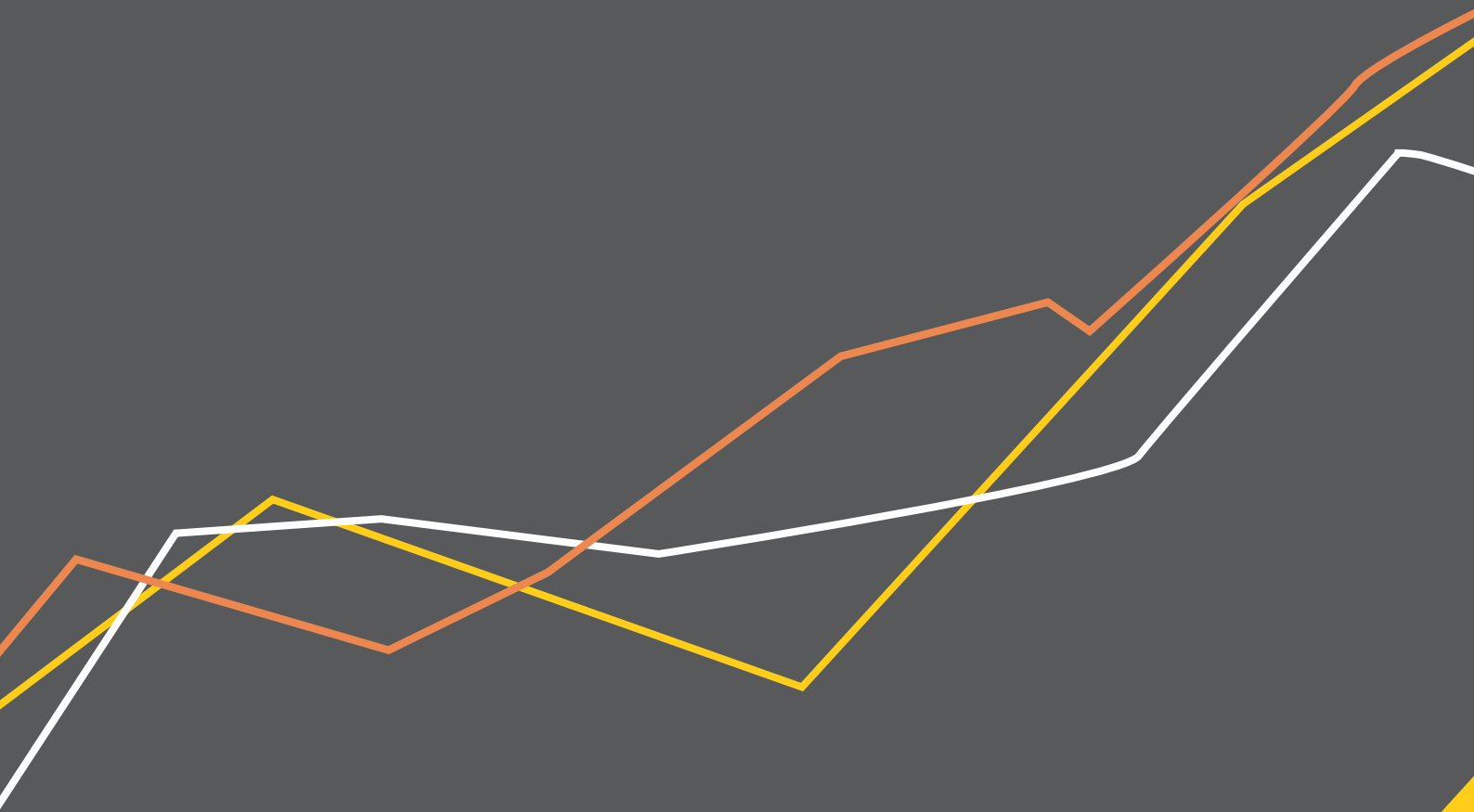


CSQ



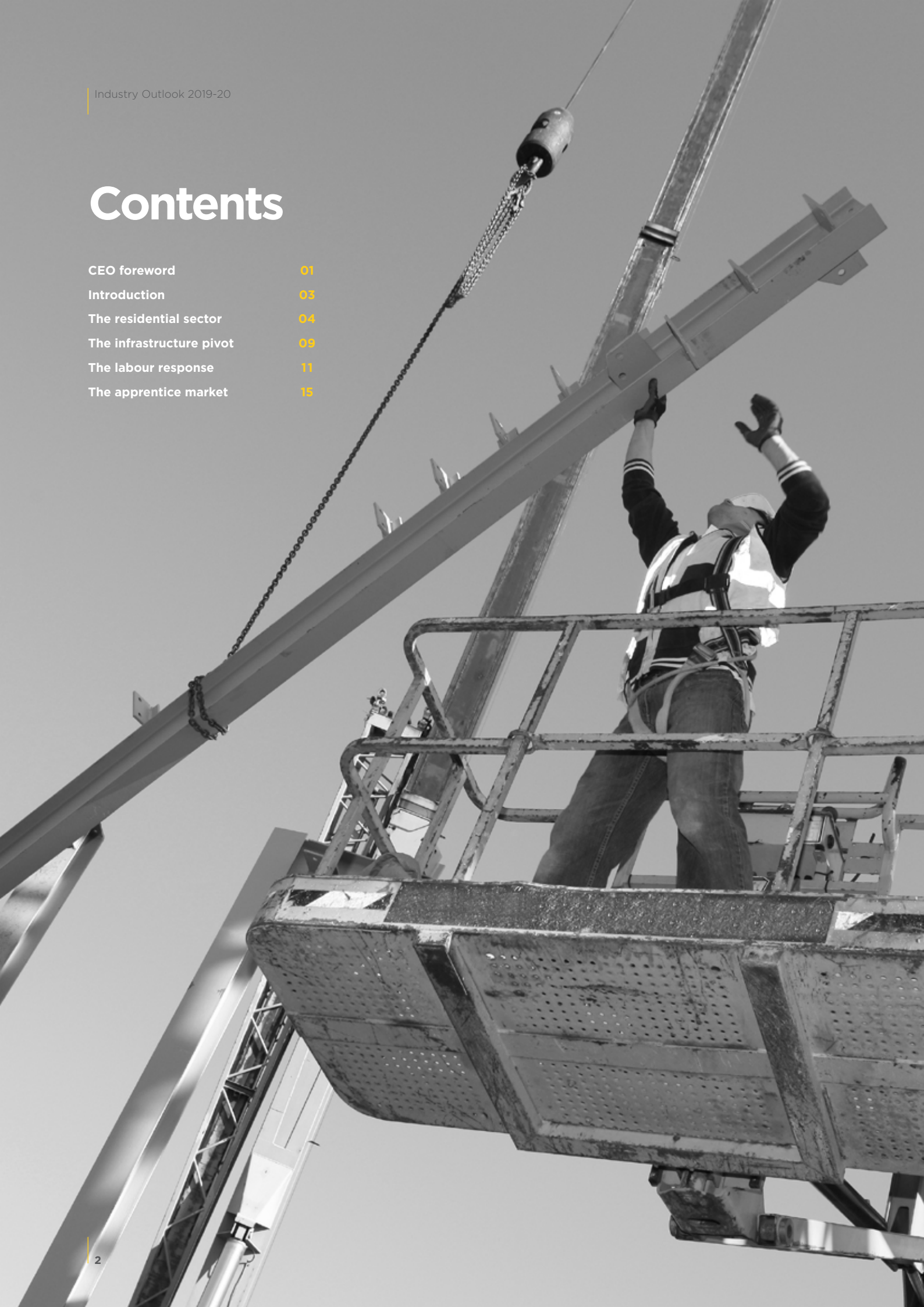
Industry Outlook 2019-20

FOR QUEENSLAND'S
CONSTRUCTION INDUSTRY



Contents

CEO foreword	01
Introduction	03
The residential sector	04
The infrastructure pivot	09
The labour response	11
The apprentice market	15



CEO foreword

It is clear that Queensland's construction industry is facing a series of headwinds. The increased frequency of reports of insolvencies among construction businesses testifies to the tightening conditions.

For those of those watching these trends closely, it is perhaps natural to fixate on the major residential markets across Australia. There is no doubt that significant headwinds are mounting in this space.

Yet it is important to remember that the construction industry builds more than just apartments, and it does so much further afield than the big metropolitan cities.

In this year's *Industry Outlook* we emphasise this emerging 'two track' industry. While the next 12-18 months will certainly challenge many construction workers, others will enjoy great opportunities.

For example, it is well known that an unprecedented residential building boom gripped SouthEast Queensland (SEQ) over recent years. Receiving less attention, however, was the extremely difficult conditions faced by regional Queensland's construction industry over this period. Now, as residential construction in SEQ has peaked and is slowing sharply, activity outside SEQ is now ramping-up.

The other major development for 2019-20 will be the switch of emphasis away from residential toward engineering construction, thanks to the arrival of long-overdue investments in public infrastructure.

This 'infrastructure pivot' will affect the construction workforce unevenly.

Overall, we expect an increase in demand for workers in the heavy and civil sectors, and a decrease in demand for those in the 'building' sectors. Yet outcomes will vary significantly from region-to-region and occupation-to-occupation.

Finally, the apprentice market will soften over the coming year against the backdrop of a slowing residential construction sector—the traditional incubator for construction apprentices. Apprentice commencements have already begun to fall, and I expect this trend to continue throughout 2019-20.

I encourage you to review CSQ's *2019-20 Annual Training Plan* to understand how CSQ will respond to this environment over the coming year.

Brett Schimming
Chief Executive Officer



**We expect
an increase in
demand for
workers in
the heavy and
civil sectors,
and a decrease
in demand for
those in the
'building'
sectors**



Introduction

Not since the Global Financial Crisis (GFC) has there been so much uncertainty around the construction industry in Australia and Queensland.

Most observers agree that the Australian economy will slow in 2019. A big part of this story is the fall in house prices and its implications for residential construction activity. To this we can add global economic uncertainty alongside waning domestic conditions. These factors are expected to contribute to a general softening in the demand for labour throughout 2019-20.

CSQ considers that this environment creates both headwinds and tailwinds for those working in Queensland's construction industry, depending on what they build and where they build it. We begin this Outlook with our view on residential construction in Queensland.

The residential sector

The big dive in Australian houses prices that began in 2017 has been focussed primarily on Sydney and Melbourne, where affordability has arguably been stretched beyond its natural breaking point. It is worth noting, however, that Brisbane has not been entirely immune from the correction, where prices had begun contracting on annual basis by March 2019.

In previous downturns—most recently, the GFC—authorities were able to rely on interest rate cuts and loose lending, combined with strong income growth and government stimulus, to stall price falls and keep the building sector going. With most of these levers unavailable this time around, house prices in most capital cities look set to continue falling throughout 2019.

The centrality of Sydney and Melbourne housing to the Australian economy means the severity of their downturns will be felt across the country, even if our own prices stay in relatively better shape. In addition, tighter credit conditions are being applied across the board and this will challenge all markets. This combined with the retreat of foreign investors means that a non-trivial segment of demand for residential housing is being cleaved from the market.

This has obvious implications for prices, but also for volumes – developers are reluctant to put further downward pressure on prices by adding stock into a weakening market. This pull-back is clear in the approvals trend (Figure 1), which underpins our subdued forecast for residential construction activity over the next few years (Figure 2).

Fig.1 – Queensland Dwelling Approvals

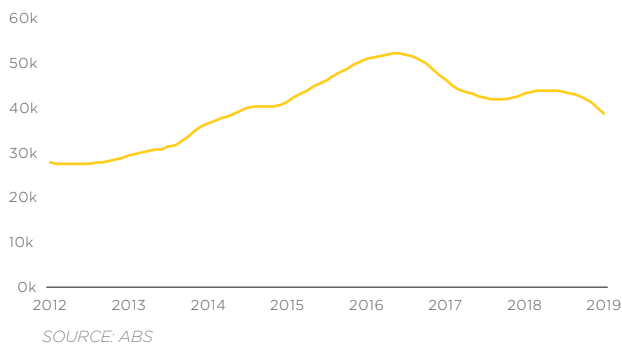
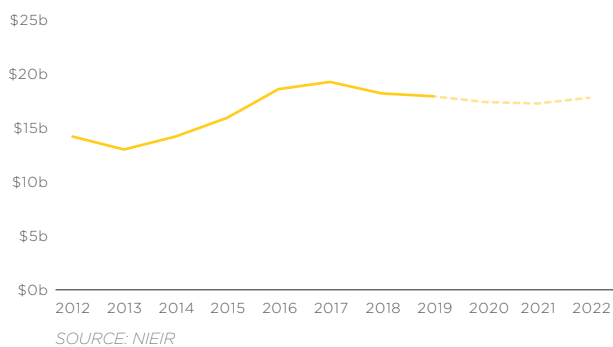


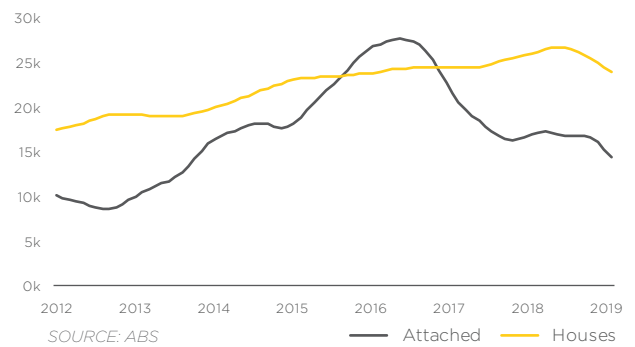
Fig.2 – Queensland Residential Building Outlook



These headline estimates obscure two very important nuances.

The first is a sectoral nuance. It is no secret that this latest residential boom favoured the apartment builders. It is therefore reasonable to expect that this sector would be hardest hit by the pull-back in demand, and it has been – although it is worth noting that housing construction has also started to feel the pinch with further falls expected (Figure 3).

Fig.3 – Queensland Dwelling Approvals



The second nuance is geographical. The regions in Queensland that most enjoyed the spoils of the recent period of growth (read: SouthEast Queensland) will feel the effects of its contraction the most. Areas that missed the party will also miss the hangover (**Figure 4**). Thus as residential construction in SEQ tops and begins to slow, activity in the regions will trough and begin to ramp-up. In some regions, this will feel positively boom-like compared to recent experience (**Figure 5**).

Fig.4 - Queensland Residential Construction Growth

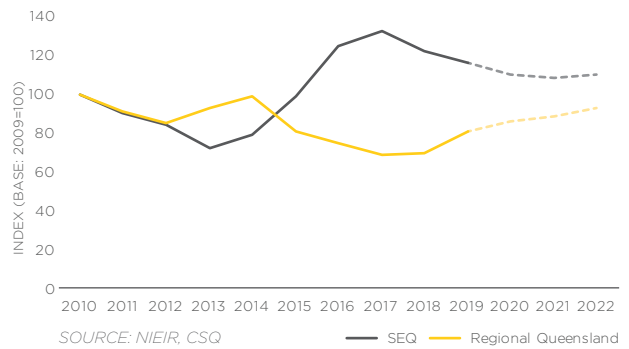
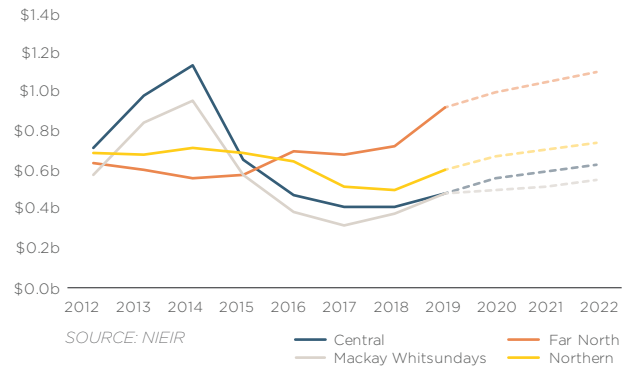


Fig.5 - Residential Outlook for Queensland Regions



Regions that missed the party will also miss the hangover



**We expect
the engineering
sector to grow
by more than
\$800m
year-on-year**



The infrastructure pivot

Engineering construction is rotating back into the frame after its deep fall from the heights of the mining boom (Figure 6). From 2020, we expect the engineering sector to grow by more than \$800m year-on-year in Queensland. This is a stark turnaround from the nearly \$5b annual contraction that that sector experienced since 2015 (Figure 7).

Fig.6 - The Infrastructure Pivot

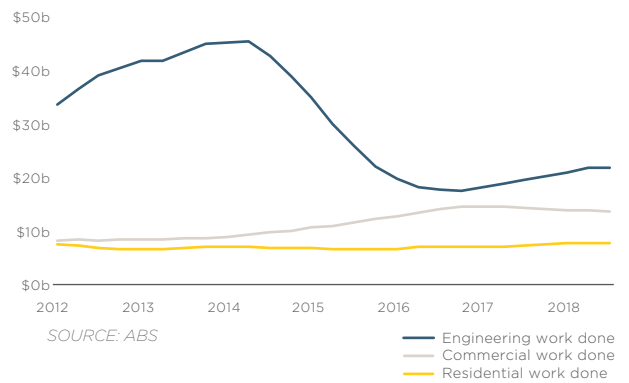
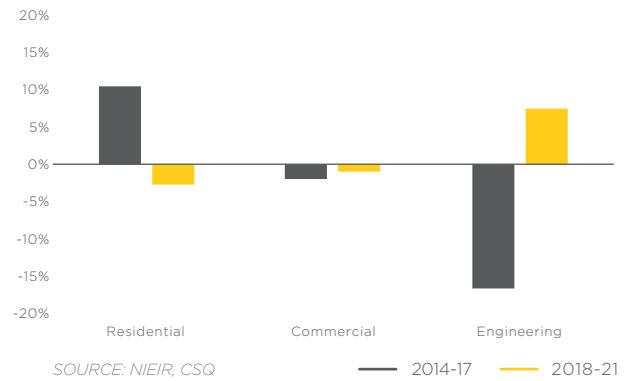


Fig.7 - Annual Construction Growth

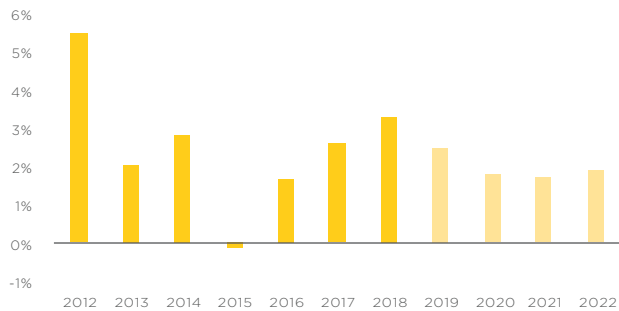


Unlike the engineering projects associated with the mining boom, this next phase of growth will be driven by public infrastructure spending. Already we are seeing significant investments, thanks to successive big spending state and federal budgets. We expect this spending spree to not only continue but to intensify, for two key reasons.

Firstly, there is a growing awareness that our stock of public infrastructure is inadequate to meet the demand of our record levels of population growth. This tilts the project bias firmly toward public investments in infrastructure.

Secondly, we are entering a period of economic uncertainty, with low growth forecast for the short term (**Figure 8**) and risks to the downside from 2020. Australian governments have proven willing to spending their way out of economic trouble, and the health of the federal budget means Australia can afford to do it more than most countries. So while public investment has not been a significant part of Queensland's economic growth in recent years, it is likely to become a key driver going forward (**Figure 9**).

Fig.8 – Economic Growth in Queensland



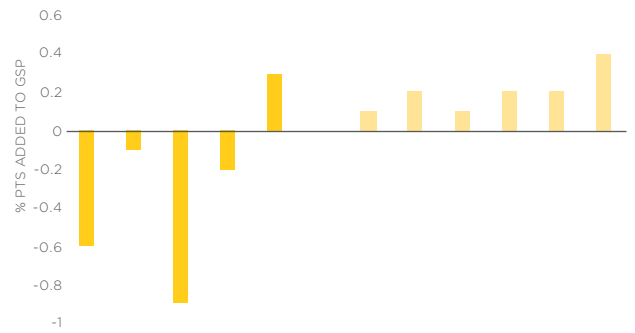
SOURCE: NIEIR, CSQ

While some of this public investment will go into the non-residential and residential markets—eg. social housing, hospitals and schools—most of it will take the form of infrastructure spending.

In South-East Queensland alone there is an unprecedented pipeline of major public projects, including Cross River Rail, Brisbane Metro, and runway expansions. This public investment runs alongside significant private investment in large mixed-use precincts such as Queens' Wharf, West Village and Herston Quarter. Meanwhile, the talk of an 'SEQ City Deal' is gathering real momentum.

Looking further afield there is virtually no major regional centre without a significant pipeline of projects. Townsville is building the Haughton River Dam, Cairns has several tourism assets in the works, and Rockhampton is massively expanding the Shoalwater Bay defence training area.

Fig.9 – Public Investment Contribution to Economic Growth in Queensland



SOURCE: NIEIR, CSQ

The labour response

The headline implications of the infrastructure pivot are obvious enough – an increase in workers in the heavy and civil construction sectors, and a decline in the ‘building’ sectors (residential and non-residential). This trend is already asserting itself (**Figure 10**). The trend is also being reflected in the price trends for these different types of construction (**Figure 11**).

Fig.10 – Construction Employment Growth

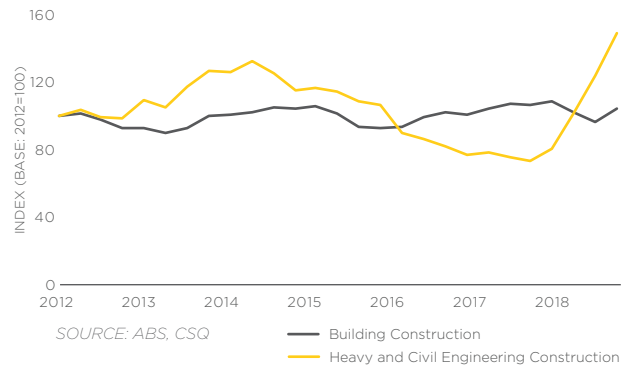
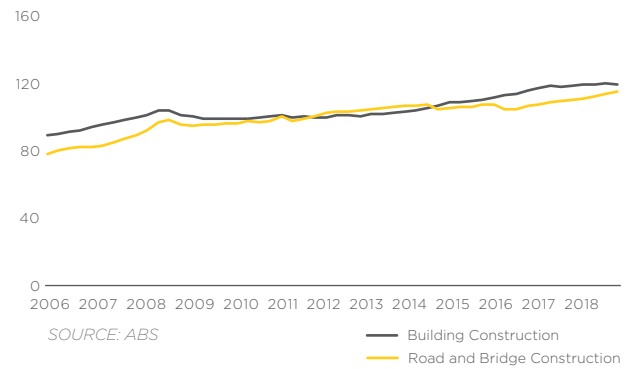


Fig.11 – Construction Producer Price Index, Qld

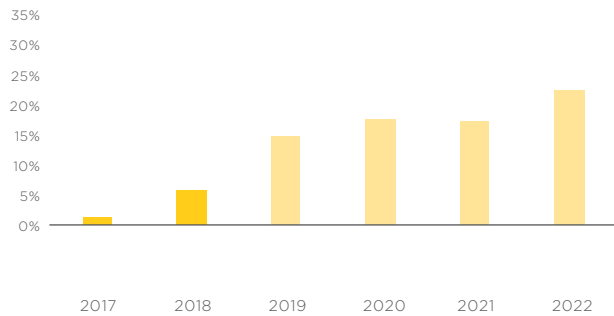


How this plays out across the occupational landscape and from region-to-region will vary considerably.

For a start, building projects are more labour-intensive than civil projects, so we expect an overall excess of labour to build over the coming years. However, this result is driven by the weakening performance of the south-east corner. Indeed, modest labour shortages are likely to develop across regional Queensland as it returns to growth **(Figures 12 and 13)**.

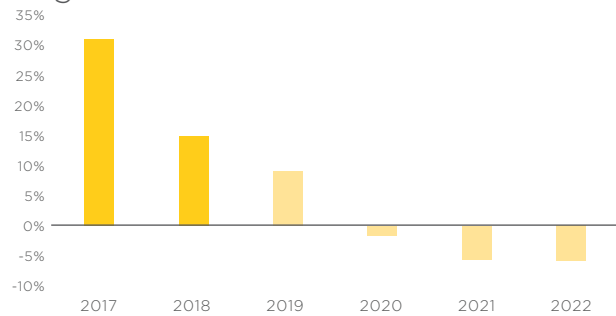
Moreover, the mix of skills required to deliver an infrastructure pipeline is quite different to the mix required to deliver a portfolio of residential and non-residential building projects. As a result, we expect to see the 'building' trades grow more slowly than the 'civil' trades – about 2% p.a. and 4% p.a. respectively. In concrete terms, there will be relatively more demand for plant operators and railway track workers than for carpenters, painters and glaziers.

Fig.12 – Construction Labour Surplus, SEQ



SOURCE: NIEIR, CSQ

Fig.13 – Construction Labour Surplus, Regional Qld



SOURCE: NIEIR, CSQ

Labour shortages are likely to develop across regional Queensland as it returns to growth

**Apprentice
commencements
will continue to
fall throughout
2019-20**

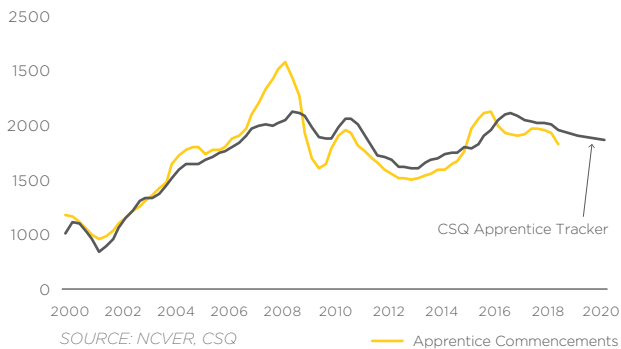
The apprentice market

Construction businesses tend to reduce their training intensity as industry conditions deteriorate. This simply reflects that apprentices represent a labour cost which employers naturally seek to calibrate to the rises and falls of the business cycle.

The main mechanism by which the construction industry regulates its training intensity is the commencement rate. In a falling market, employers will generally slow their hiring of new apprentices rather than lay-off existing apprentices.

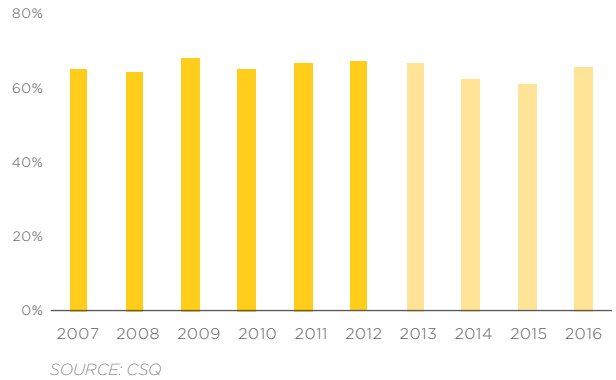
This is precisely what has been happening over the last 12 months. The number of construction apprentice commencements have fallen significantly since the highs of 2016 - which corresponds to the top of the most recent dwelling investment cycle. Our modelling suggests that commencements will continue to fall throughout 2019-20, driven by ongoing weak conditions in the building sector, which continues to train the bulk of construction apprentices (**Figure 14**).

Fig.14 - Construction Apprentice Commencements, Qld



Despite this cooling in the rate of new commencements, apprentice completion rates in Queensland's construction industry has bounced back strongly. We estimate that two-thirds of the 2016 cohort (which is the latest available estimate) will complete an apprenticeship in the industry, compared to just over 60% of the 2015 cohort (**Figure 15**).

Fig.15 - Construction Apprentice Completion Rates, Qld



This page has been left intentionally blank.

This page has been left intentionally blank.

How to get involved

Visit: csq.org.au

Call: 1800 798 488

 /constructionskillsqueensland

 /mycsq

 Construction Skills Queensland

 Construction Skills Queensland

DISCLAIMER: Whilst all care and diligence has been exercised in the preparation of this Industry Outlook Report, BCITF (QLD) Limited ACN 105 495 387 as trustee for the Building and Construction Industry Training Fund (Qld) trading as Construction Skills Queensland ("CSQ"), does not warrant the accuracy of the information contained within and accepts no liability for any loss or damage that may be suffered as a result of any reliance on this information, whether or not there has been any error, omission or negligence on the part of CSQ, or its directors, employees, agents or sub-contractors. A number of unforeseen variables can affect any projections used in the analysis, and as such, no warranty is given that a particular set of results will be achieved.