

25 May 2022

Australian construction activity. Slips at the start of 2022 on further disruptions. Q1: -0.9%qtr, +1.4%yr

Construction activity slipped in the opening quarter of 2022 impacted by the omicron wave and weather disruptions, centred in NSW and Qld.

Work declined by -0.9%, which was weaker than forecast - Westpac +0.5%, market median +1.0%.

In the absence of these significant disruptions, the prospects were for activity to advance at a robust pace. That reflects the strength of approvals and commencements, as well as the sizeable pipeline of work.

The construction sector was a major beneficiary from the earlier substantial policy stimulus, notably: record low interest rates; the HomeBuilder program; and additional public works. That led to a strong start to 2021 for the sector, with work up by 1.5% and 3.0% in the opening two quarters. Since then, disruptions have intervened, including the delta outbreak in mid-2021.

Returning to the March quarter 2022, the state detail is revealing.

As foreshadowed, work in NSW and Qld declined due to wet weather and flooding, contracting by -1.6% and -4.4% respectively. Also, as anticipated activity advanced in Victoria, on a reopening bounce from delta, up by 2.6%. WA also reported a 2.6% rise in work for the quarter.

A key surprise, the smaller states and territories (where activity tends to be more volatile) reportedly experienced a sharp decline in work in the period, down by 7.4%.

Of note, the Q4 estimate was revised higher, marked up from a decline of -0.4% to a rise of +0.6%, a reminder that not only is this data volatile, but it is also often subject to revision.

Victoria's reported Q4 decline of -5.5% was moderated to -3.6%, which helps to explain why the Q1 bounce in Victoria was not even larger than the 2.6%.

By segments, public works declined by 1.0% in the March quarter 2022 and private construction work fell by 0.9%.

Private engineering posted a modest rise, +0.4%. Home renovations also rose, as anticipated, advancing by 2.1%.

Weakness was in new residential work, which fell by -1.6%, and in commercial building, down by -2.4%.

Going forward, a sizeable pipeline of work is supportive of the level of construction work in coming quarters, albeit subject to any further major disruptions.

That said, upside is likely to be capped by supply headwinds, notably material and labour shortages.

Shortages are leading to widespread price pressures, which intensified even further at the start of 2022 - in part due to the omicron disruptions. Construction costs rose by a sharp 2.4% in the March quarter and jumped by 7.6% over the past year. This is the largest quarterly rise and the largest annual increase since 2008.

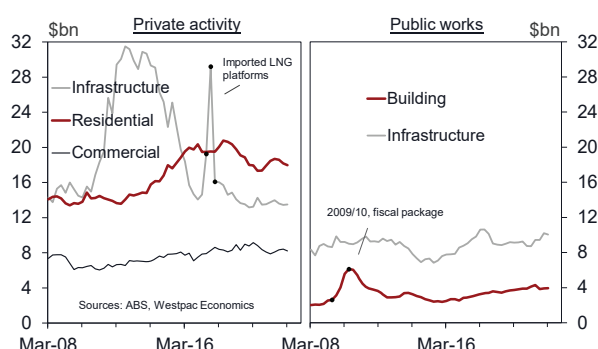
Andrew Hanlan, Senior Economist

Construction work done – Mar qtr 2022

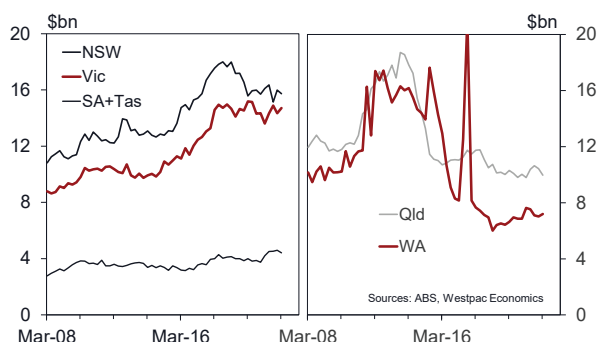
sa, real		% chg qtr		% chg yr	
AUDbn	Q1 level	Q4	Q1	Q4	Q1
Total construction	53.7	0.6	-0.9	3.8	1.4
Total private	39.7	-1.2	-0.9	1.3	-1.0
Total public	14.0	6.2	-1.0	11.8	8.9
Private work, detail					
Residential	18.0	-2.3	-1.0	1.3	-2.6
Non residential building	8.2	0.9	-2.4	4.0	4.2
Infrastructure	13.5	-1.1	0.4	-0.5	-1.8

Sources: ABS, Westpac Economics.

Construction work: by segment

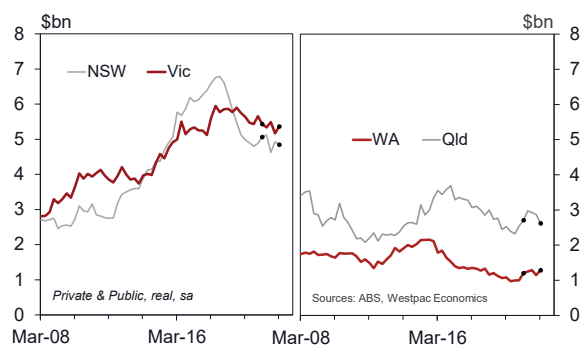


Construction: a state view

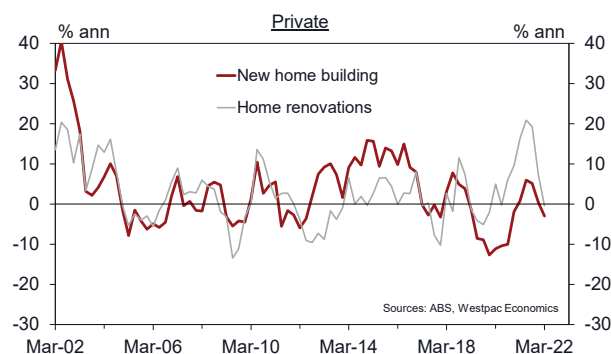


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New home building work: by state



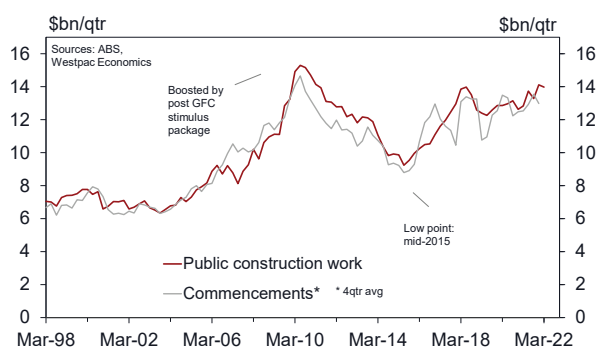
Housing activity: renovations surged during 2021



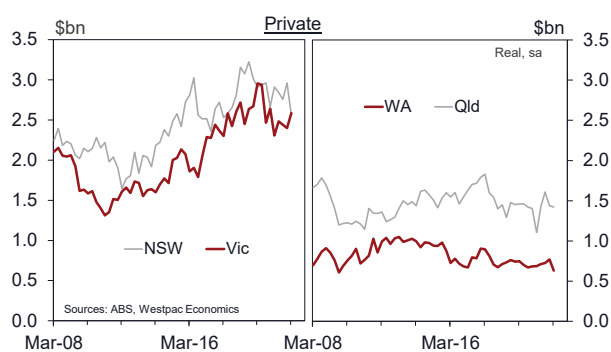
New home building



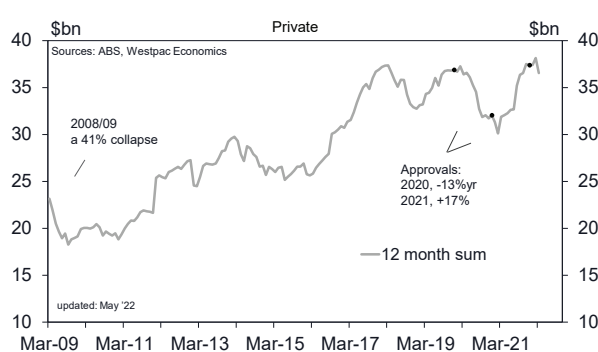
Public construction: infrastructure & building



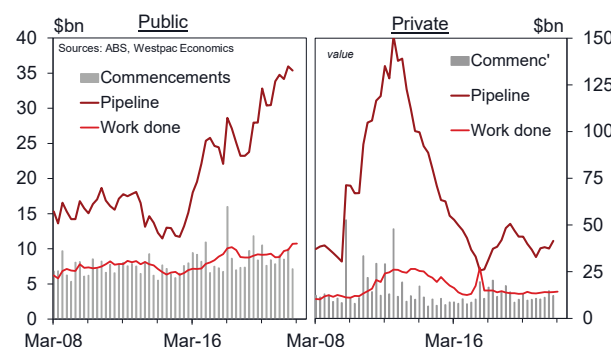
Non-residential building work: by state



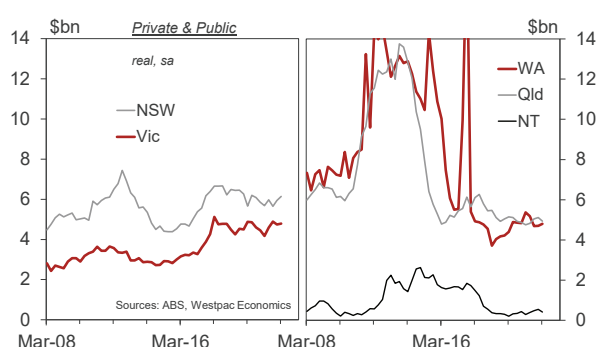
Non-residential building approvals: rebound



Infrastructure: a growing pipeline



Infrastructure work: by state



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