

31 August 2022

Australian construction activity. Down in Q2, at odds with improvement in broader economy. Q2: -3.8%qtr, -4.3%yr

Construction work was much weaker in the June quarter than we and the market expected, forecasts of +3% and +0.8%, respectively.

Reportedly, work declined in the period, contracting by -3.8%.

That follows a 0.3% fall in the March quarter, upgraded from an originally reported -0.9% - a reminder that this “preliminary” data is subject to revision.

The Q2 outcome for construction work is at odds with labour market trends and private business surveys – which report that, across the broader economy, conditions improved materially in the June quarter.

The Labour Force survey reveals that hours worked swung from a -0.9% for Q1 to a hefty rise of +4.6% for Q2 – evidence that there was a burst of activity in the period, enabled by fewer disruptions.

This update suggests that the construction sector failed to participate in this sharp improvement.

No doubt there were still some disruptions in the June quarter – including around wet weather and flooding – but we took our cue from the labour force survey, suggesting that they were less prevalent than over the three months earlier.

The other consideration is that the construction sector is bearing the brunt of material and labour shortages.

The detail of the Construction Work survey indicates that weakness in the June quarter was relatively broadly based.

Private works declined by -4.5% and public works fell by -1.7%. The decline in private works included: infrastructure, -4.1%; housing, -6.9%; non-residential building, -0.2%. The public works outcome of -1.7% included: infrastructure, -1% and building, -3.3%.

By state: work in Qld and NSW was down again, falling by -2.9% and -1.7% respectively. Victoria reported a -4.8%, reversing a +4.8% for Q1. The south-west (Tas, SA, WA and the NT) fell by a combined -4.1%, on the heels of a -2.9% for Q1.

Going forward, there is still a sizeable pipeline of work which will be supportive of an elevated level of activity, subject to the impact of disruptions and the constraint of supply headwinds.

Over the period of the pandemic, the 2½ years from the end of 2019, it is instructive to contrast the path of construction work across jurisdictions - see chart opposite.

For the South-West region (Tas, SA, WA and the NT), work is up by 7.3% over the period - albeit having peaked at the end of 2021. The pull-back over the first half of 2022 is broadly based across the south-west.

Across the Eastern states (Qld, NSW, Vic and the ACT), despite all the stimulus, the level of construction activity has actually weakened during the pandemic, down by 3.2% - including: NSW, -5.6%; Qld, -2.0% and Victoria, -1.4%, while the ACT is up by 0.6%.

Nationally, construction work over the past 2½ years is lower, down by 1.5%.

In terms of performances by segment over the pandemic, the two bright spots are public works, +8.2% (across infrastructure and building); and private home renovations, +17.5%.

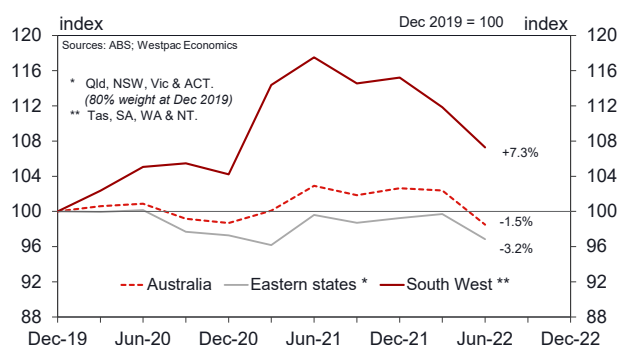
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Construction work done – Jun qtr 2022

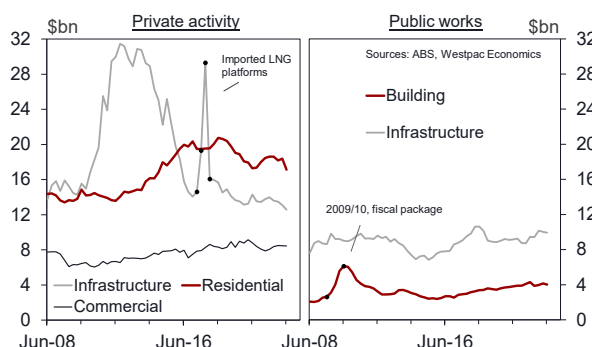
sa, real		% chg qtr		% chg yr	
AUDbn	Q2 level	Q1	Q2	Q1	Q2
Total construction	52.1	-0.3	-3.8	2.3	-4.3
Total private	38.1	-0.5	-4.5	-0.4	-6.2
Total public	13.9	0.5	-1.7	10.7	1.4
Private work, detail					
Residential	17.1	1.1	-6.9	-0.4	-7.9
Non residential building	8.4	-0.4	-0.2	7.6	4.7
Infrastructure	12.6	-2.8	-4.1	-4.9	-10.2

Sources: ABS, Westpac Economics.

Construction work: paths diverge



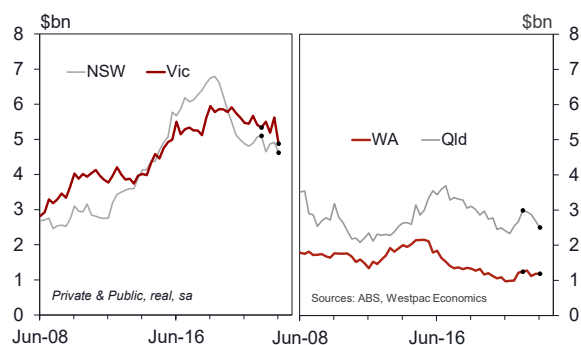
Construction work: by segment



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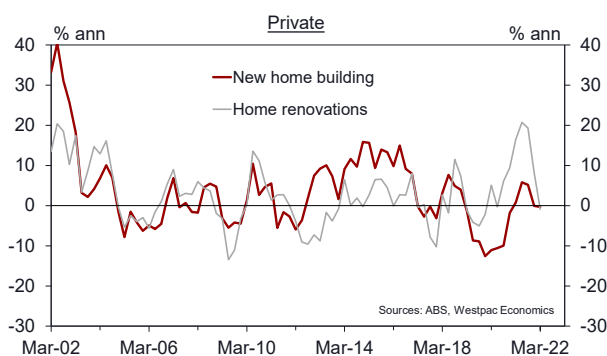
New home building work: by state



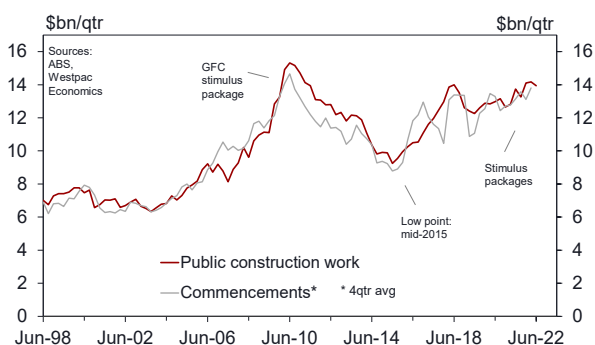
New home building



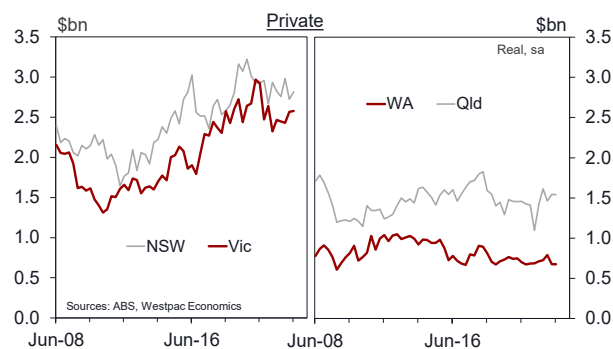
Housing activity: renovations surged during 2021



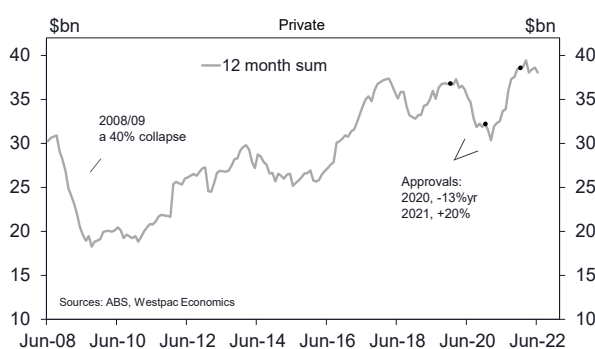
Public construction: infrastructure & building



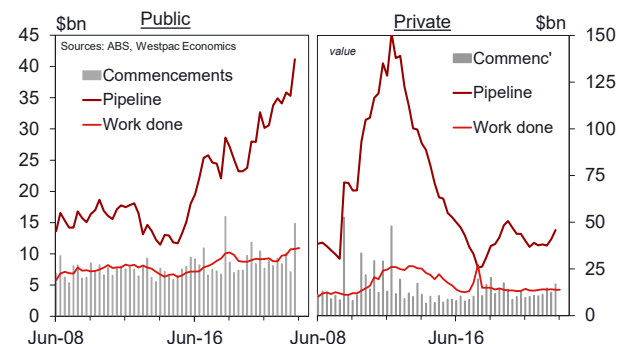
Non-residential building work: by state



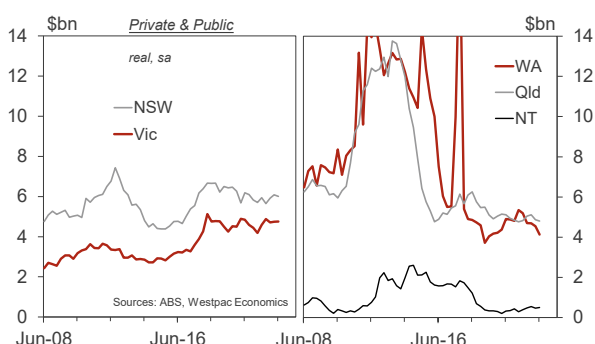
Non-residential building approvals: rebound



Infrastructure: a growing pipeline



Infrastructure work: by state



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