2022-23

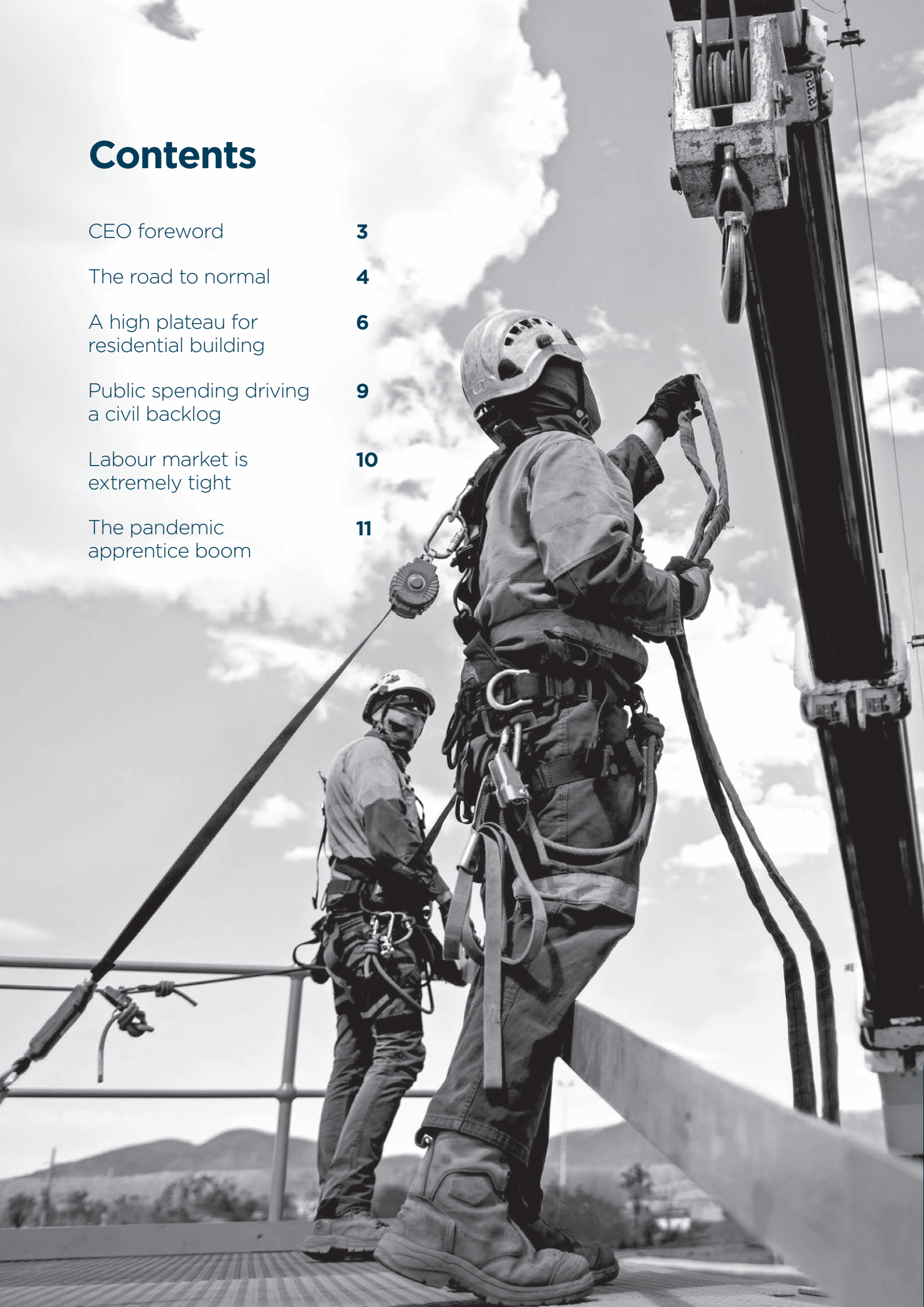
CSQ

Industry Outlook

For Queensland's construction industry

Contents

CEO foreword	**3**
The road to normal	**4**
A high plateau for residential building	**6**
Public spending driving a civil backlog	**9**
Labour market is extremely tight	**10**
The pandemic apprentice boom	**11**



CEO foreword

The construction industry faces a range of challenges as Queensland moves out of the emergency phase of the pandemic into a period of normalisation.

Government stimulus and home-building support has created the largest pipeline of building projects on record. Concentrated in the housing sector, these projects are being delivered amongst some of the tightest supply conditions ever seen.

While inflation in the price of building materials seems to be levelling out, there has been no reprieve in the labour market. Job advertisements keep setting new highs but this recruitment drive has failed to dent our labour shortages.

Despite a voracious appetite for talent, employers simply can't find enough workers.

And as we struggle to deliver on this private investment, public infrastructure projects continue to accumulate. The Queensland Government delivered a record $15.5 billion of capital commitments in its 2022-23 State Budget. The public sector now buys two-thirds of all heavy and civil work in Queensland.

A sluggish return of migration flows, which normally add thousands of workers to the industry each year, means there is significant uncertainty around how long it will take for the balance of supply and demand to be restored to Queensland's construction industry.

We expect these pressures will persist through most of 2023. Until then, we should expect projects to take longer and cost more.

CSQ predicted 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. Additionally, we will be increasing our activities appealing to new industry entrants.

The 2022-23 CSQ Training Plan outlines our $51M training and workforce investment to boost the capability and agility of Queensland's building and construction industry.

Brett Schimming
Chief Executive Officer

Despite a voracious appetite for talent, employers simply can't find enough workers.

The road to normal

During the last 12 months, Queensland moved out of the 'emergency' phase of the pandemic and passed through the 'reopening' without incident. The next 12 months will be a period of 'normalisation' as authorities attempt to restore some semblance of normality to the economy and markets.

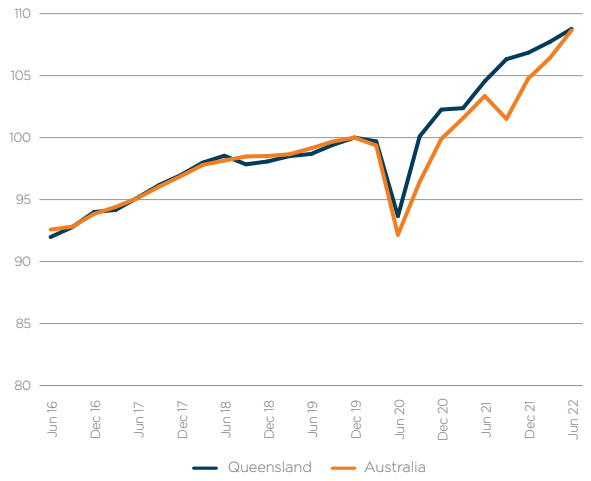
It is important to note the strong economic position in which Queensland finds itself as we embark on what is hopefully the final chapter of the pandemic. Queensland's economy recovered quicker and stronger than the nation as-a-whole and is now tracking well above its pre-pandemic path (**Figure 1a**). The labour market has also not been this healthy in a decade (**Figure 1b**).

This economic situation puts the private sector in a strong position as it absorbs a process of normalisation that is being led the Reserve Bank of Australia (RBA) raising the cash rate from 0.1% to 2.35% between April and September 2022 (with more hikes likely). This is the most aggressive rate rising cycle since the early-1990s.

The RBA clearly thinks the economy can handle it and is striking while the iron is hot. Households and businesses accumulated substantial savings during the pandemic while at the same time reducing their debt levels (**Figure 2**). The hope is that this extra liquidity will be enough to buffer any slowdown caused by policies designed to restore the economy's normal operating rhythm.

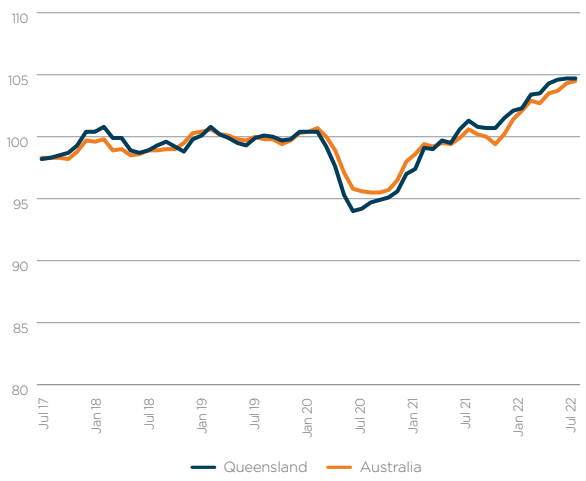
Economy in a strong position

Figure 1a. Economic activity index



Source: ABS, CSQ
Note: Domestic Demand; Index: 100=Dec 2019

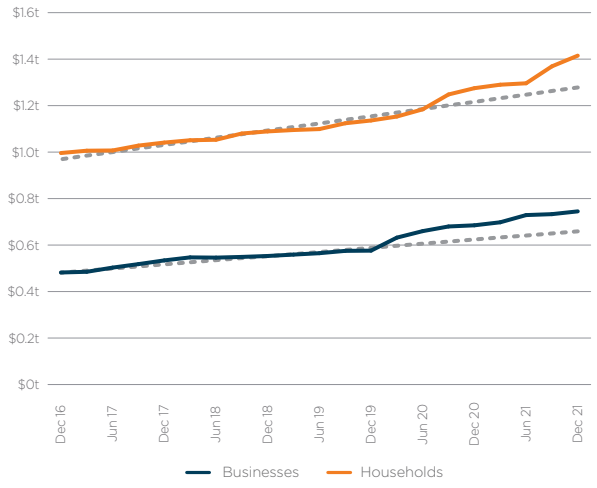
Figure 1b. Employment index



Source: ABS, CSQ
Note: FT Employment-Population Ratio; Index: 100=2019 Avg

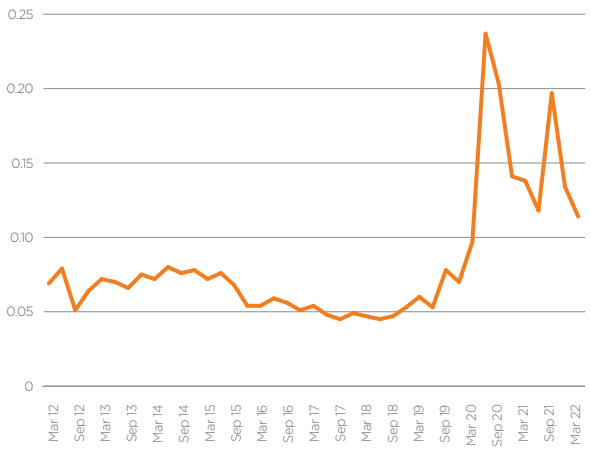
Private sector very liquid

Figure 2a. Bank deposits, Aus



Source: RBA, ABS, CSQ

Figure 2b. Household saving ratio



Source: ABS

A high plateau for residential building

The implications for the "pandemic building boom" may seem obvious. With higher interest rates and materially less government support for home builders, one may think the boom is all but over.

It is true that new investment is fading, although not quite as fast as expected. There has been a 'second peak' in residential approvals, which was likely driven by a late surge of mortgagees scrambling to lock in contracts ahead of the RBA's unexpected rate hiking cycle.

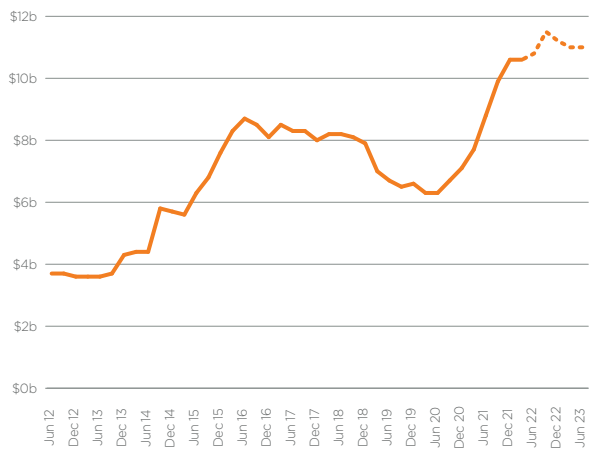
That said, residential building approvals have clearly peaked, and we expect them to be back to pre-pandemic levels by next year. However, it takes much longer to build a project than it does to sign a contract. The steep run-up in approvals has left behind a large backlog of projects that will keep builders and trades busy well into 2023 (**Figure 3a**).

At the same time, the clouds hanging over the commercial construction outlook seem to be lifting. A lot of non-residential projects were sidelined during the pandemic as developers waited for vacancy rates to peak and for certainty around tenants' occupancy intentions. The three months to July recorded a big spike in non-residential building approvals in South-East Queensland, which has kinked the underlying trend decidedly upward (**Figure 3b**).

Current industry conditions will keep the pipeline elevated for even longer than usual as material and labour shortages delay projects across the state. Construction material costs rose 24% between March 2020 and June 2022. This is an average figure that hides much larger increases in certain products, including steel, which jumped a staggering 67% (**Figure 4**).

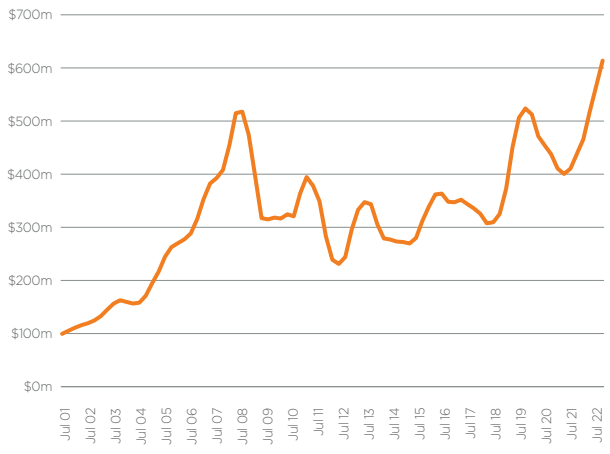
Residential pipeline is full

Figure 3a. Residential pipeline, qtly, Qld



Source: ABS, CSQ

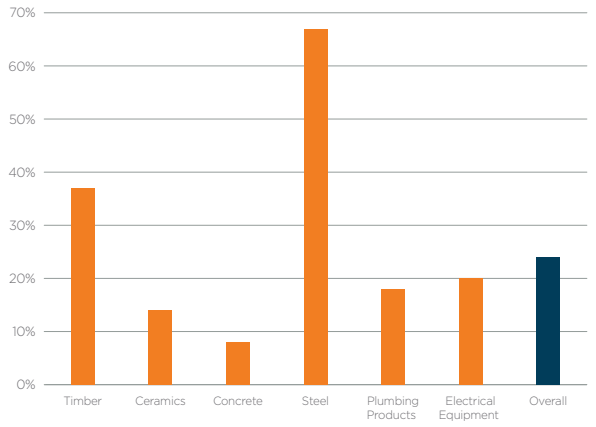
Figure 3b. Non-residential approvals, trend, Greater Brisbane



Source: ABS, CSQ

Material inflation has (probably) peaked

Figure 4. Construction material price rises, June 2022 vs March 2020



Source: ABS

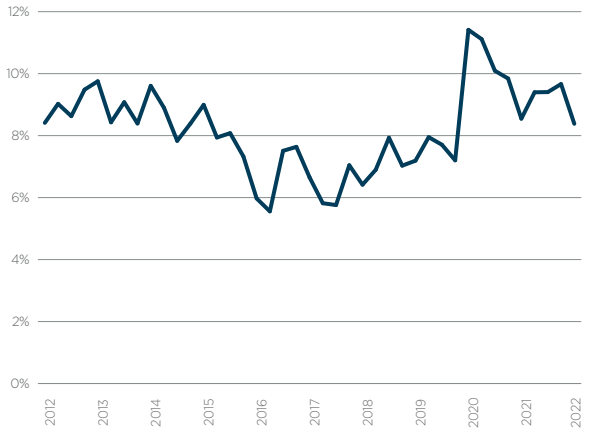
Current industry conditions will keep the pipeline elevated.

While these price rises wrought havoc over the last 12 months, our industry liaison suggests the supply chain is finally settling down. While prices will probably prove 'sticky' to these elevated levels, further significant increases from here are less likely.

While these conditions are challenging, we are unlikely to see them resulting in an epidemic of insolvencies. Construction firms have by-and-large been able to quickly pass on cost increases to their customers, as evidenced by the robust profit margins enjoyed during the pandemic (**Figure 5a**). And while every insolvency seems to find its way into a headline, the aggregate data suggests we are a long way from an insolvency breakout (**Figure 5b**).

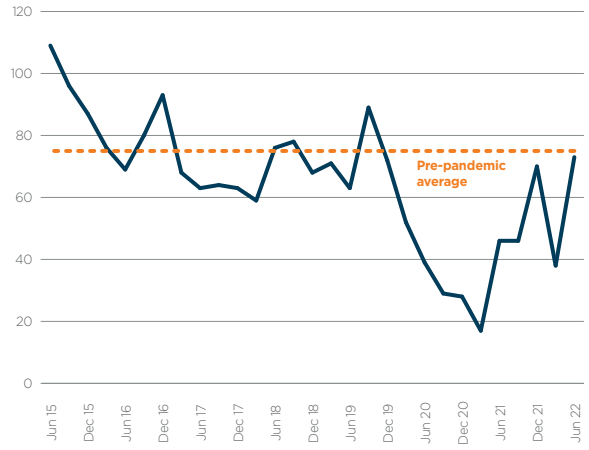
Insolvencies everywhere but in the data

Figure 5a. Construction gross profit margins, Aus



Source: ABS, CSQ

Figure 5b. Construction industry insolvencies, qtly, Qld



Source: ASIC, CSQ

Public spending now accounts for two-thirds of the engineering construction pipeline in Queensland.

Image: Cross River Rail

Public spending driving a civil backlog

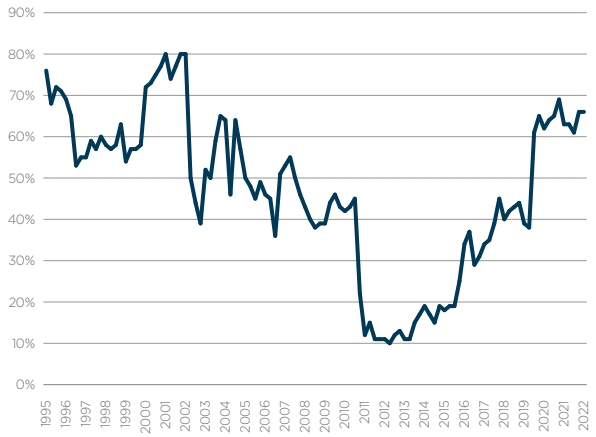
Previous Outlooks observed a distinct shift in the balance of engineering construction investment toward public projects. This 'infrastructure pivot' continues apace, with public spending now accounting for two-thirds of the engineering construction pipeline in Queensland.

It has been 20 years since the public dollar has so dominated the engineering pipeline (**Figure 6a**). The trend back to a public-led heavy and civil sector was punctuated by the recent 2022-23 Queensland State Budget, which allocated a record $15.5 billion to capital projects (**Figure 6b**).

While government spending announcements continue to flow freely, this is not yet translating into work on the ground. There remains a significant widening of the gap between 'work yet to be done' and 'work actually done' in Queensland (**Figure 7**). Unless the sector is able to lift its work-rate, these projects will continue to accumulate, creating further bottlenecks and delays.

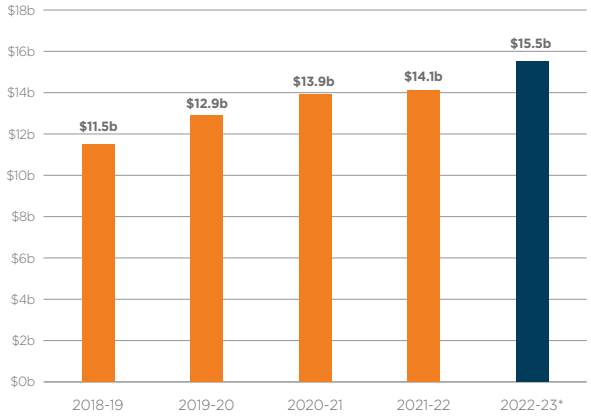
Infrastructure pivot continues

Figure 6a. Public sector share of engineering construction, Qld



Source: ABS

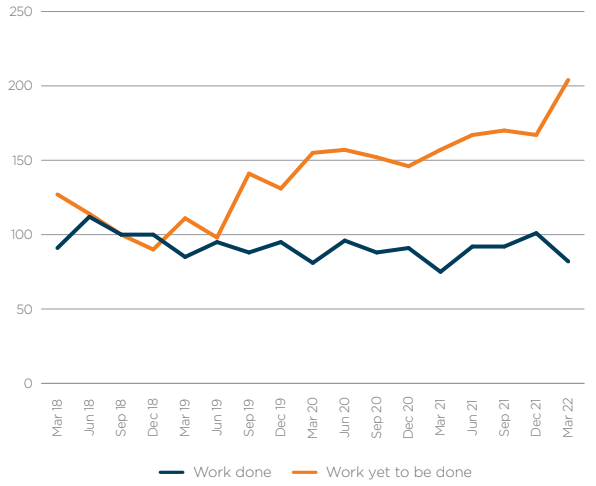
Figure 6b. Queensland Government CAPEX



Source: QLD GOV

Civil backlog is piling-up

Figure 7. Engineering construction indicators, Qld



Source: ABS
Note: Index: 100 = Sep 2018

Labour market is extremely tight

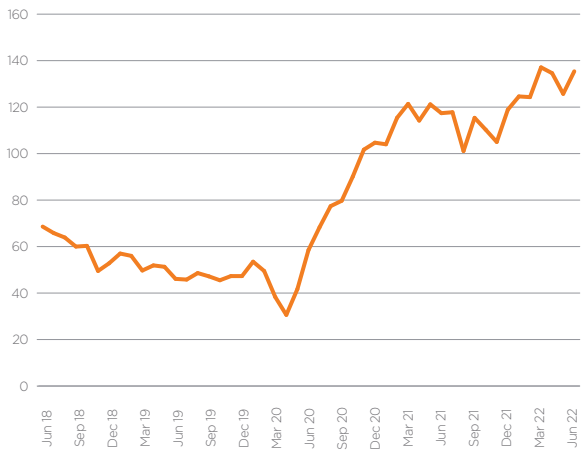
The effects of the pandemic on migration continue to be felt across the labour market.

Employers responded to the record demand for building services with a mammoth recruitment drive – jobs ads increasing by over 150% during the last two years (**Figure 8a**). Employers also found their way to pass-on some of their profit gains to their employees. Wage growth in construction bounced strongly to 3.4% year-on-year, which is 80% higher than pre-pandemic wage growth (**Figure 8b**).

Yet construction trade employment in Queensland refuses to budge despite the hiring spree and the pay increases. Employment numbers have only just regained their pre-pandemic level—of around 80,000—having fallen quite precipitously throughout the last two years (**Figure 9**). While trade employment is now on a welcome upward trend, it is far more sluggish than it needs to be given the high level of demand.

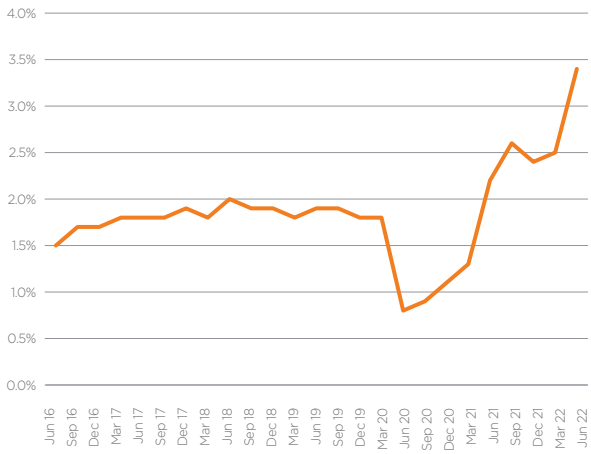
Plumbing a dry well

Figure 8a. Construction trade job advertisements, Qld



Source: NSC

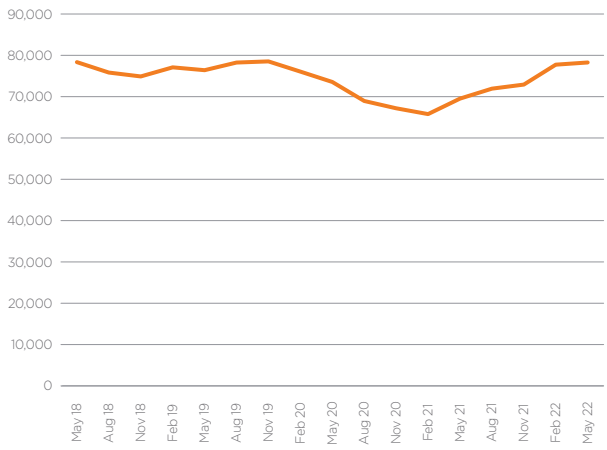
Figure 8b. Construction industry wage growth, Aus



Source: ABS

Tradie numbers rising too slowly

Figure 9. Construction trade employment, Qld



Source: ABS

Construction trade employment in Queensland refuses to budge despite the hiring spree.

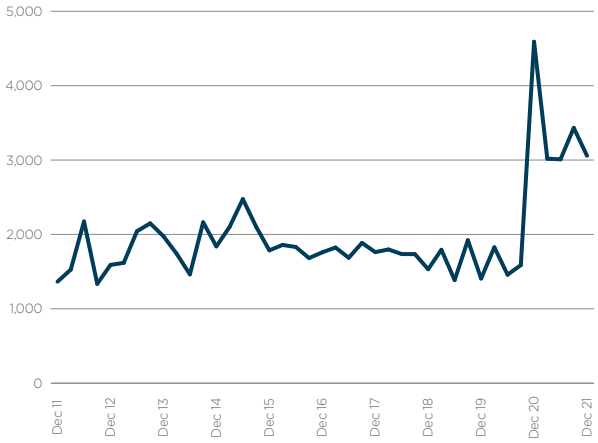
The pandemic apprentice boom

The labour market remains very challenging in the short-term; however, a record influx of new apprentices during the pandemic makes for a much brighter medium- to long-term outlook. The flow of new apprentices into the construction industry as much as doubled during 2020, thanks to very generous wage incentives for employers (**Figure 10a**).

Although that line is now definitively trending downward, its work has been done – there are now a record 23,000 apprentices in-training in Queensland's construction industry (**Figure 10b**). Soon enough, these trainees will be converted into a valuable crop of freshly-minted tradespeople ready to tackle Queensland's next phase growth, which will be spurred by the 2032 Olympics and the renewables transition.

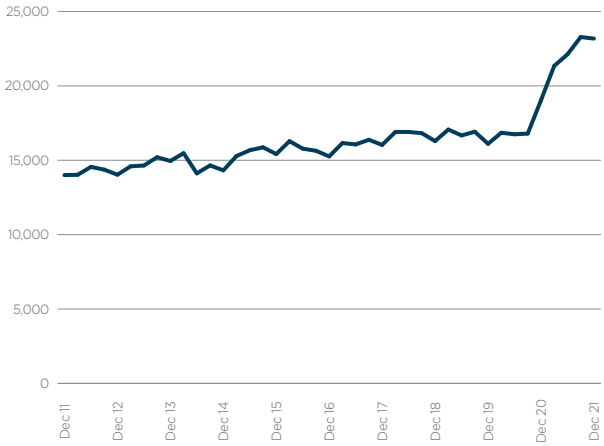
Pandemic apprentice boom

Figure 10a. Construction apprentice commencements, Qld



Source: NCVER, CSQ

Figure 10b. Construction apprentices in-training, Qld



Source: NCVER, CSQ

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