

Industry Outlook

For Queensland's
construction industry



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CEO foreword

The last 12 months have been a crazy ride for the construction industry.

We've seen a lot of strange things happen during this pandemic.

One of the most dramatic was seeing governments ignite the biggest house-building boom in living memory.

Queenslanders have taken advantage of big incentives and borrowed big to fund building projects that has in turn seen record housing approvals.

None of us could have predicted this turn of events 12 months ago and there is no doubt this boom is causing some headaches for builders and their clients.

And while the headlines are focussed on the record numbers of contracts being signed by house builders, commercial builders are also grappling with the largest pipeline of projects in a decade.

As well, government infrastructure commitments are at a decade-high and public projects account for two-thirds of \$12 billion of outstanding civil work in Queensland.

Yet despite a voracious appetite for talent, employers simply can't find enough workers. We estimate the statewide labour shortage at 20%.

This appears to be another consequence of the pandemic, which has choked the supply of overseas and interstate migrants. This channel normally adds thousands of workers to the industry each year.

The addition of Olympics-related projects to the pipeline, combined with ongoing lockdowns and border restrictions, means there is significant uncertainty around how long it will take for these shortages to be absorbed by normal market forces.

At this point, it seems likely these pressures will persist until around 2023. Until then, we should expect projects to take longer and cost more.

CSQ expected to see a strong training response to this situation and we have already registered a significant uptick in enrolments. We have also seen a record increase in the employment of construction apprentices.

Now more than ever, it's important to keep upskilling – both to take full advantage of these busy times, and to stay ahead of inevitable market changes.

CSQ will continue to support the training, upskilling and reskilling of workers in these highly changeable times.

The 2021-22 CSQ Training Plan outlines our \$48.6M training and workforce investment to boost the capability and agility of Queensland's building and construction industry.

Brett Schimming
Chief Executive Officer



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Anatomy of a boom

It is impossible to escape the headlines about the building boom that is gripping Australia. The increase in demand for housing-related construction, along with surging house prices and material shortages, has produced a sense of exuberance around the industry.

Yet like all others before it, this boom is not uniform and it will not be permanent.

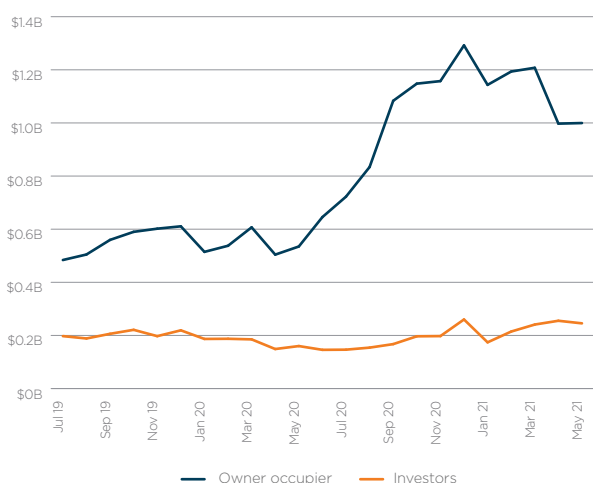
The housing boom

Driven by record low interest rates and generous government assistance, Queenslanders borrowed \$15 billion for construction-related purposes in the 12 months to May 2021. This was nearly double the amount lent in the previous 12 months. Unlike Brisbane's recent apartment boom, this lending has been dominated by owner-occupiers **(Figure 1)**.

These borrowers have wasted no time converting their new mortgages into projects. At least \$10 billion worth of new housing has already been approved across Queensland – a new record. These projects are mainly new houses, often for first home buyers, with a healthy dose of renovation activity thrown in as well **(Figure 2)**. Queensland's builders and tradies have already started ploughing through this pipeline, with house building activity 20% above normal levels.

Figure 1
\$15B lent for construction in last 12 months

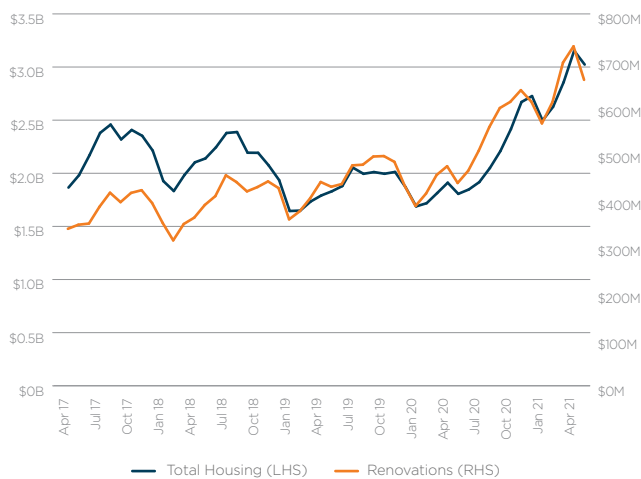
Construction-related lending, Queensland, monthly



Source: ABS

Figure 2
\$10B approved for construction in last 12 months

Building approvals, Queensland, quarterly



Source: ABS

A better type of boom

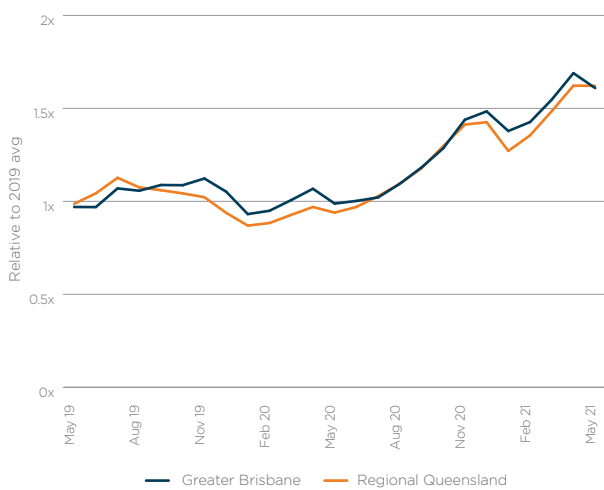
Differences are also emerging in the geography of this boom. Housing approvals are rising everywhere, with regional Queensland performing just as well as the south-east corner (Figure 3a). This trend stands in stark contrast to Queensland’s previous (apartment) boom, which benefited a small party of big-city, high-rise builders.

Townsville and Central Queensland have seen as much as a threefold increase in the quarterly rate of housing approvals, while most other regions have seen a doubling in housing approvals. Even Mackay-Whitsundays, which hasn’t grown as fast as other regions, has 25% more approvals than its average in 2019.

Within Greater Brisbane, the boom is playing-out mainly on the city fringe in the large greenfield developments (Figure 3b). While there will be some renovation and infill activity in the established suburbs—particularly south of the river—most of the action in 2021-22 will be concentrated in the new suburbs around Ipswich, Logan-Beaudesert and Moreton Bay.

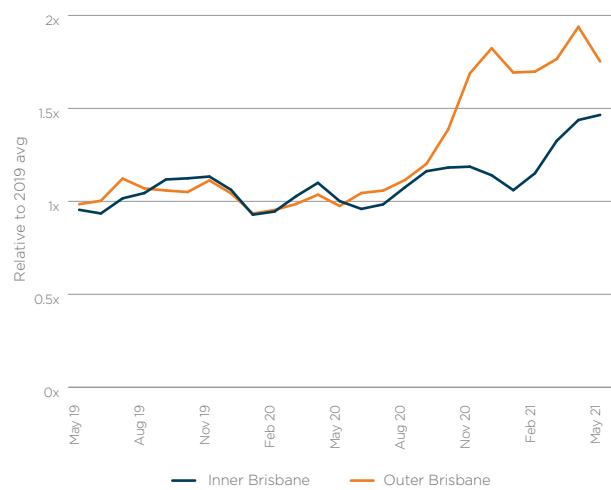
Figure 3
A boom for the suburb makers

a. Housing approvals index



Source: ABS, CSQ

b. Housing approvals index



Source: ABS, CSQ

Differences are also emerging in the geography of this boom – regional Queensland is performing just as strongly as the south-east.

The stimulus risk

This current boom in house building is being fuelled by people who would have ordinarily built their homes in 2023 or 2024. Many of these buyers have been empowered by generous government subsidies and incentives to bring forward an investment that they likely would have made within the next few years.

This sets-up a clear risk for the medium-term.

It means that, in the absence of additional stimulus to create a new source of demand, there will be a significant reduction in contracts being signed next year, leading to much less activity in 2023 and 2024.

This pullback in demand for new housing will be magnified by the weak population growth caused by international border closures, as well as the possibility of higher interest rates.



Commercial pressures mount

While the headlines are focussed on the record numbers of contracts being signed by Queensland's house builders, other parts of the industry are also registering very high levels of activity.

Non-residential builders, for example, are struggling to digest the largest pipeline of projects in a decade. These projects are concentrated in the south-east corner of the state **(Figure 4)**.

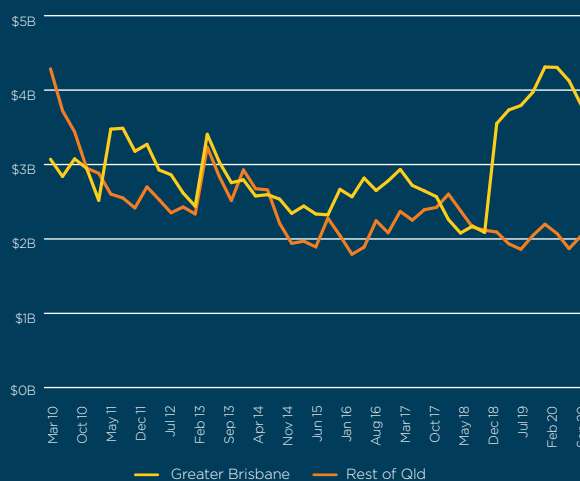
This trend preceded the onset of the pandemic – the 12 months to April 2020 saw \$9.9 billion in non-residential projects approved in Queensland. Many of these projects were delayed through 2020 as a result of lockdowns and uncertainty.

While approvals are now falling sharply, there is a significant pipeline of work that will keep commercial trades busy for several years.

Figure 4

Commercial pipeline clogged

Value of work in the pipeline, non-residential building



Source: ABS (unpublished)

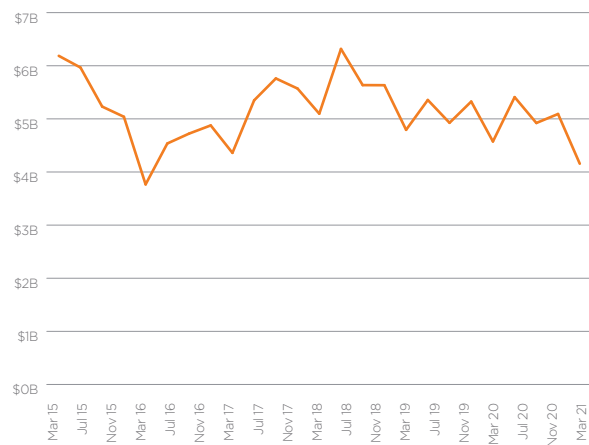


Heavy and civil: the next frontier

The heavy and civil sector is one pocket of the industry that may not feel quite so ‘boomish’ right now. Despite recent infrastructure announcements from all levels of government, we are yet to see any pickup in engineering construction activity **(Figure 5)**.

However, the future looks much brighter than the past for Queensland’s civil contractors. It is quite clear that the future for many of them will rely on the public purse, not private investors.

Figure 5
Infrastructure boom yet to register
Engineering construction work done, Queensland, quarterly



Source: ABS

Government projects now account for two-thirds of all outstanding engineering work. This level of government infrastructure commitment has not been seen in over a decade **(Figure 6)**.

Figure 6
Infrastructure commitments at decade high
Engineering construction work yet to be done, for the public sector, Queensland, quarterly*



*Inflation-adjusted

Source: ABS

The skills crunch

Taken as-a-whole, Queensland's building industry is now working through a \$13 billion pipeline of projects. This is roughly equivalent to the peak of the apartment boom in 2017.

The difference this time is that we are working with a much smaller labour force. At the peak of the apartment boom in 2017, there were around 260,000 people in the construction labour force in Queensland. Today there are only 240,000.

The building sector is shouldering the burden of this labour deficit. That sector is being forced to lift its productivity by 20% compared to prior to the pandemic.

Why has employment not simply expanded to meet the demand?

It is not for want of hiring by employers.

Our liaison with contractors suggests they are desperate for talent and willing to absorb as much spare labour as possible. This is supported by an industry unemployment rate that is approaching 3% alongside soaring job vacancies (**Figure 7**).

The fundamental issue is that there is simply not enough spare labour. The pandemic's effects on migration are well known, and it appears the building industry has not escaped.

This is particularly impacting South-East Queensland.

Typically, around 9% of South-East Queensland construction workers are recent migrants to the region, be it from overseas or interstate. Migrants add nearly 10,000 workers to the region's industry each year. It is likely that these flows have slowed significantly during the pandemic, effectively capping the availability of skilled labour.

This in turn is felt as acute skill shortages by employers. On projects, it shows up as cost increases and delays. These are now endemic features of the industry and it will take some time for their effects to dissipate.

The addition of Olympics-related projects to the pipeline, combined with ongoing lockdowns and border restrictions, means there is significant uncertainty around how long it will take for these shortages to be absorbed by normal market forces.

At this point, it seems likely these pressures will persist until around 2023.

Figure 7
Construction job vacancies soar

Internet vacancy index, construction, Queensland



Source: LMIP, CSQ

Cost increases and delays are now endemic features of the industry.

The training response

Against this backdrop, we would hope to see a strong skilling and training response as workers seek to move out of lower-growth sectors into the relatively higher-performing construction industry. And this is precisely what seems to be happening.

Encouraged by generous apprentice incentives and a buoyant residential house building sector, construction employers are employing record numbers of apprentices. In the last quarter of 2020, more than 4,000 people signed-up for a construction apprenticeship in Queensland, substantially more than at any other time on record (**Figure 8a**).

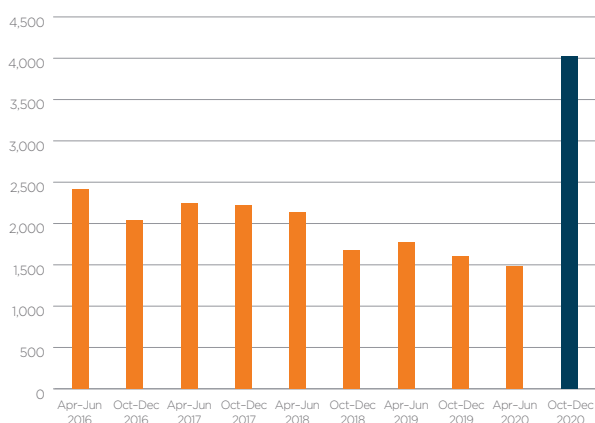
This strong intake means there are now more than 22,000 construction apprentices in-training across Queensland - the highest number ever.

Another positive side-effect of the pandemic has been an apparent increase in the interest of workers in training and upskilling, with CSQ recording a 23% increase in enrolments (**Figure 8b**).

Finally, there are some encouraging signs that workers are taking training more seriously. CSQ regularly surveys training participants. Historically, this cohort reports very little interest in undertaking further training. However, the pandemic has sharpened the minds of many workers on the importance of keeping their skills up-to-date to secure their future (**Figure 9**).

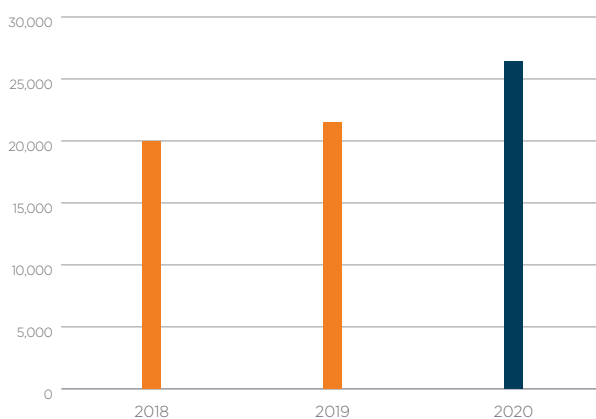
Figure 8
Trainees step up

a. Construction apprentice commencements



Source: NCVER

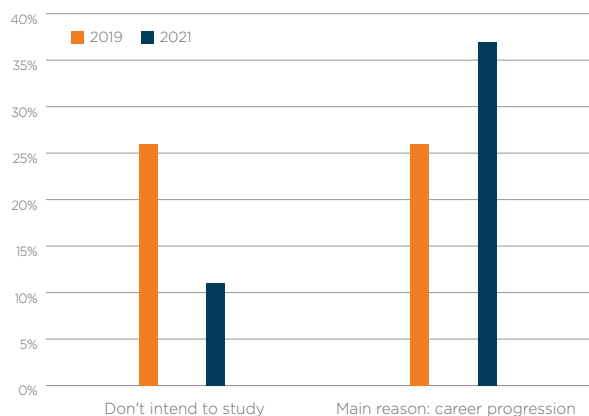
b. CSQ-funded enrolments, March - December



Source: CSQ

Figure 9
Construction workers hungry to train

What would be your main reason for undertaking further training or upskilling?



Source: CSQ

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