

29 November 2023

Australian construction activity, September quarter. Construction activity burst continues, but growth set to fade. Q3: 1.3%qtr, +8.5%yr.

The Australian construction sector has experienced a burst of activity since mid-2022, supported by a strong pipeline of work and facilitated by an easing of supply headwinds and fewer disruptions. As anticipated, that theme extended into the September quarter.

Construction work expanded by a further 1.3% in the September quarter. That met our expectation (a forecast 1.3%) but was well above the market median of 0.3%, with a range of -1.0% to +3.4%.

Over the five quarters since June quarter 2022, construction activity has increased by 12.4%. That accounts for the bulk of the rise in work since the end of 2019, pre-covid, of 13.7%.

Covid and policy responses to covid had profound and importantly, varying impacts upon the different construction segments. The result is that the path of work and the timing of work varies significantly in the post covid period across regions and across segments, see charts attached.

Covid both delayed the start of non-residential projects and the work on projects. Up to mid-2022, policy stimulus struggled to gain traction as shortages (labour and materials), covid disruptions and inclement weather acted as a handbrake on construction work.

With that handbrake on construction work released from mid-2022, the sector has experienced a growth spurt. Looking ahead, the pace of growth is set to ease. Notably, the level of construction work is now at or above the trend level of commencements across a number of segments (see charts overleaf). A sizeable work pipeline will sustain a high level of work but the pace of growth is set to fade moving into 2024.

Public works rose by 4.2% in the September quarter, to be one third higher than at end 2019. Public works, which represented a quarter of construction activity pre-covid, accounts for 60% of the increase in total construction activity post covid. Public infrastructure, with a focus on transport projects (but not limited to this), has increased by 40% since end 2019, while public building activity is up by 16%.

In the September quarter, the level of public construction stood at \$18.34bn (up from just \$15.7bn in mid-2022). That is now above the level of commencements - which averaged \$17.9bn a quarter over the past year, or \$17.0bn over the past half year.

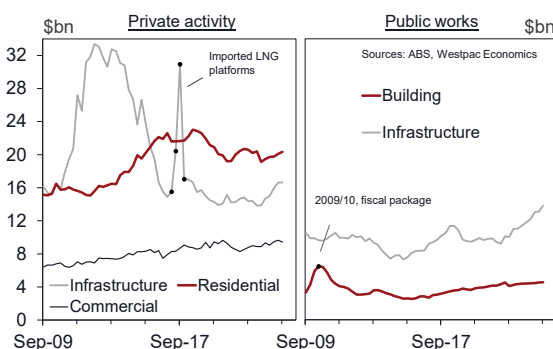
Private business construction, which surprised with a 0.7% dip in the quarter, increased by a brisk 14.7% since mid-2022 to be 12.7% higher than end 2019. The level of work is now at \$26.1bn - that is above commencements, which averaged \$24bn a quarter over the past year.

New home building activity edged a little higher, up 0.5% in the September quarter, supported by a sizeable pipeline but constrained by capacity constraints. That is still below pre-covid levels, down by 0.7%. The renovation boom has been deflating and will continue to trend lower in the current challenging backdrop - but despite that, renovations posted a 5.1% bounce in the period.

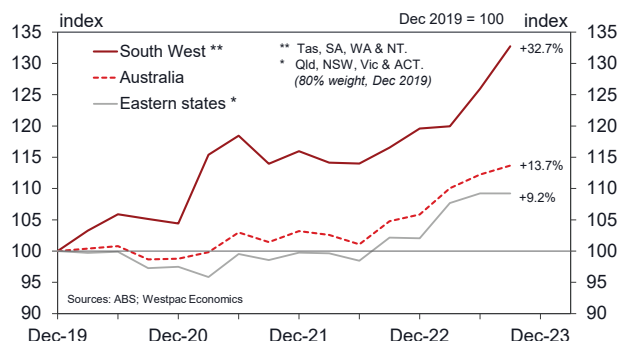
By state, the burst of construction work since mid-2022 is particularly evident in NSW, with work up by 17%, and in WA, where work has surged by 23%. Together, these two states account for two-thirds of the increase in work nationally over the period from mid-2022.

Andrew Hanlan, Senior Economist

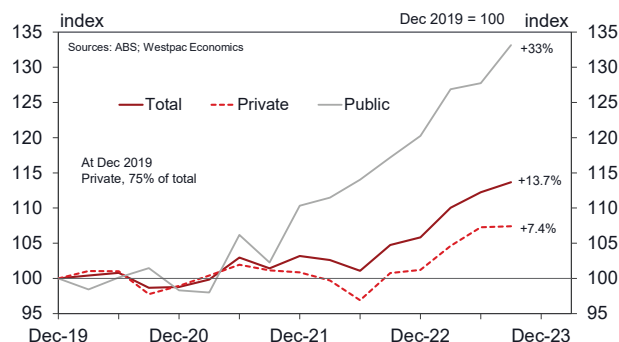
Construction work: led higher by infrastructure



Construction work by region: paths diverge



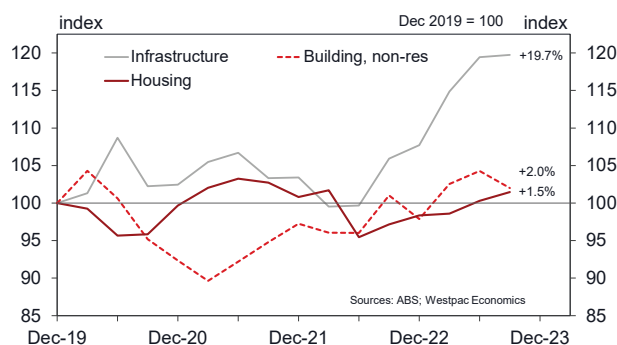
Construction work: up on public works



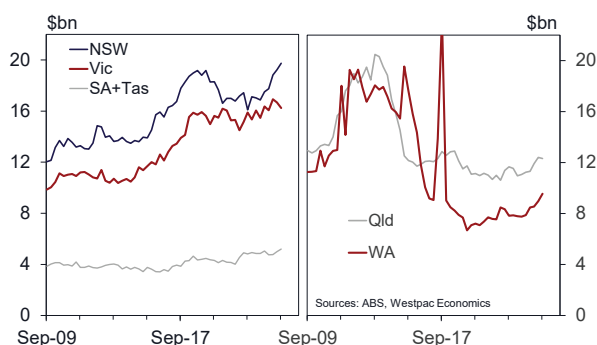
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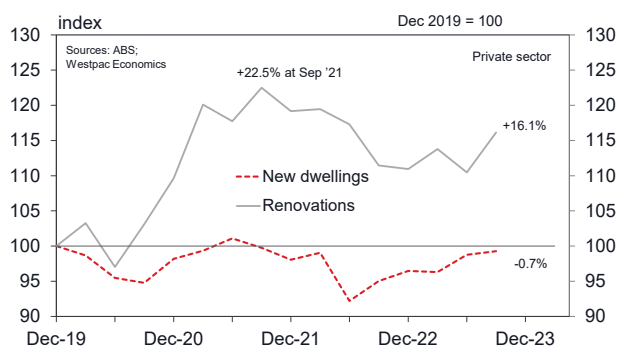
Private construction work



Construction: a state view



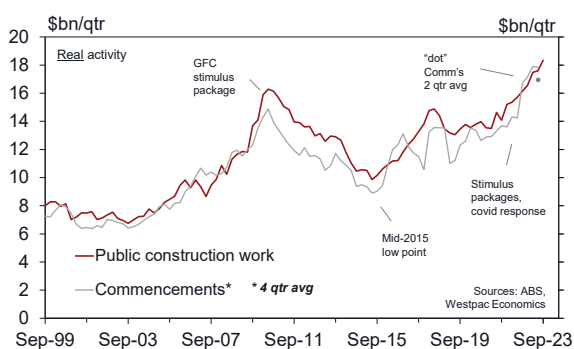
Housing: a tale of two cycles



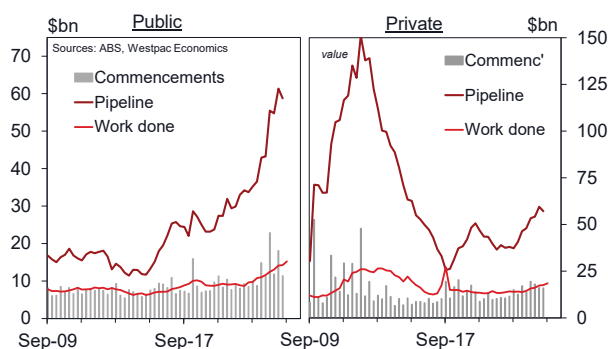
New dwelling activity



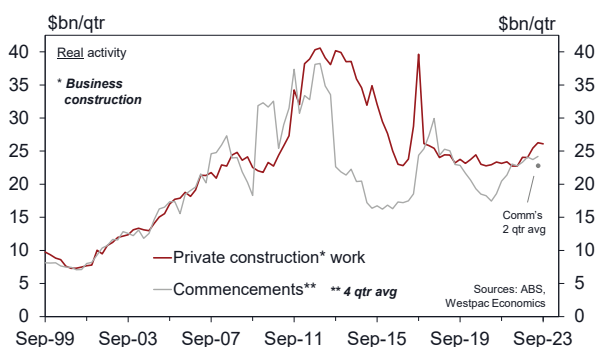
Public construction: infrastructure & building



Infrastructure: a sizeable pipeline



Private construction*: infrastructure & building



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