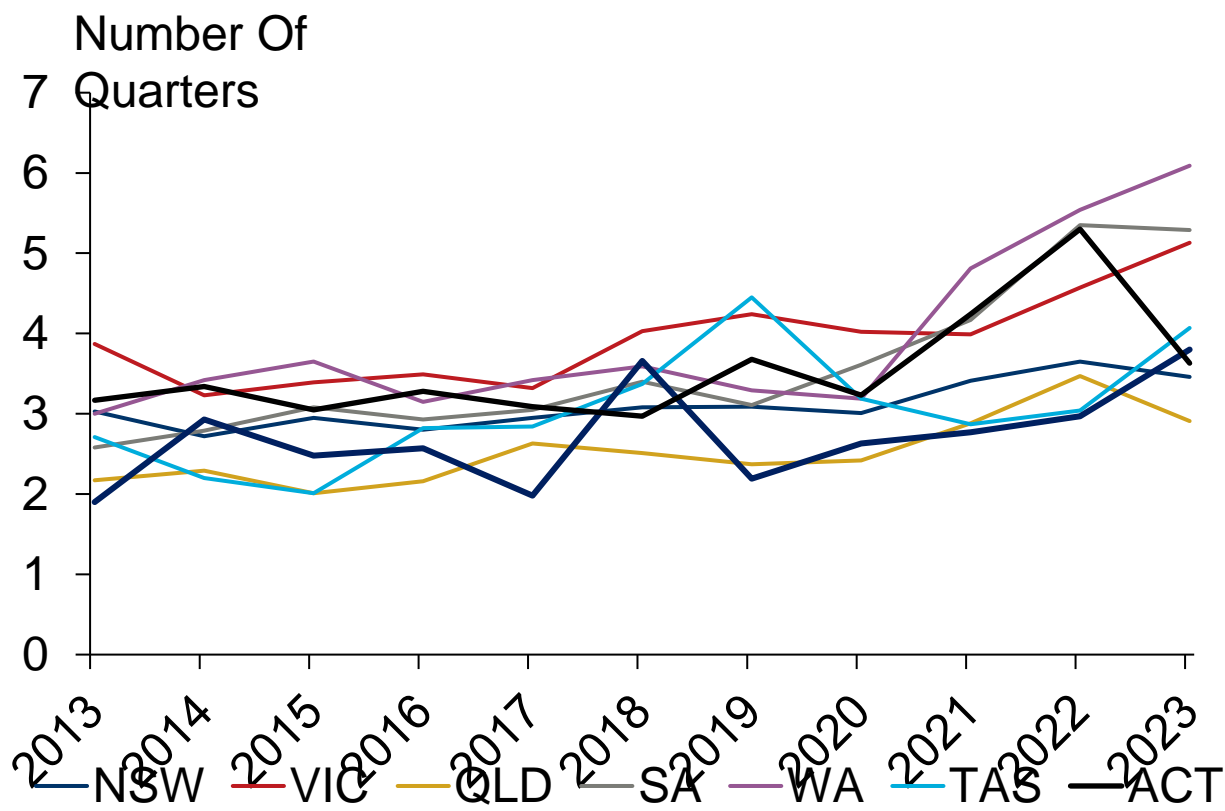
Has housing been crowded out by public infrastructure?

Quarters Taken To Complete Dwellings - Houses



Source: Oxford Economics Australia, ABS

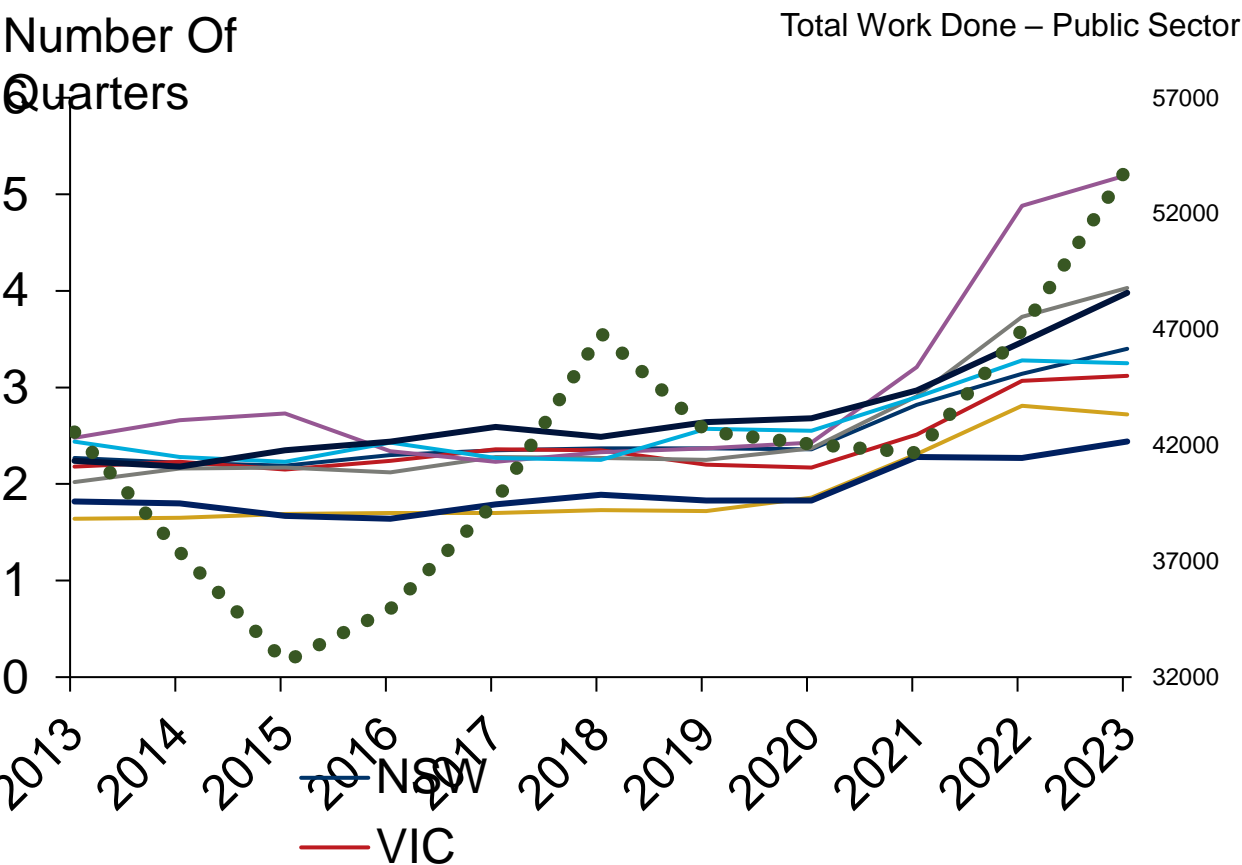
Quarters Taken To Complete Dwellings - Townhouses



Source: Oxford Economics Australia, ABS

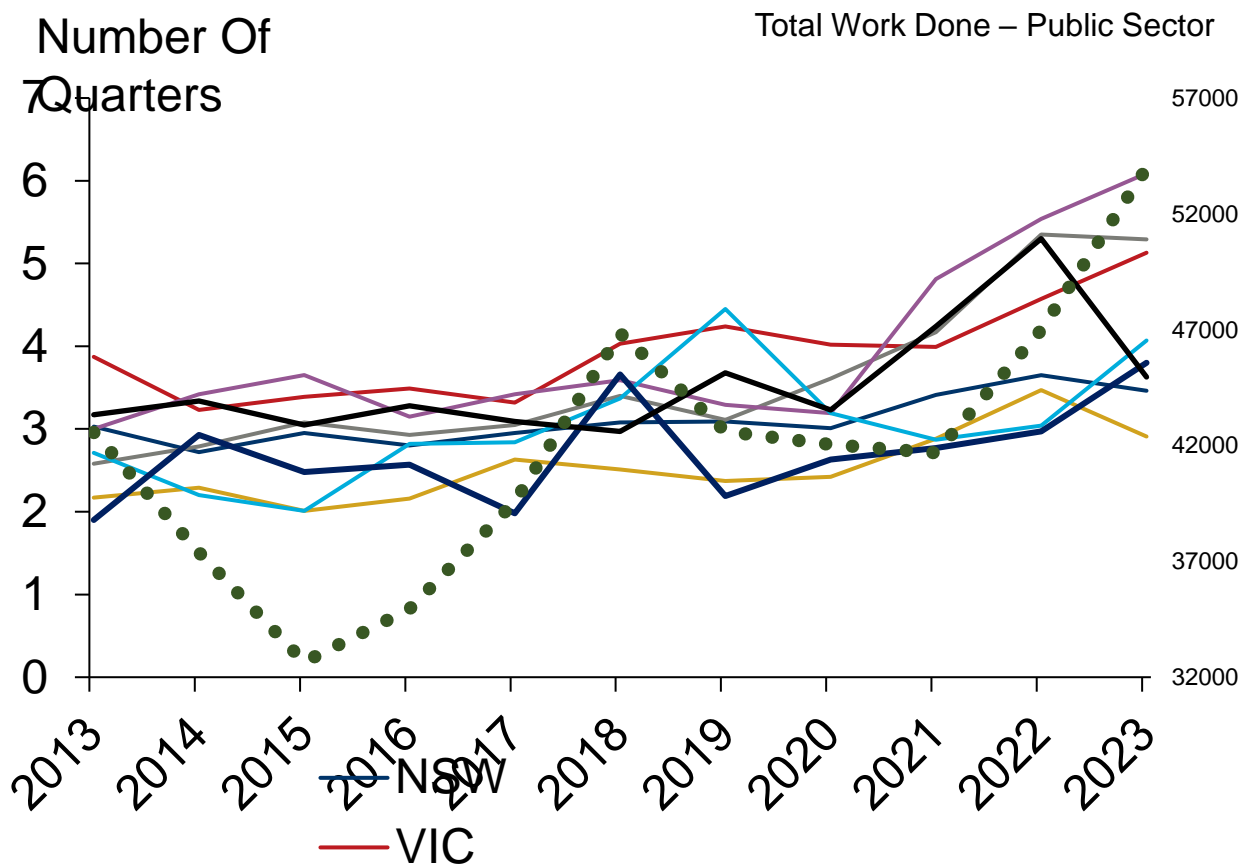
Housing challenges are more new nuanced with many causes

Quarters Taken To Complete Dwellings - Houses



Source: Oxford Economics Australia, ABS

Quarters Taken To Complete Dwellings - Townhouses

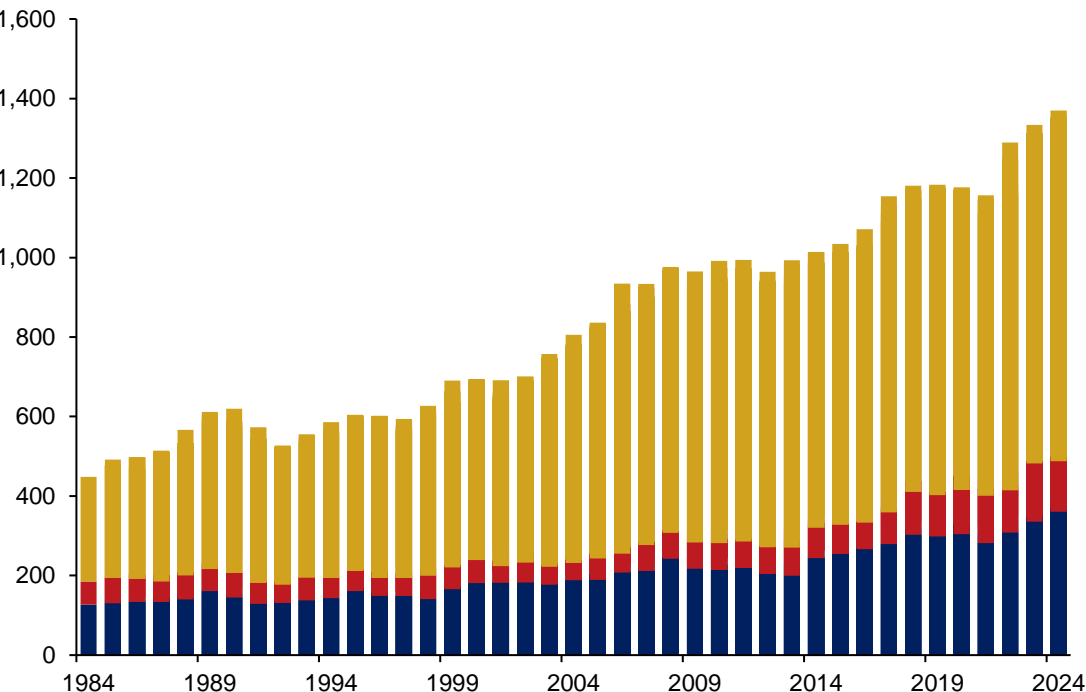


Source: Oxford Economics Australia, ABS

Much of construction employment services the building market

Construction employment by segment

Total Employment ('000)



Construction services include plumbers, tilers, glaziers, electricians, carpenters, plastering, painting, landscaping, bricklaying, concreting, installation services, site preparation and land development.

Heavy and civil engineering construction only makes up a small part the construction employment market, with relatively few occupations in high demand in common with the rest of the construction industry.

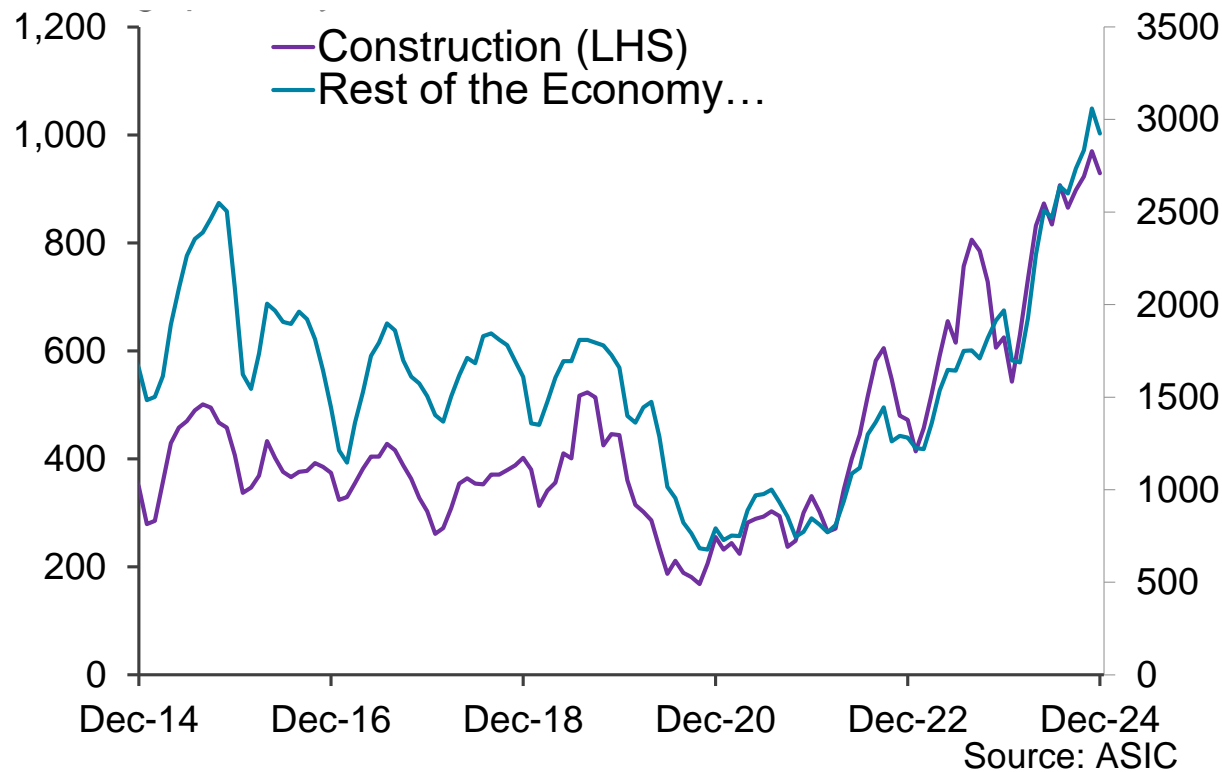
■ Construction Services
■ Heavy and Civil Engineering Construction
■ Building Construction (Resi and Non-Resi)

Source: Oxford Economics Australia, ABS

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Housing businesses are more exposed to sharply rising costs

Business Insolvencies, Quarterly



Construction Industry Businesses

Only 2.3% of businesses are classified as civil construction, with the bulk of businesses being construction services (74%), housing (13%) and non-residential building (4%)

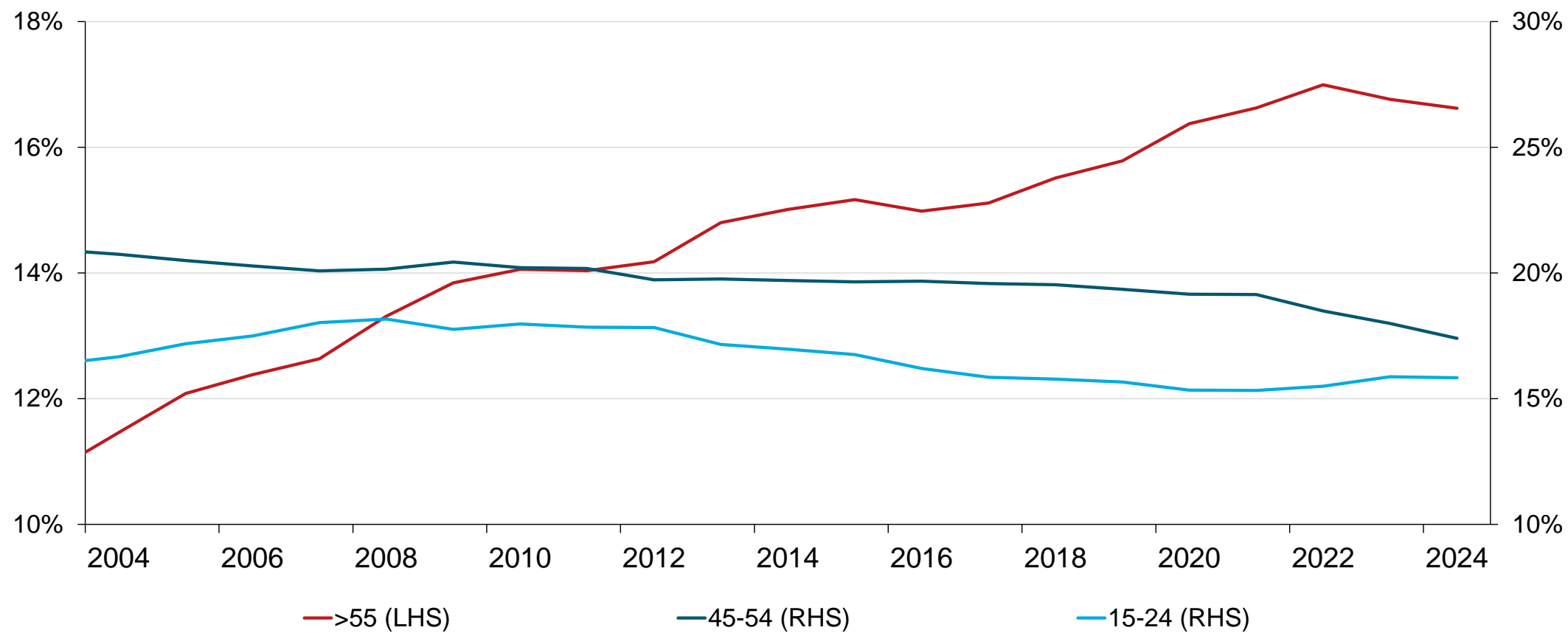
Non-civil businesses account for around 90% of the industry workforce.

90-95% of housing-related businesses are sole traders or have 1-4 employees,

Construction services businesses are also very small (91% are either sole traders or have 1-4 employees) and predominantly service to building market.

And has an ageing workforce which are now leaving the sector

Age profiles of the construction labour force: 2004-2024

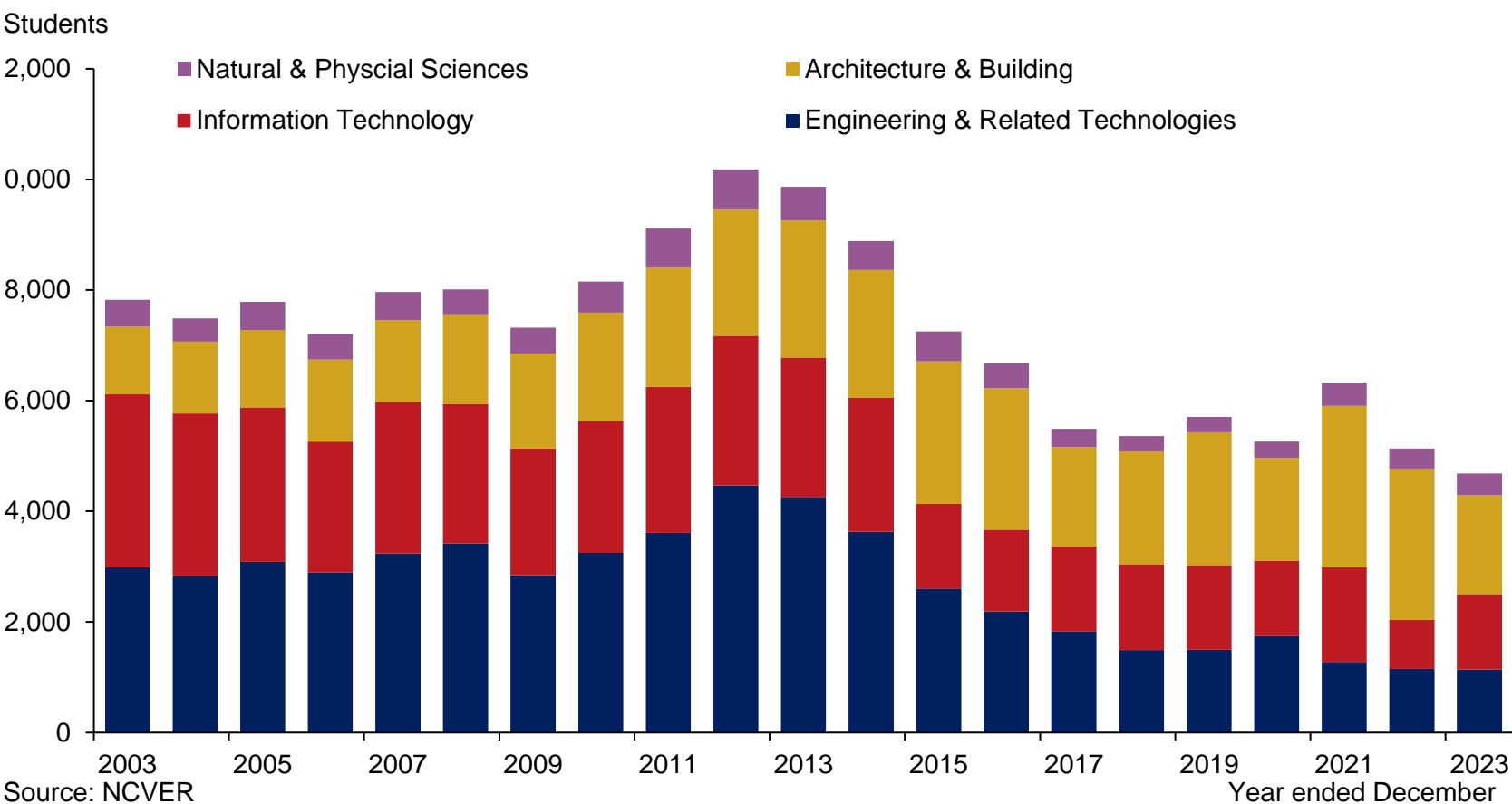


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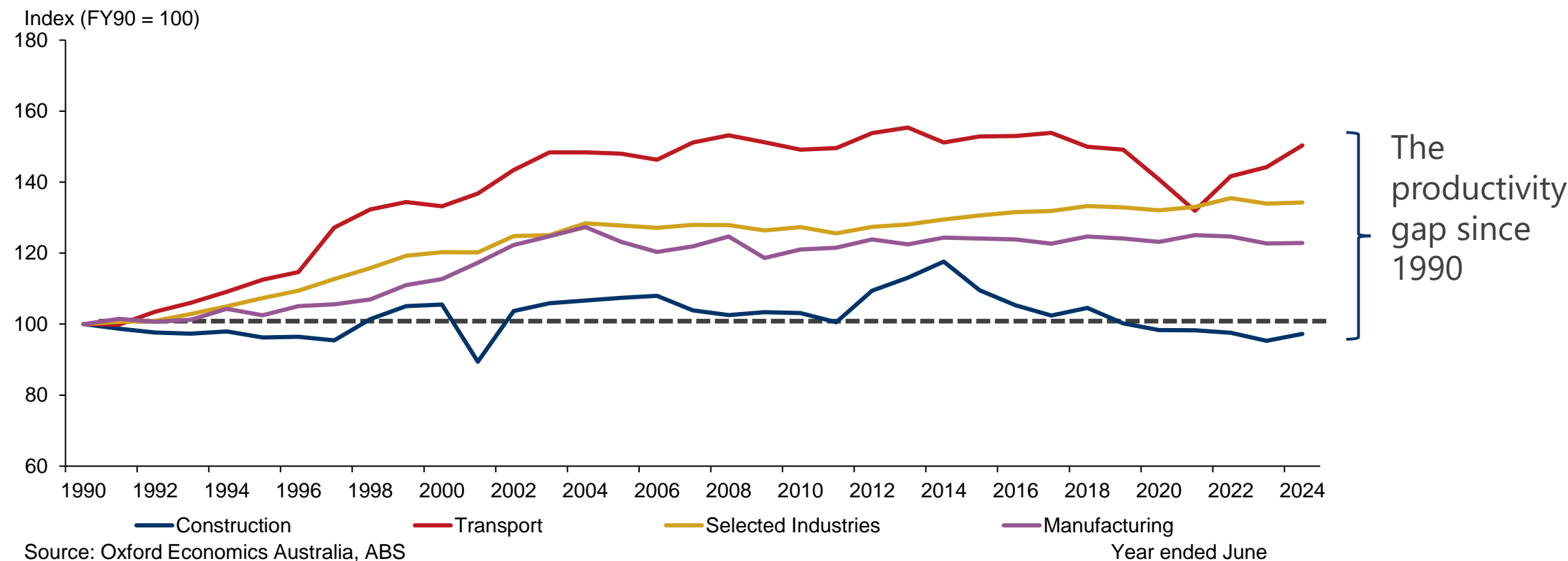
While the supply of new, younger trades has been slashed

Vocational Education and Training (VET) Completions - Australia



Expect to hear a lot more about productivity as the key solution

ABS Multifactor Productivity Index: 1989/90=100



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.

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- It will take time for the housing recovery to come through
- Plan for dealing with constraints, particularly in new growth sectors
- Keep updating assumptions regarding escalation given rising risks
- Sustainability and productivity solutions will be increasingly valued

Questions and Answers

I THINK YOU
SHOULD BE MORE
SPECIFIC HERE IN
STEP TWO





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Thank You



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Feedback

