2023-24

CSQ

CSQ Industry Outlook

For Queensland's construction industry

Contents

CEO foreword

The Australian economy is moving through a challenging phase and the Queensland construction industry is proceeding with cautious optimism.

The historically full pipeline of residual projects, in both building and engineering construction, suggests a busy period ahead. However, many of the industry's critical challenges from recent years – skilled labour shortages, high building costs – are likely to stay with us this year and beyond.

The private sector will likely navigate future activity with caution, wary of the combined forces of elevated inflation, volatile material costs, labour market challenges and the possibility of further interest rate hikes from the RBA.

Overall, the Australian economy is expected to slow substantially as the full impact of monetary policy tightening flows through. While a slowdown is inevitable for the Queensland economy, a mild downturn seems the most likely scenario.

Significant state-driven capital projects will keep the construction industry occupied as Queensland enters its next phase of growth.

The Queensland Government's record four-year $89 billion projected capital works program continues to dominate the pipeline and provide much-needed optimism. It will be up to the construction sector to find a way to increase its pace of work if it is going to unlock the full potential benefits of these major projects.

A lot depends on how rapidly the existing challenges subside to provide space for work on the ground to gather momentum. While the struggle to find enough skilled workers remains the industry's biggest challenge, record-high numbers of apprentices in training provide some hope.

The 2023-24 CSQ Training Plan outlines our $50 million training and workforce investment to boost the capability and agility of Queensland's building and construction industry.

CSQ will continue to support the training, upskilling and reskilling of workers in these challenging times. We remain focused on attracting new entrants to the industry to encourage a steady supply of labour to meet demand and support a thriving industry.

Brett Schimming
Chief Executive Officer

"Significant state-driven capital projects will keep the construction industry occupied as Queensland enters its next phase of growth"

Queensland economy slows but remains steady

Persistent inflation has triggered continuous interest rate hikes by the Reserve Bank of Australia (RBA) since May 2022. As the effects of the RBA's restrictive stance set in, the question is how much the Queensland economy will slow. While not immune to the current economic challenges, Queensland's diversity and strategic outlook may help to offset the worst of the impacts.

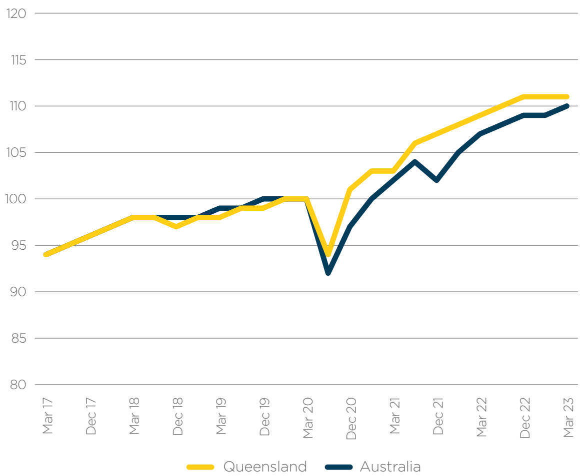
The state's economy has performed reasonably well, tracking above the national average for several decades. Notably, Queensland's strong current economic position reflects its swift post-pandemic rebound that outpaced national figures and placed it above its pre-pandemic growth path (**Figure 1a**).

Even though the state ended 2022 on a soft note (-0.04% decline in Q4), the economy picked up in Q1 2023 (0.4% growth) supported by business and public sector investment. As household consumption weakened, business investment remained buoyant due to increased spending on machinery and equipment, and new engineering construction by the mining and construction industries. Public investment was also strong, driven by transport infrastructure, building and utility projects.

Going forward, an economic slowdown looms in line with recent rounds of monetary policy tightening. In its most aggressive series of rate rises in decades, the RBA has lifted the historic low cash rate 12 times since May 2022 (to 4.1% at June 2023). Latest inflation data indicates the Australian economy is still far from its target inflation of between 2-3%. The RBA remains resolute to return inflation to within the target band and continues to monitor; both the upside risks and the effects of its recent policy tightening. Prices increased by 6.8% in the year to April, compared to a 6.3% annual rise in the previous month (**Figure 1b**). However, some slowdown in prices is evident with a 6.5% annual increase in prices, compared to 6.9% in the 12 months to March (excluding volatile items).

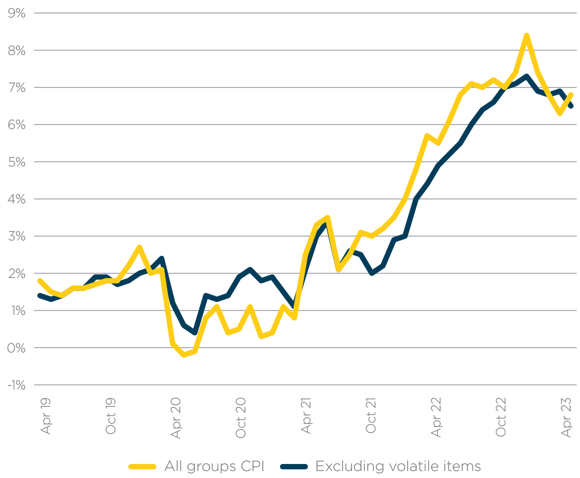
Economic growth is steady

Figure 1a. Economic activity index



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

Figure 1b. Inflationary pressures haven't abated yet



Note: Monthly CPI, annual change, Aus *Source: ABS*

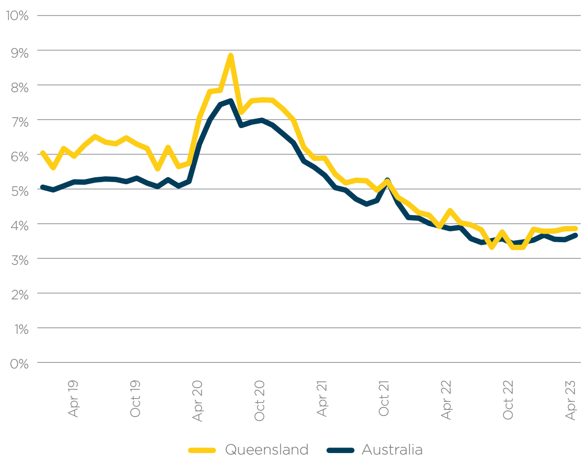
Demand for workers continues

Labour markets remain tight, despite some recent increases in unemployment across states. Queensland's labour market has softened somewhat with the unemployment rate recently picking up to 3.9% (**Figure 2a**). However, unemployment still hovers around historically low levels, the participation rate remains elevated (at 66.1% in April 2023) and interstate migration continues to drive population growth. Queensland had the highest population growth rate of 2.2% over the year ending September 2022.

Job vacancies grew by 10.5% in February 2023 from a year ago, reflecting strong demand for labour across all industries. The construction sector continues to see strong demand for workers across various occupations. Notably, demand for civil engineering occupations is expected to rise amidst a slowdown for building occupations (**Figure 2b**) reflecting the cool-down in residential construction and a heavy (residual and projected) civil construction workload.

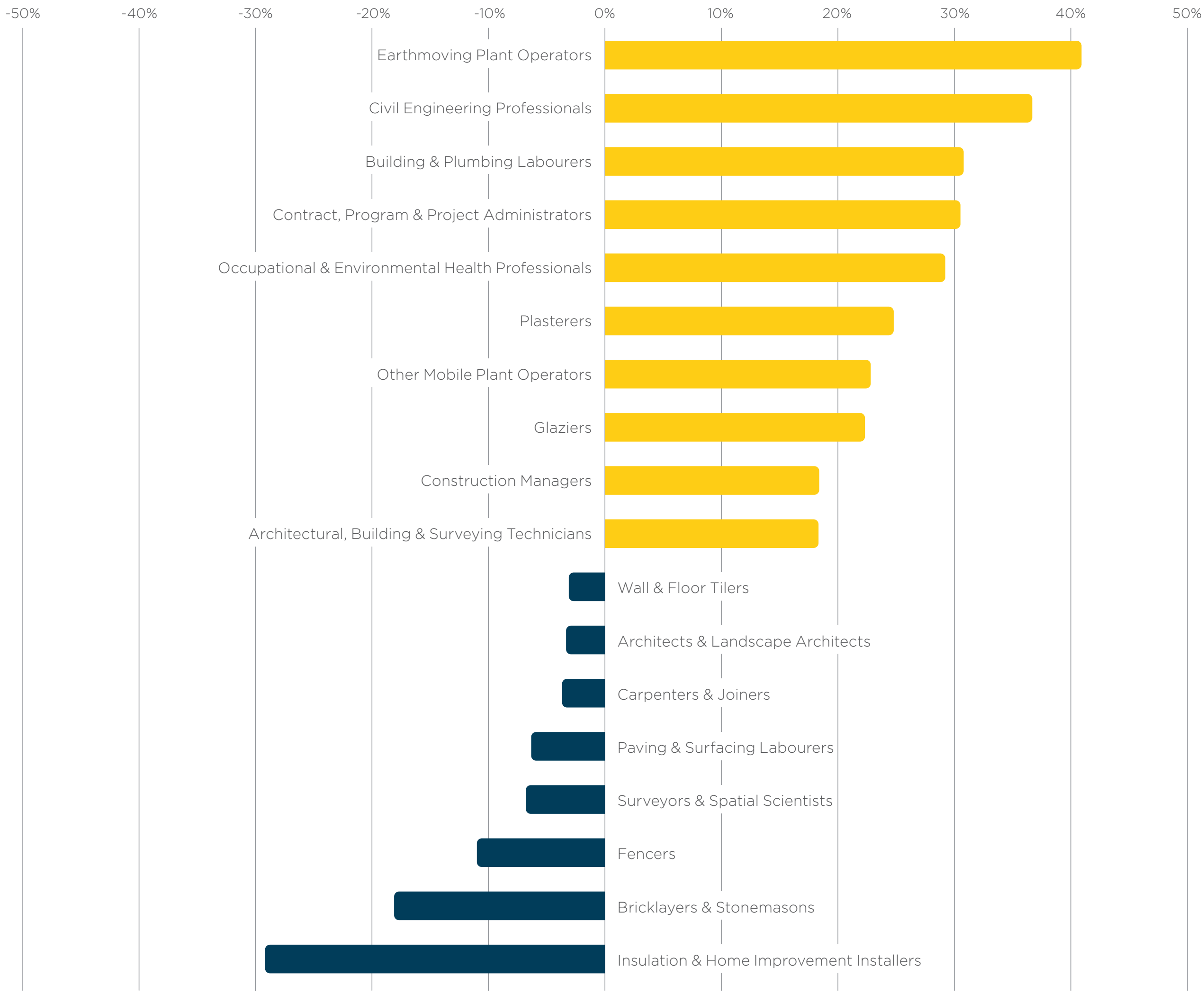
Labour market remains tight

Figure 2a. Unemployment rate



Note: Seasonally adjusted, monthly *Source: ABS*

Figure 2b. Construction job ads by occupation, Qld



Note: Change in the number of job ads 2023 vs 2022, data is for the year to May. *Source: JSA, CSQ*

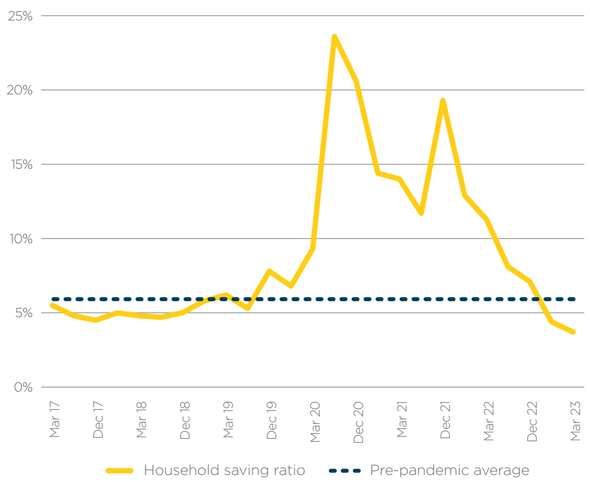
Uncertain period ahead

The private sector is in the spotlight as it absorbs the RBA's continuous tightening month after month. Higher interest rates will exert pressure on private sector activity, with the full impact of consecutive rate hikes yet to be seen. How total household consumption will respond to the cumulative impact of inflation pressures and higher interest rates, given the savings buffers accumulated during the pandemic, is uncertain. Still, the RBA expects consumption growth to remain subdued in 2023 as households use up these savings to maintain consumption (**Figure 3a**) and/or spend less (**Figure 3b**).

Overall, the Australian economy is expected to slow substantially as the full impact of the policy tightening flows through. A slowdown is inevitable for the Queensland economy, but a milder downturn may be possible. The Queensland Government projects the growth in gross state product to slow to 2% in 2022-23, after a 4.4% growth in the previous period. A growing population, strong resources sector, robust pipeline of construction work and buoyant public sector should cushion any significant drag in economic activity and provide a softer landing.

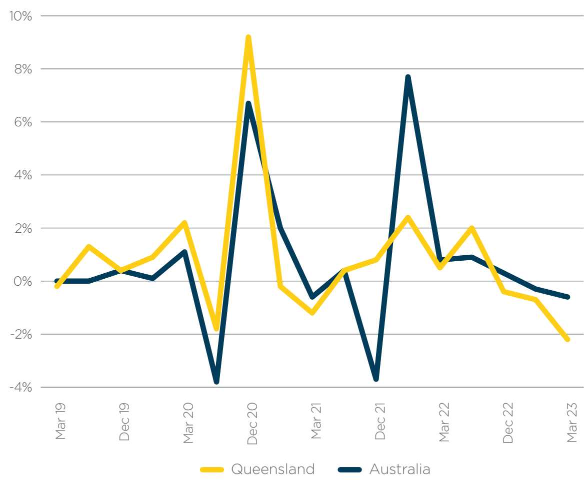
Households react to tighter economic conditions

Figure 3a. Household saving ratio falls to its lowest



Source: ABS

Figure 3b. Retail turnover in real terms falls



Note: Retail sales, quarterly % change

Source: ABS

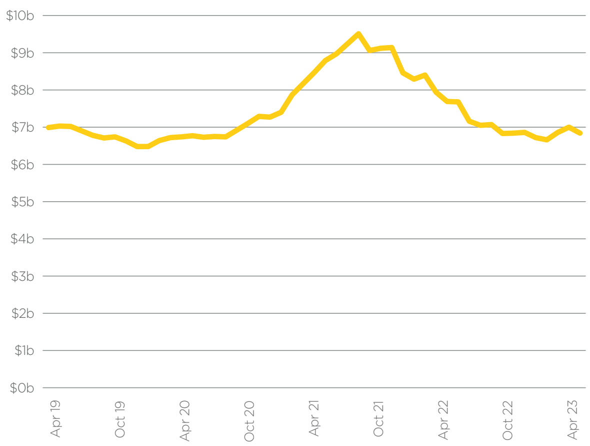
Commercial construction holds firm despite uncertainty

The residential building boom is well and truly over. As the surge in demand driven by the post-pandemic incentives has waned and the ramifications of interest rate hikes begin to flow through, continued economic uncertainty and a challenging environment in the construction sector will clearly weigh on residential building activity (**Figure 4a**). Even though the historically elevated pipeline suggests a busy period ahead, much depends on how comfortably these piled up projects transfer into work on ground. The sector has already seen significant delays in getting work started as it steers through a combination of challenges. Encouragingly, supply chain disruptions are now stabilising, providing good news for the industry. Further eases in input costs and a steady labour supply will be pivotal.

In contrast, non-residential construction remains steady. The first four months of this year saw an increase in total non-residential building approvals (**Figure 4b**), driven by both the private and public sector. This growth likely reflects returned optimism in commercial projects following the post-pandemic slowdown. However, recent economic uncertainty appears to be filtering through to private sector involvement in non-residential building, with a drop in approvals in April suggesting investors are moving cautiously. Meanwhile, public sector activity increased in April, mainly in health and education buildings.

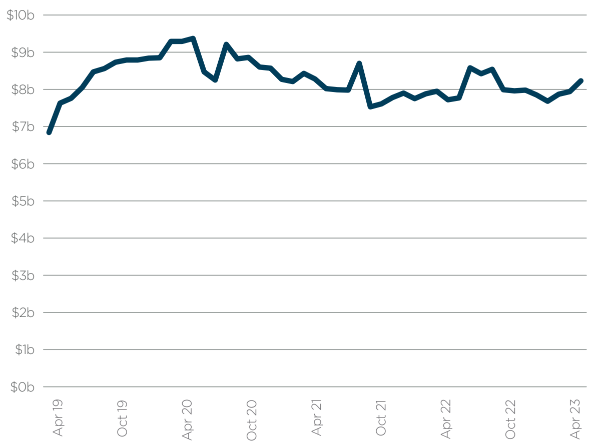
Residential takes backseat to commercial

Figure 4a. Housing approvals, Qld



Note: Inflation adjusted, moving annual total *Source: ABS, CSQ*

Figure 4b. Non-residential approvals, Qld



Note: Inflation adjusted, moving annual total *Source: ABS, CSQ*

"Optimism returns for commercial projects while residential boom is over"

Disruptions and costs ease but not enough

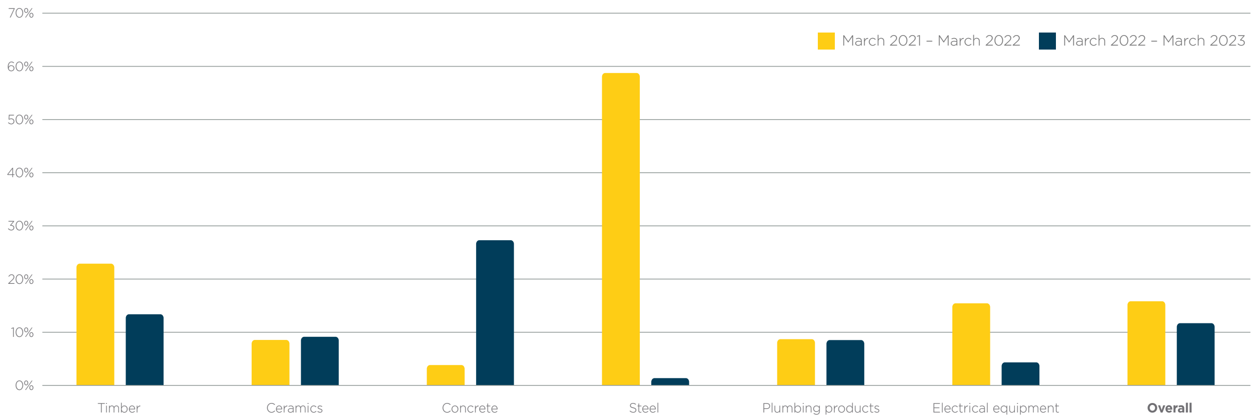
Strong post-pandemic headwinds, including rising material costs, supply chain disruptions and labour constraints, have amplified challenges in the construction industry. Some of these bottlenecks are subsiding slowly but the effects are likely to linger. Construction material costs continued to increase (**Figure 5**) on an annual basis in Q1 2023 (11.4%), but at a comparatively slower pace than the significant hikes seen throughout 2022. An improvement in both domestic production and imports contributed to this slowdown in prices.

While encouraging, price pressures remain for some products, held up by higher input costs and strong demand. Prices are also significantly higher than pre-pandemic levels which has resulted in a profitless boom for many contractors. Construction costs are likely to remain elevated across 2023 but the pace of cost rises is expected to slow as conditions improve. This will provide some comfort, particularly where the ability to renegotiate fixed-price contracts is limited.

Recent interest rate hikes may add to challenging financial conditions facing many firms across the industry, weighing on their debt-servicing costs and/or ability to borrow more. While aggregate data suggests the industry is some way from an insolvency breakout, concerns are still rife with recent data showing a drop in profit margins (**Figure 6a**) and an increase in the number of insolvencies (**Figure 6b**). Concerns are likely to continue for some time as market conditions remain volatile.

Material inflation has started to ease

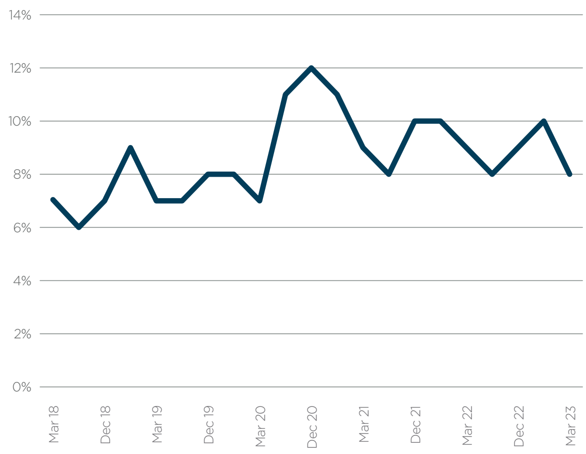
Figure 5. Construction material price, March 2021–March 2023



Source: ABS

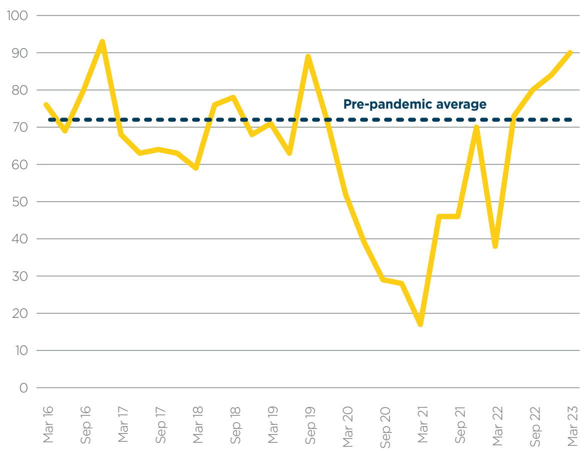
Insolvencies slide up as profit margins squeeze

Figure 6a. Construction gross profit margins, Aus



Source: ABS

Figure 6b. Construction industry insolvencies, Qld



Source: ASIC

“Cost rises are expected to slow as conditions improve”

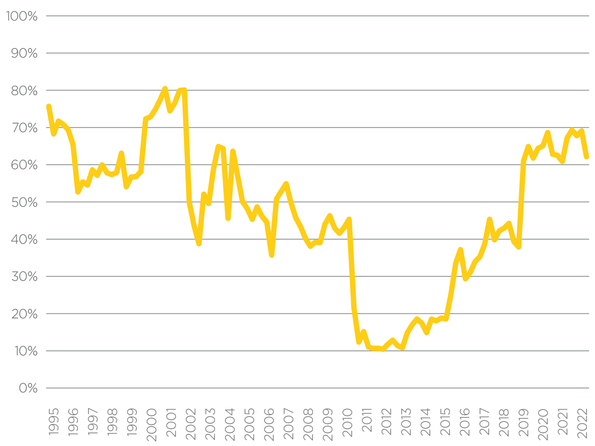
Public sector capital projects dominate

The public sector continues to dominate the engineering construction pipeline in Queensland (**Figure 7a**), holding more than 60% share of engineering construction since late 2019. The Queensland Government has planned for a record four-year capital works program of $89 billion, through which it aims to deliver significant economic and social infrastructure projects. Accordingly, the state's capital expenditure is expected to continue its upward trend (**Figure 7b**). Transport continues to account for the largest share of annual State budget (35%), with energy infrastructure running at second (30%), followed by health, housing and community services (13%), and education and training (9%).

While these planned public sector engineering construction projects provide optimism to the industry, the actual turnout of work on the ground needs to gather pace. The gap between 'work yet to be done' and 'work actually done' in Queensland has widened significantly (**Figure 8**). The sector needs to lift its work rate so that the gains from this increased engineering construction activity can filter through to the industry.

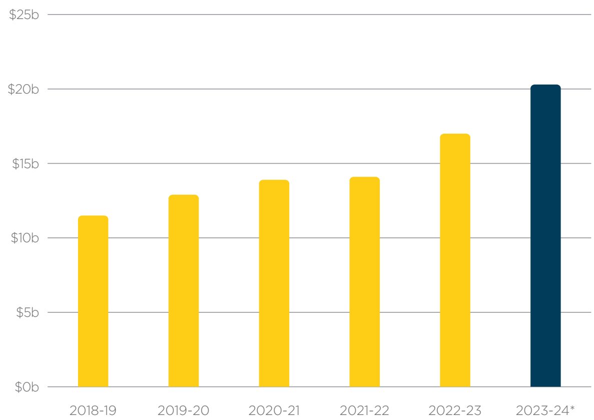
Infrastructure projects forge ahead

Figure 7a. Public sector % of engineering construction, Qld



Source: ABS

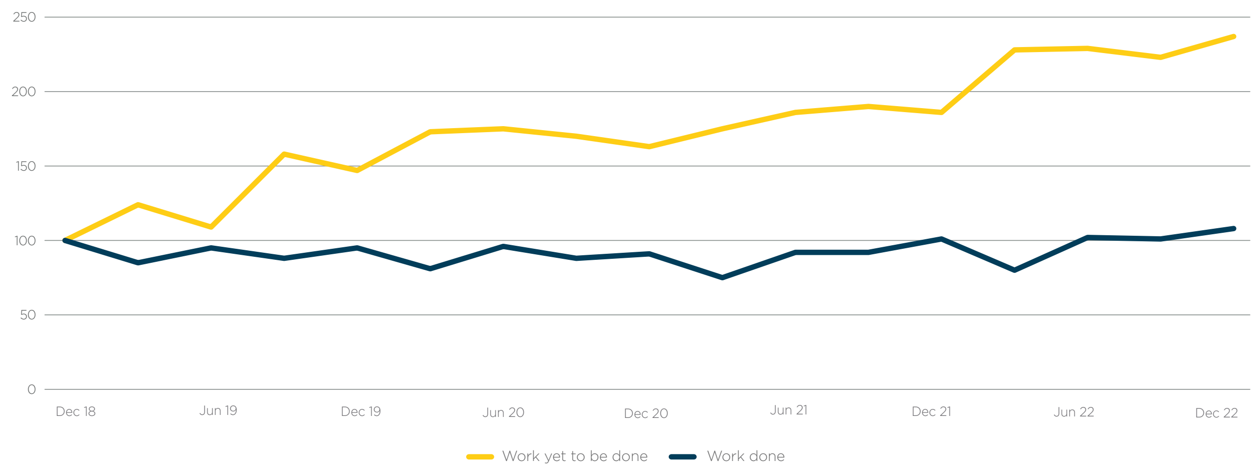
Figure 7b. Queensland State Government CAPEX



Source: Qld Gov

The civil backlog gap widens

Figure 8. Engineering construction indicators, Qld



Note: Dec 2018=100

Source: ABS

Skilled labour remains biggest challenge

While most anticipated that reopening international borders would help ease the significant labour shortages of recent years, the struggle to find workers continues, despite strong wage growth. Construction industry wages surged by 3.9% in the 12 months to March 2023 (**Figure 9**), significantly higher than pre-pandemic period wage growth of around 2%.

Construction trades employment numbers are increasing far too slowly (**Figure 10**) to provide any immediate relief to the workforce challenge. More positively, the substantial turnaround in the number of apprentices starting (**Figure 11a**) driven by apprentice wage subsidies has brightened the medium- to long-term outlook. Although momentum has now cooled, there is currently a record high number of apprentices in-training in Queensland's construction industry (**Figure 11b**). While not sufficient to cover the wide labour deficit, these trainees will add to the pool of available construction workers as the state embarks on its next phase of construction projects.

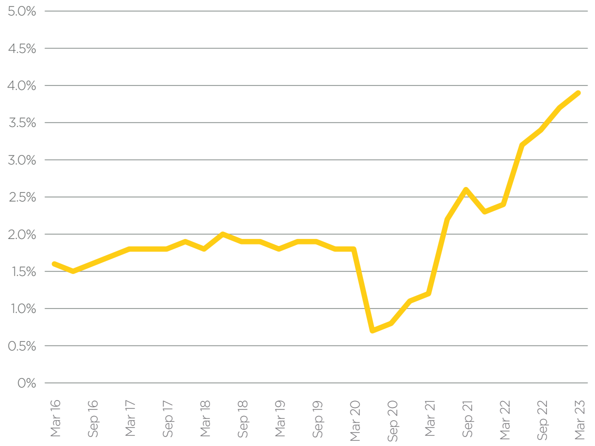
Looking forward, infrastructure and renewable projects will continue to create significant demand for skilled trades across Queensland. This shift in focus for the industry and changing operating landscape, will require a different set of skills and different training solutions.

The scale of the projected shortage of workers across the sector will require industry to optimise all workforce options to bridge the gap, including supporting traditional apprenticeship pathways, attracting a more diverse workforce from non-traditional population groups, attracting workers from other industries, and skilled migration.

CSQ will continue to monitor industry trends to inform our responses.

Worker shortages continue despite wage growth

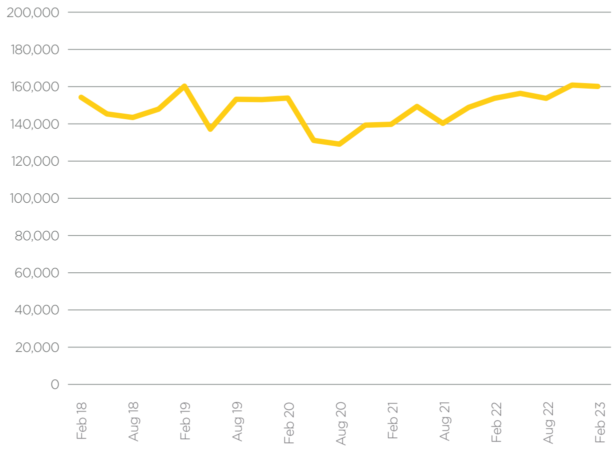
Figure 9. Construction industry wage growth, Aus



Note: Percentage change from corresponding quarter of previous year *Source: ABS*

Tradie numbers growth flattens

Figure 10. Construction trade employment, Qld



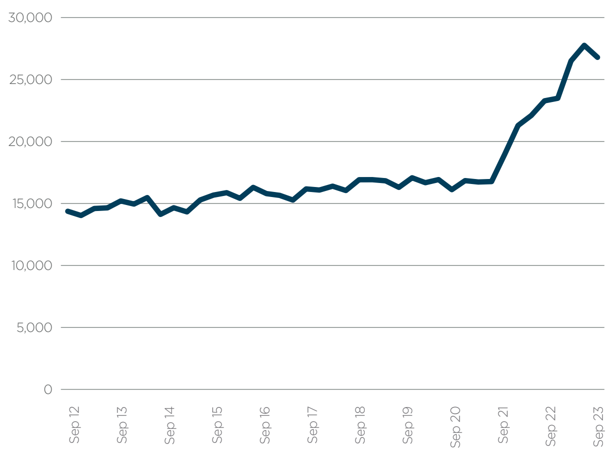
Source: ABS, CSQ

Record high apprentices in-training

Figure 11a. Construction apprentices commencements, Qld

Note: Seasonally adjusted *Source: NCVER, CSQ*

Figure 11b. Construction apprentices in-training, Qld



Source: NCVER, CSQ

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