

Non-residential construction work no longer playing catch-up. Activity burst set to fade.

Australia's construction trends have been in focus of late with the sector punching well above its weight over the past year and a half.

Given this focus, we ask, where to from here for construction work?

On our assessment, the recent burst of activity is set to fade. Any further near-term gains are likely to be more modest.

Here we assess recent developments in construction work and commencements. In this article reference to the construction sector relates to non-residential projects and work.

Commencements off highs following post covid jump

The covid outbreak and the policy response to the pandemic provided a boost to the construction sector. Governments responded to the pandemic by boosting domestic demand – one aspect of which was directly through public investment, by giving the go ahead to more projects.

That boost to the construction sector was not immediate, given long lead times for projects, both in terms of the approval process and the ramping up of work on those projects.

Commencements (starts) of public construction projects jumped from the start of 2022, official data reports. Starts lifted from a quarterly average of \$14.4bn for 2021 to a \$18.7bn average for the five quarters March 2022 to March 2023. More recently, public starts have dipped, returning to pre-covid levels – averaging \$14.4bn a quarter for the half year June to September quarter 2023.

For the private sector, construction starts slumped mid-2020 at the onset of the pandemic, then rebounded and remained elevated through to end 2022 (albeit punctuated by a delta dip in June 2022). Moving through 2023, private construction starts have stepped a little lower as the backlog in approvals is cleared, down by a little more than 5% on the average for the previous year and a half.

For 2023, total construction starts in real terms are tracking 8% below that for 2022 (assuming the December quarter outcome matches the average of the past half year).

Construction work, no longer playing catch-up

As Australia reopened from covid and as supply headwinds (labour and material shortages) eased, work on construction projects ramped up. Initially, and not surprisingly, the level of work on public projects was unable to keep pace with the spike in new starts.

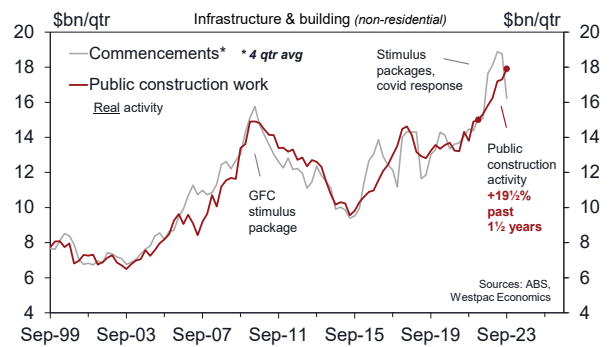
Moving through 2023 that picture altered. Total construction work in the September quarter was \$44bn, moving in line with 2022 commencements, a \$43.7bn quarterly average, and above 2023 commencements, tracking a \$40bn average.

Public construction activity jumped almost 20% over the past year and a half, from \$15bn in the March quarter 2022 to about \$18bn in the September quarter 2023. That is now in line with 2022 commencements and well above 2023 commencements.

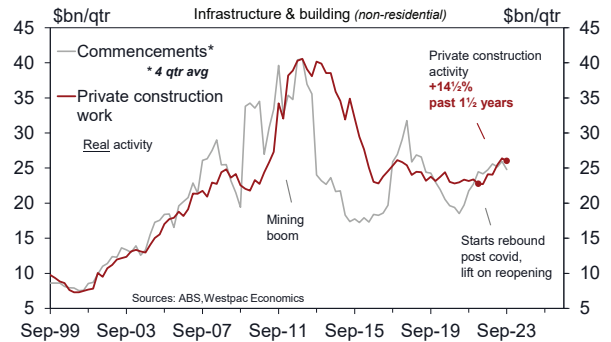
For private projects, construction work broadly kept pace with commencements. Work jumped 14.4% over the past 1½ years and of late commencements have eased a little.

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Public construction work: no longer playing catch-up



Private construction: work in line with starts



Construction growth driver set to fade near-term

Over the past 1½ years, activity in the non-residential construction sector (7% of the economy) climbed 16.4% and directly accounted for 30% of the 3.7% increase in overall domestic demand. That oversized contribution is unsustainable. From here, a sizeable pipeline of construction work will support a high level of activity – but from a growth perspective, any further near-term gains will likely be more modest (also in part because of limited spare capacity). The construction sector growth engine is set to fade.

Medium-term outlook remains positive

We maintain our positive medium-term outlook for construction activity. The imperatives for Australian business and government are for both capital widening, to meet the needs of a rising population, and capital deepening, to boost productivity and support living standards. The green transition, to decarbonise the economy, also demands a phenomenal investment commitment, across electricity generation and other key sectors.

Andrew Hanlan, Senior Economist

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