

30 August 2023

Australian construction activity, June quarter. Uptrend continues into Q2. A large 2ppts upgrade to Q1 result. Q2: +0.4%qtr, +9.3%yr.

Construction sector activity moved markedly higher over the past year to June, increasing by 9.3% - exceeding our forecast of 8.4%.

However, the quarterly profile provided some surprises.

The March quarter 2023 estimate of construction work was upgraded sharply, by a full 2ppts, from 1.8% to 3.8%.

In the June quarter, coming off that very strong base, work made further gains, up by 0.4%. Expectations were for an increase of around 1% for the quarter, Westpac forecast of 1.5%.

The detail of the June quarter, impacted by that strong base for March, included: public works flat, private infrastructure +1.1%, private non-residential building -0.1%, and housing mixed (as anticipated), new dwelling +0.7% and renovations -4.5% (with the fall sharper than anticipated).

Over the past year, the construction picture and trends are clearer.

Public works have been a key driver of strength, with work up by 11.7%yr, including infrastructure +15.8%yr (with a focus on public transport projects).

Indeed, public works are now 26.9% above the level at the end of 2019, prior to the pandemic. The gain across private sector work for this period is a more modest 6.9%. The pipeline of work yet to be done on existing public infrastructure projects has climbed to be at \$61bn, up from \$33bn in mid-2021. State governments, in response to the pandemic, added to an already large pipeline of work with stimulus packages in late 2020 and in 2021.

Over the past year, private business construction work is also up strongly, increasing by 12.6%, including infrastructure +15.3%yr and non-residential building +8.4%yr. There is further upside to business construction work over coming quarters.

The medium-term theme is that the capital stock needs to expand to meet the requirements of a growing population. Overlaid on that, the pandemic delayed the start of some projects and delayed the work on some projects. Current strength in work is in part due to those earlier delays - with many of the disruptions having eased.

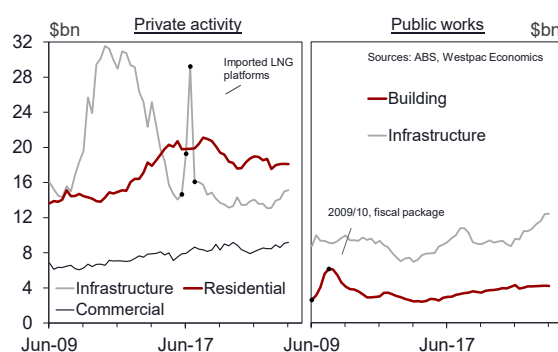
The housing picture is mixed. Over the past year, new dwelling activity by 5.1%, supported by the large backlog of work. By contrast, the renovations boom continues to deflate, with work moderating over the past year, down by -7.2%. That downward trend in renovations work will continue, reinforced by the pressure on households from high inflation and higher interest rates.

As we've highlighted previously, construction paths have diverged across the regions of the nation.

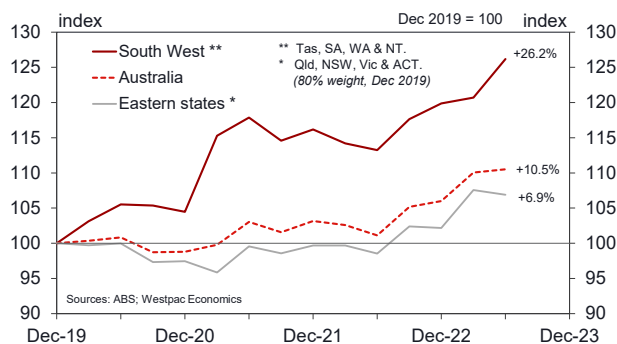
Construction work in the south-west (WA, NT, SA and Tasmania) is currently some 26.2% above that at the end of 2019, prior to the pandemic. This includes an 11.4% increase in work over the past year. Fewer covid disruptions and then less pronounced ongoing bottlenecks have contributed to this strong performance.

For the Eastern states (NSW, Vic, Qld and ACT), work is up by 6.9% since the end of 2019 - entirely driven by an increase of 8.5% over the past year, progress aided by an easing of disruptions and an easing of shortages.

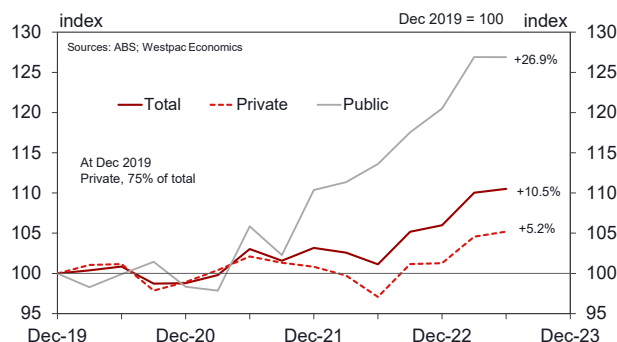
Construction work: by segment



Construction work: paths diverge



Construction work: up on public works

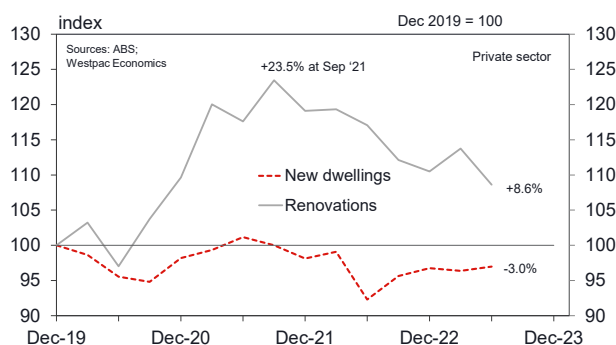


Andrew Hanlan, Senior Economist

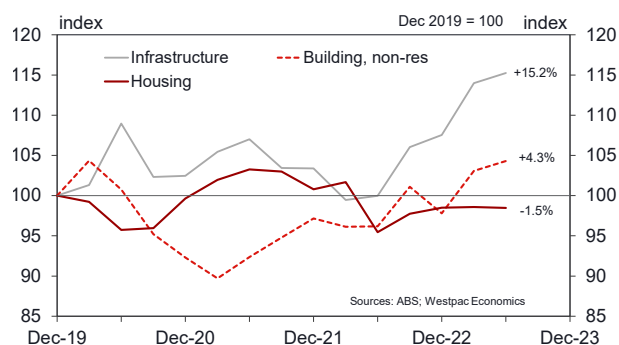
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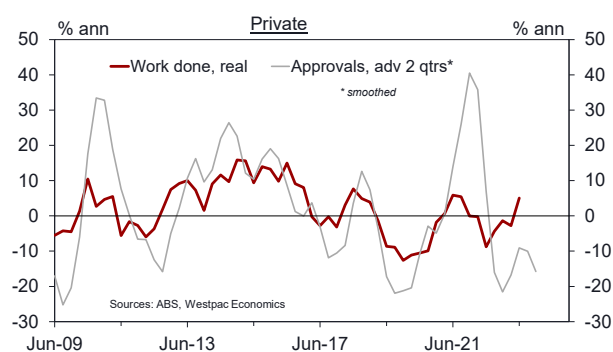
Housing: renovation boom deflates



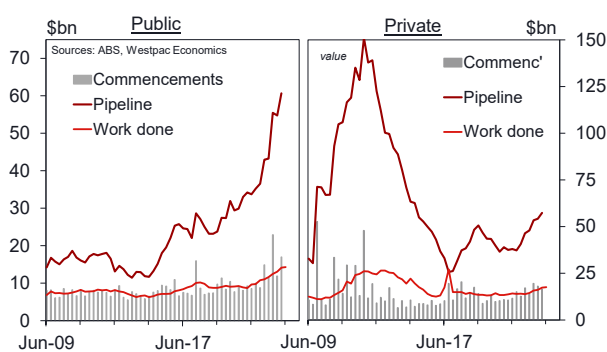
Private construction work



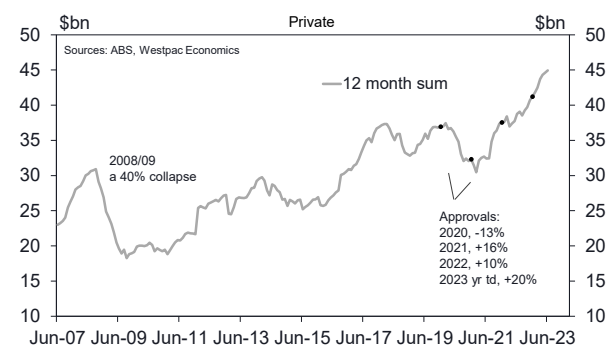
New dwelling activity



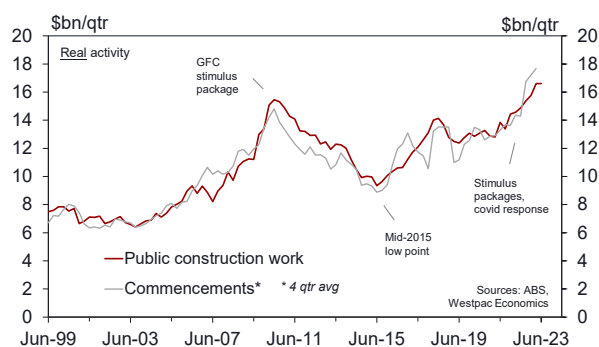
Infrastructure: a growing pipeline



Non-res' building approvals: march higher



Public construction: infrastructure & building



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