

30 November 2022

## Australian construction activity. Rebounded in Q3, but progress is slow as headwinds remain. Q3: +2.2%qtr, +1.1%yr

Construction work advanced by 2.2% in the September quarter, meeting our expectations (a forecast +2.0%), but that was a little stronger than the market median forecast of +1.5%.

This represents a rebound from the June quarter decline, a fall of -2.0% which was associated with inclement weather. The June result was upgraded from the initial estimate of a more sizeable contraction in activity, a -3.8%.

The ABS caution that the September reading of +2.2% is a preliminary estimate and is subject to revision - noting that there was only a 70% response rate to the survey, which is lower than average due to difficulties as a result of the pandemic.

The September quarter detail revealed: public works rose by +0.9% and private construction expanded by +2.6% (including engineering, +4.2%; non-residential building, +2.8%; and housing +1.3%, despite a 5% fall in renovations).

Notwithstanding construction work rebounding in the September quarter, the level of activity is still below that in mid 2021, lower by some 0.5%.

The work pipeline remains sizeable - progress in reducing that pipeline is slow, as headwinds remain. Notable are labour and material shortages; elevated levels of sick leave due to covid; and periods of inclement weather disruptions.

These shortages are resulting in sharply higher costs. The survey reports that construction costs increased by 2.8% in the September quarter to be 10.8% higher than a year ago (up from 9.7%yr in June).

The double digit increase in annual costs is the most rapid period of cost escalation since the high inflation days of 1989. It eclipses the 2007 peak of 7.8% and the 2000 peak of 8.3%.

The shortages and cost pressures are most acute in the home building sector. Costs of renovations jumped by 5.9%qtr, 17.9%yr in September, while for new residential buildings the figures were 5.0%qtr, 14.4%yr.

By state, relatively widespread falls in construction work in the June quarter was followed by broad based gains in the September quarter, notably Victoria +3.7% and NSW +2.4%, while Qld was little changed, +0.4%, after a +1.0% gain.

In terms of the post pandemic period, construction work is now 2.8% above that at the end of 2019.

Public works have been the key driver of the upward trend in construction work since the outbreak of the pandemic - increasing by 11.8%, with a lift in both infrastructure activity and building work.

Private construction is unchanged relative to the end of 2019. While there has been a lift in infrastructure activity, +3.6%, commercial building is broadly flat, +0.7%, and home building activity is down by -3.0% (with a -5% fall in new residential building activity outweighing a near 12% rise in renovations work - as measured in this survey).

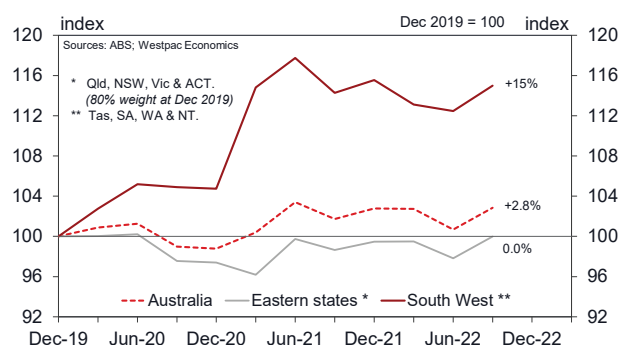
By state, NSW has experienced a decline in construction work since the end of 2019, -3.6%, Qld is up only modestly, +1.3%, while the south-western region (Tas, SA, WA and the NT) is up by a sizeable 15% (see chart opposite).

### Construction work done – Sep qtr 2022

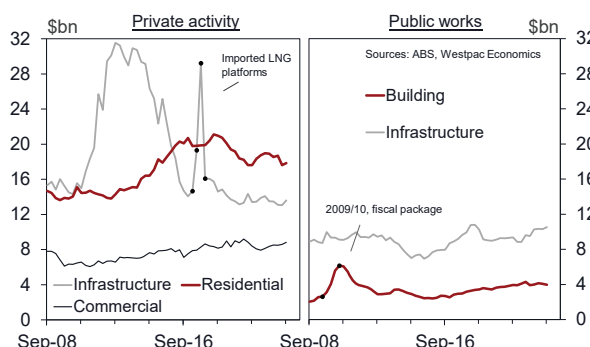
sa, real		% chg qtr		% chg yr	
AUDbn	Q3 level	Q2	Q3	Q2	Q3
Total construction	54.8	-2.0	2.2	-2.6	1.1
Total private	40.3	-2.5	2.6	-4.7	-1.2
Total public	14.5	-0.6	0.9	3.3	8.1
Private work, detail					
Residential	17.8	-5.8	1.3	-7.2	-5.7
Non residential building	8.8	1.3	2.8	5.9	5.8
Infrastructure	13.6	-0.2	4.2	-7.2	0.8

Sources: ABS, Westpac Economics.

### Construction work: paths diverge



### Construction work: by segment

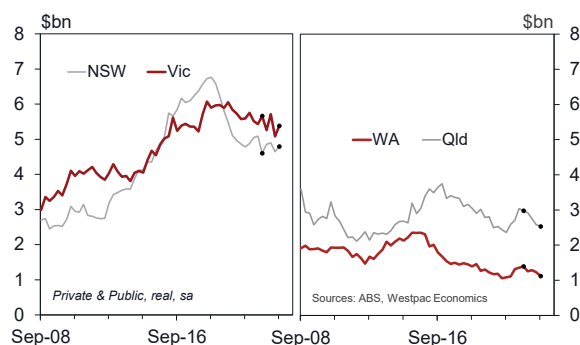


Andrew Hanlan, Senior Economist

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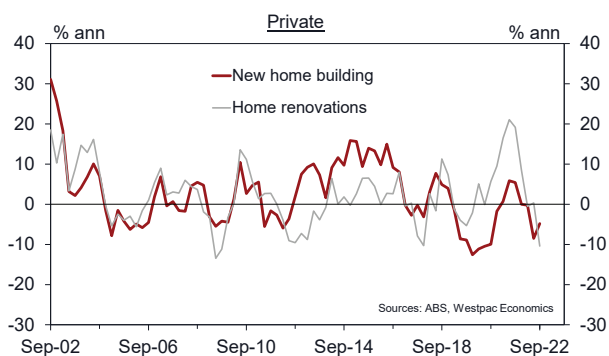
## New home building work: by state



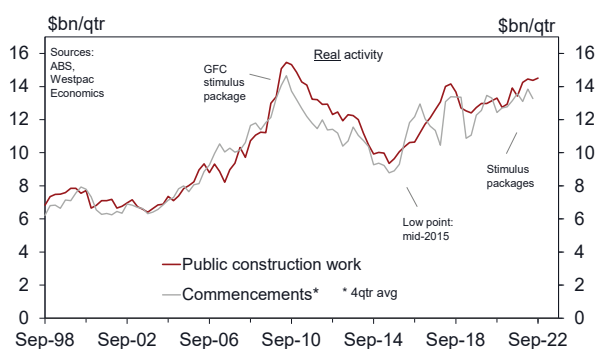
## New home building



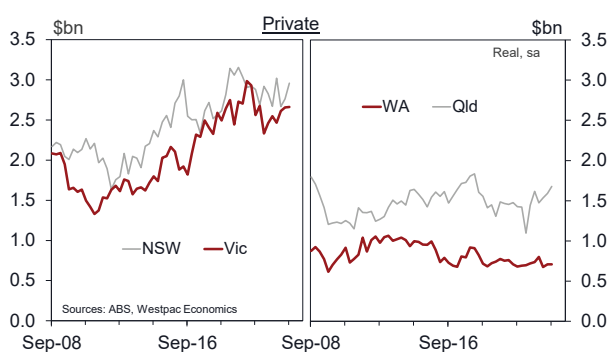
## Housing activity: renovations off their highs



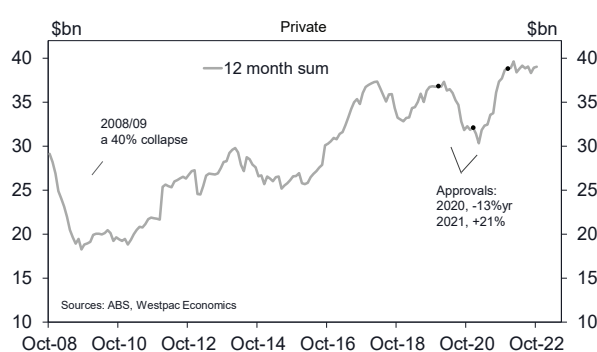
## Public construction: infrastructure & building



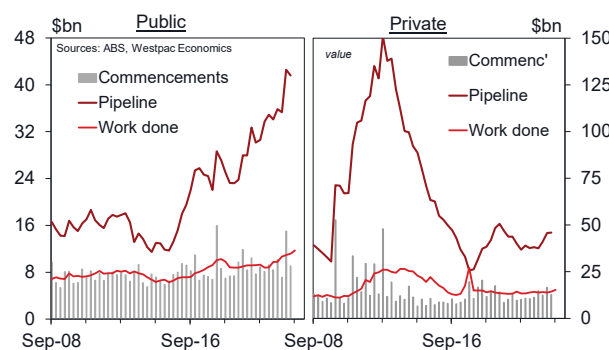
## Non-residential building work: by state



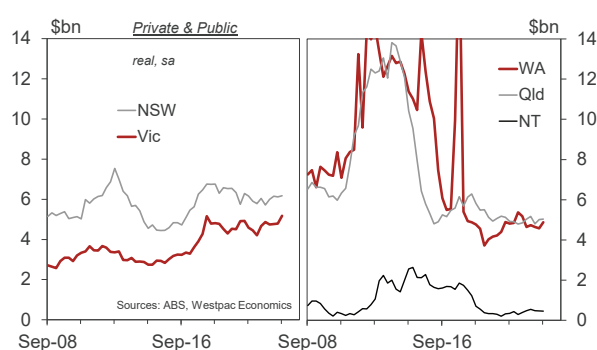
## Non-residential building approvals: rebound



## Infrastructure: a growing pipeline



## Infrastructure work: by state



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