2024-25

CSQ

CSQ Industry Outlook

For Queensland's construction industry

Picturing a new normal for the Queensland construction industry

Queensland prides itself on being a tough state and this appears to extend to the resilience of our economy.

Despite the significant challenges of high interest rates and rising living costs, the state's economy grew by 2.3% in 2022-23, after a robust 5.5% growth in the previous period. The Queensland Government forecasts a pick-up in growth to 3% each in 2023-24 and 2024-25, driven by increased net exports and continued public sector demand.

Playing out for the construction industry will be a transformative decade fueled by population growth, the shift to net zero emissions, unprecedented infrastructure investment and major events like the Brisbane 2032 Games.

However, the industry faces significant challenges resulting in a record (and growing) backlog of unfinished construction work that was valued at nearly $40 billion at the end of 2023. This backlog is predominantly in engineering (55%), with residential (28%), and non-residential (17%) sectors also impacted.

A drop in residential dwelling approvals in 2023 is concerning, but understandable with rising interest rates and costs of living, and declining consumer confidence and affordability. Our population continues to grow and will need more homes and infrastructure to support this.

Comparatively, non-residential building approvals surged to a record $19.8 billion in 2023, driven by public infrastructure projects under the Queensland Government's Big Build program. The $107 billion investment in infrastructure by 2027-28 will focus on transport, energy, health, water, and education projects and will drive activity across the state.

Concurrent projects across different sectors will heighten demand for workers from an already stretched supply.

Despite female participation in construction reaching a record high in May 2024, women still only comprise 17% of the total construction workforce and just over 5% in construction trades. Increasing apprenticeships and promoting gender diversity are crucial for workforce expansion and sustainability.

We will need to find new ways to appeal to more entrants and to deliver greater efficiencies. Innovations in construction methods and workforce development will be critical to meeting future demands.

Queensland's construction sector will keep navigating familiar challenges, however there may be some positive signs ahead. Material inflation for house construction returned to its historical range in Q1 2024, offering a glimmer of hope for increased stability. If this trend persists, our operating environment could become more predictable.

Our rusted-on constraints did not appear overnight, and they will take time and work to resolve while we start to discover our new normal.

Construction Skills Queensland will work with our employer, union, and government partners to secure a prosperous next phase for the Queensland construction industry.

"Innovations in construction methods and workforce development will be critical to meeting future demands"

A state of resilience

Queensland's economy continues to show resilience and stability, consistently performing better than the national average. Over the past 20 years, the Queensland economy has grown at an annual rate of 3.2%, compared to 2.7% nationally. Recently, despite challenges like high interest rates and rising living costs, the state's economy has continued to grow. It grew by 2.3% in the 2022-23 financial year, after a robust 5.5% in 2021-22 (**Figure 1**).

The Queensland Government expects the economy to improve, forecasting 3% growth for 2023-24 and for 2024-25. This positive outlook is driven by a significant increase in net exports and ongoing growth in public sector demand.

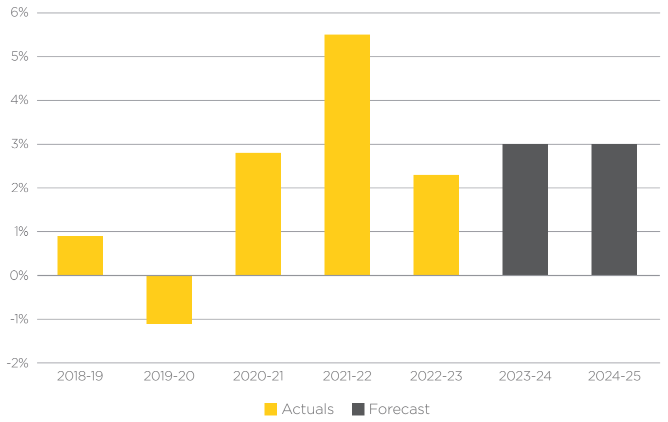
Like all states, Queensland has experienced reduced household spending due to high interest rates and increasing living costs putting pressure on family budgets. Household spending is expected to remain subdued for some time as these challenges persist.

In August 2024, the Reserve Bank of Australia (RBA) kept interest rates steady at a 12-year high of 4.35%, waiting for more evidence that inflation is sustainably moving towards its target range. Recent data indicates inflation has been gradually easing from its peak in late 2022 but remains stubborn (**Figure 2a**). Predictions on future RBA interest rates vary; with disagreement on timing for rates coming back down and some even predicting further hikes. Meanwhile, both federal and state governments are implementing measures to ease the burden of high cost of living on households.

Queensland's job market has been gradually improving, though it remains tight compared to past years. In May 2024, the state's unemployment rate (**Figure 2b**) was slightly higher at 4.1% than the national rate of 3.9%.

Queensland economy keeps growing

Figure 1. Gross state product, Qld



Source: ABS, Queensland Budget (2024-25).
Note: Chain volume measures, annual % change.

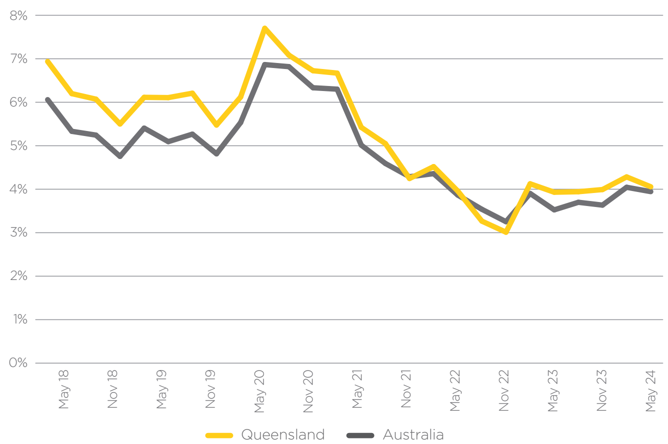
"Queensland's economy continues to show resilience and stability, consistently performing better than the national average"

Slow improvement in economic indicators

Figure 2a. Consumer price index, Aus

Source: ABS.
Note: Quarterly CPI, y-o-y % change.

Figure 2b. Unemployment rate, Qld and Aus



Source: ABS.
Note: Quarterly.

Construction backlog reaches new high

The amount of unfinished construction work in Queensland reached its highest level in years during 2023 with 2024 presenting more challenges for the state's construction industry.

Amid a national housing shortage, tight labor market conditions, rising costs, and builder bankruptcies, the industry faces a significant backlog of unfinished construction work (**Figure 3**).

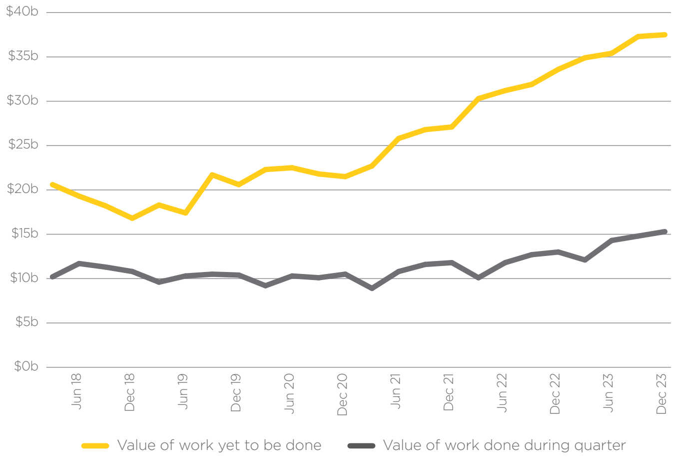
The gap between the value of 'work yet to be done' and 'work done' continues to widen. By the end of 2023, the value[1] of unfinished work reached nearly $40 billion, marking a 12% increase from December 2022. While the value of work done has risen gradually by 18% to $15.3 billion by December 2023, the current gap between the two is now twice what it was before the pandemic (December 2019).

Engineering construction makes up most of this backlog (55%), followed by residential (28%) and non-residential (17%) work.

Recent data shows residential dwelling approvals is slowing, while non-residential and engineering sectors remain robust. Unless the industry finds ways to accelerate work on the ground, new projects will continue adding to this backlog.

Gap continues to widen

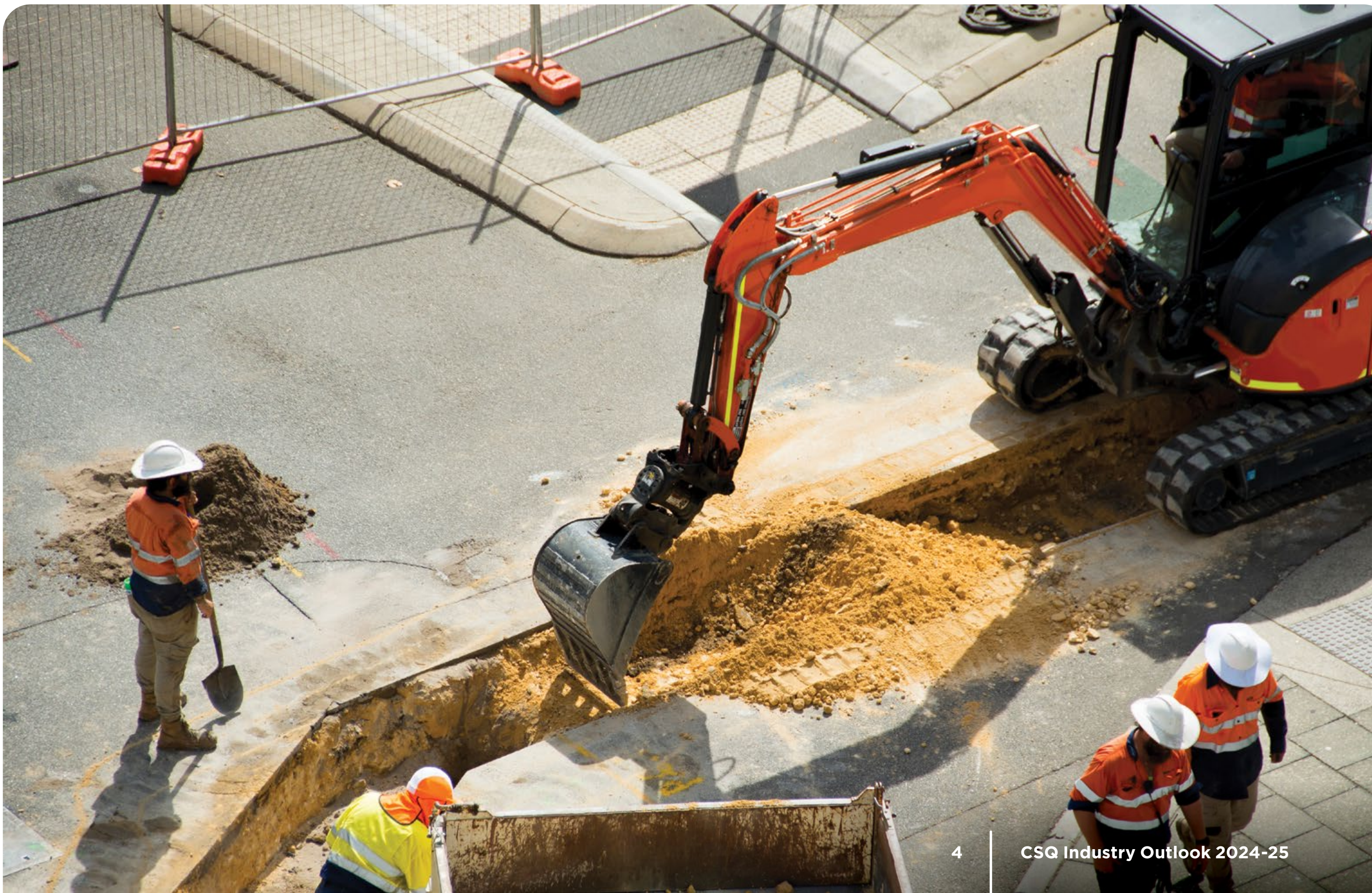
Figure 3. Value of work yet to be done and work done, Qld



Source: ABS.

"By the end of 2023, the value of unfinished work reached nearly $40 billion"

[1] All values used in the report are in current dollars, unless otherwise stated.



The residential response

The nationwide housing crisis is impossible to ignore, affecting Queensland too. Strong demand for more homes persists due to population growth and smaller households. Queensland's population reached 5.5 million as of December 2023, growing by 2.6% over the previous year, while the average household size shrunk from 2.6 (2016 Census) to 2.5 (2021 Census).

Despite this higher demand for homes, supply issues, higher interest rates and living costs, and reports of builder insolvencies, have meant reduced affordability (**Figure 4a**) and wobbly consumer confidence, resulting in subdued residential activity (**Figure 4b**).

The current value of total residential dwelling approvals in 2023 dropped by 0.7% from 2022. This decline, partly due to rising costs, translates to a 5.1% decrease when adjusted for inflation.

The 33,108 new dwellings approved in 2023 marked a significant decrease from previous years (**Figure 5**). This number is 23% lower than the peak of 42,983 approvals in 2021, 9.2% less than in 2022, and 12% below the three-year average before the pandemic.

All types of dwellings have been affected: apartment approvals fell by 13%, house approvals by 8.7%, and townhouses and other dwellings by 4.4% in 2023 compared to 2022.

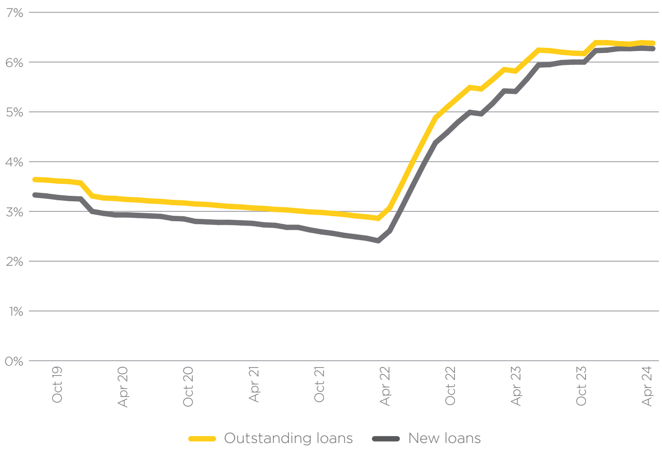
In 2024, the trend of decreasing approvals has persisted. The number of approvals in the first four months of this year dropped by nearly 10% year-on-year, with the decline observed across the different dwelling types. Apartments saw the steepest decline at nearly 30%, followed by townhouses and other dwellings at 3%, while house approvals saw a very slight 0.3% decrease.

Depending on how long current challenges endure, the residential sector could remain sluggish for some time yet. An improvement in affordability and easing of supply issues will work with Queensland's robust housing demand to boost residential construction activity again in the future.

Both the federal and state governments have introduced initiatives to increase housing supply in their 2024-25 budgets, with a national target set by the governments to build 1.2 million homes over the five years from July 2024.

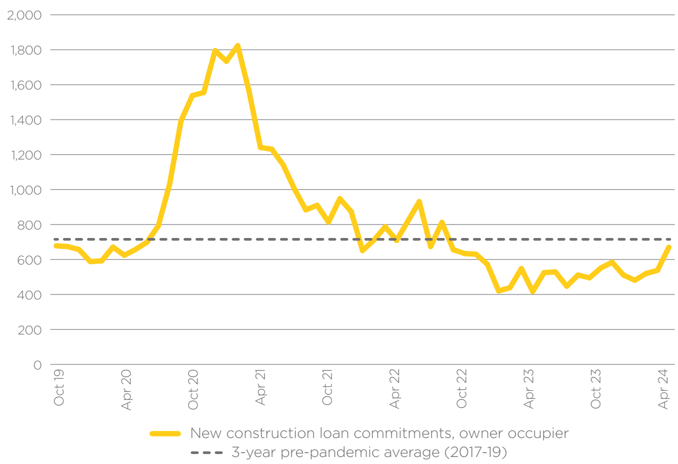
Rates dampen household borrowing for new home builds

Figure 4a. Owner-occupier variable housing lending rates



Source: RBA, APRA.
Note: % per annum, all institutions.

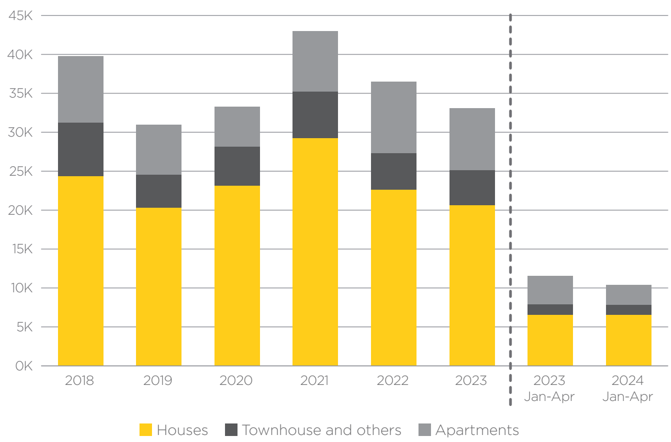
Figure 4b. Number of household loans for dwelling construction, Qld



Source: ABS, CSQ.
Note: Monthly.

Residential approvals decline under tight financial conditions

Figure 5. Number of new residential dwellings approvals by type, Qld



Source: ABS.

"In 2024, the trend of decreasing approvals has persisted"

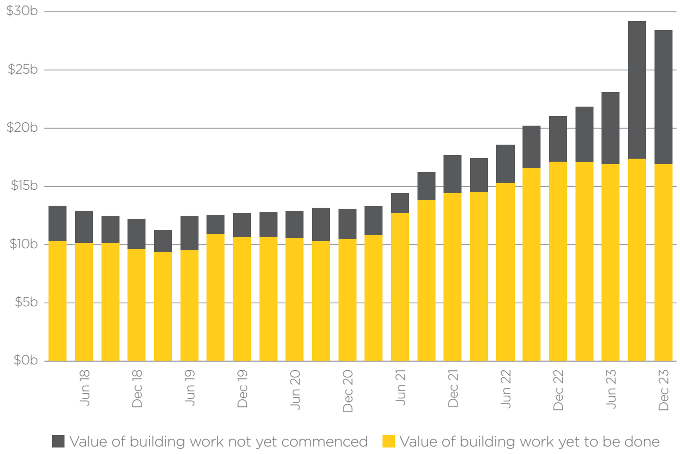
Elevated building pipeline persists despite residential slowdown

Despite the slowdown in new residential approvals, Queensland still has a substantial pipeline of building construction yet to be delivered. The value of building work not yet commenced plus work yet to be done, known as the building pipeline, reached nearly $30 billion by the end of 2023, a 35% increase from the end of 2022 (**Figure 6**).

This growth is mainly driven by approved building work that has not yet started. At the end of 2023, Queensland had $11.5 billion worth of approved building work pending commencement, nearly three times more than the previous year. Importantly, about 77% of these approved buildings awaiting construction are for non-residential purposes.

Pending work piles up

Figure 6. Building pipeline, Qld



Source: ABS.

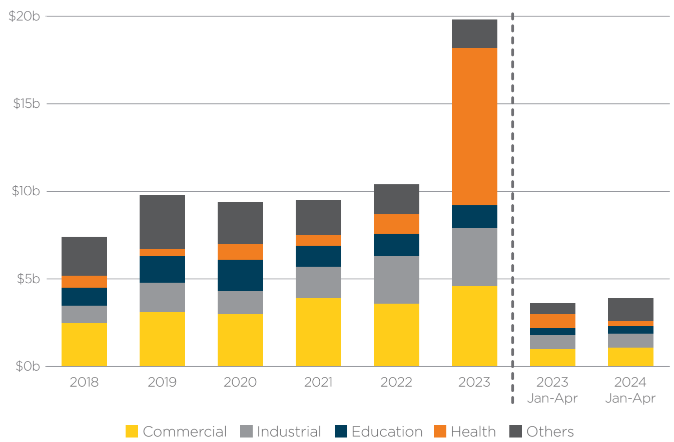
"Queensland still has a substantial pipeline of building construction yet to be delivered"

Significant health builds increase non-residential activity

Non-residential building approvals in Queensland reached record highs in 2023. The Queensland Government's Big Build initiative, particularly the Health Big Build, added many projects to the construction pipeline. As a result, the value of non-residential building approvals surged to a record $19.8 billion in 2023 (**Figure 7**). About 45% of these approvals were for health buildings. This contributed to a significant rise in the percentage share of public sector work to 52%, compared to an average share of 28% over the past five years. Approvals for selected commercial and industrial buildings also increased year-on-year.

Non-residential building approvals increase to record levels

Figure 7. Value of non-residential building approvals, Qld



Source: ABS.

A steady increase in the engineering backlog

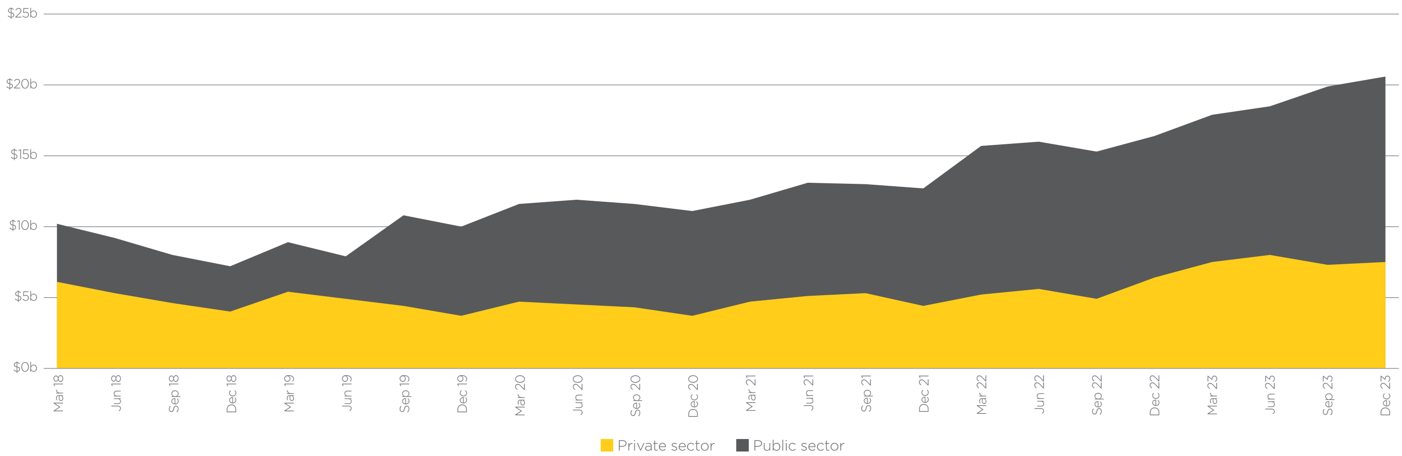
Since mid-2019, there has been a steady increase in engineering activity waiting to be completed (**Figure 8**). By the end of 2023, the pending work totaled $21 billion, marking a 25% rise from the same period in 2022 and double the amount (partly reflecting cost escalations) from late 2019 before the pandemic began.

Public sector work accounts for 64% of this backlog as of December 2023, focusing mainly on bridges, railways, harbours (41%), water (26%), and roads, highways, subdivisions (23%) – as shown in **Figure 9a**.

The private sector (**Figure 9b**) accounts for the remaining 36%, primarily in electricity (46%) and heavy industry work (35%).

Public sector dominates

Figure 8. Engineering work yet to be done by sector, Qld

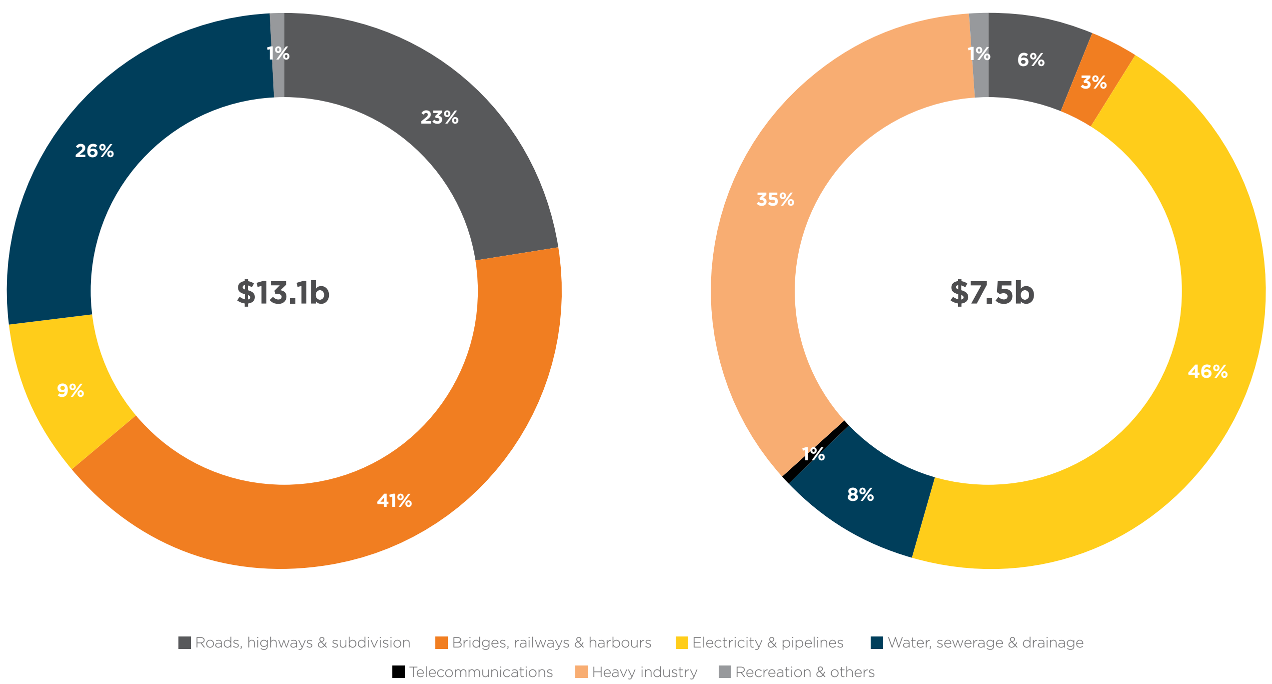


Source: ABS.

Distribution of engineering work yet to be done by sector, Dec 2023, Qld

Figure 9a. Public sector

Figure 9b. Private sector



Source: ABS.

Engineering firmly in the driving seat

Engineering activity will boost construction demand statewide, driven by increased spending on public infrastructure. The Big Build program has earmarked a record $107 billion for capital works over the next four years until 2027-28. This represents Queensland's largest-ever infrastructure investment, aiming to deliver significant economic and social projects to meet the needs of a growing population.

In the upcoming fiscal year (2024-25) alone, $27.1 billion is set aside for capital works, a record amount (**Figure 10a**).

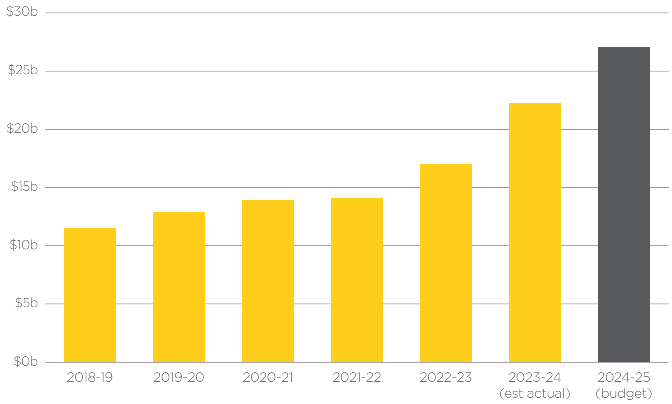
This includes $23 billion for capital purchases and $4.1 billion for capital grants. Most of the capital purchases (71%) will go towards transport and energy projects (**Figure 10b**).

Notably, nearly 69% of the capital works are outside Greater Brisbane, showing the program's statewide focus.

Big Build aims to improve transport, update energy systems, expand health facilities, ensure water security, prepare for the Brisbane Games, and invest in housing, education, and other vital infrastructure.

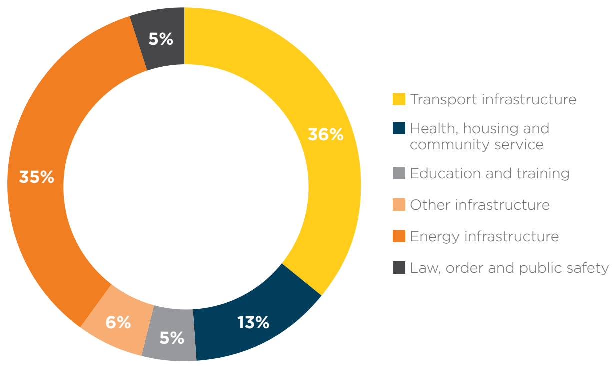
Largest ever infrastructure investment underway

Figure 10a. Qld Government capital program



Source: Queensland Budget Papers.

Figure 10b. Capital purchases by purpose 2024-25, Qld



Source: Queensland Budget (2024-25).

Labor supply still the peak challenge

Queensland's construction industry faces a crucial juncture. It will play a key role in addressing pressing issues like housing shortages, achieving net-zero emissions, and meeting infrastructure demands for a growing population. However, alongside promising opportunities, the industry must confront ongoing challenges. Foremost among these challenges is the persistent issue of worker shortages.

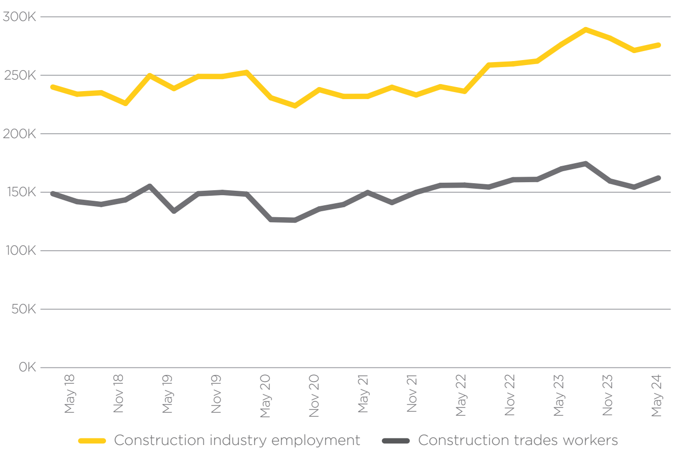
As of May 2024, Queensland's construction industry employed about 276,000 workers, with around 60% of these workers engaged in construction trades jobs, like tradespeople, laborers, and plant operators (**Figure 11a**).

The state's labor market remains tight, with an overall unemployment rate of 4.1% as of May 2024, and a lower rate of 1.9% within the construction industry, indicating very limited spare capacity.

Internet vacancies for construction trades jobs have bounced back strongly from pandemic lows, signaling high demand for workers (**Figure 11b**). In April 2024, job postings were up 20% compared to the same month three years ago.

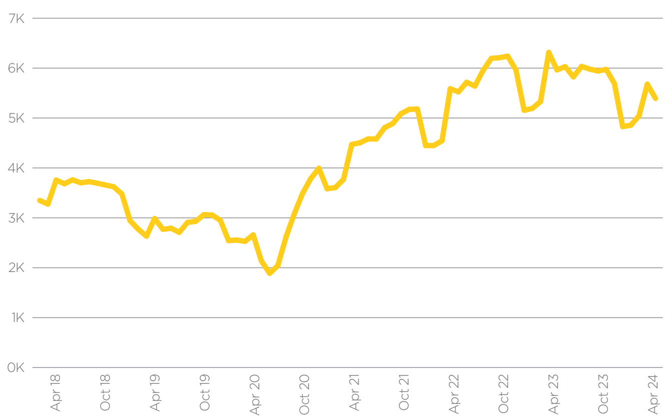
Construction trades job vacancies surge from their initial pandemic lows

Figure 11a. Construction employment, Qld



Source: ABS, CSQ.

Figure 11b. Number of internet vacancies, construction trades jobs, Qld



Source: JSA, CSQ.

Reframing the construction workforce

Increasing apprenticeship opportunities and encouraging greater female participation are crucial for expanding the construction industry's workforce.

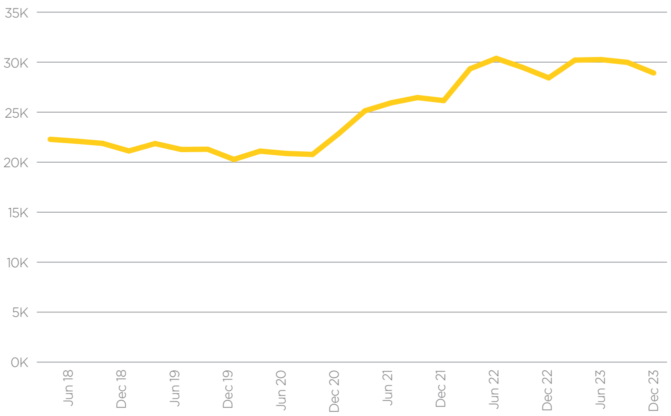
As of December 2023, the state has approximately 29,000 construction apprentices in training (**Figure 12**), about 37% more than the same period five years ago, a growth driven by recent wage subsidy schemes.

However, commencements dropped by 21% in 2023, and there are concerns that a continued drop would reduce the training pipeline.

In addition, the proportion of new apprentices starting in heavy and civil engineering construction remains low (**Figure 13**). The sector accounted for 9.5% of the construction industry apprentice commencements in the December quarter of 2023, nearly the same as it was in the last quarter of 2022, and below the historical average of 11%.

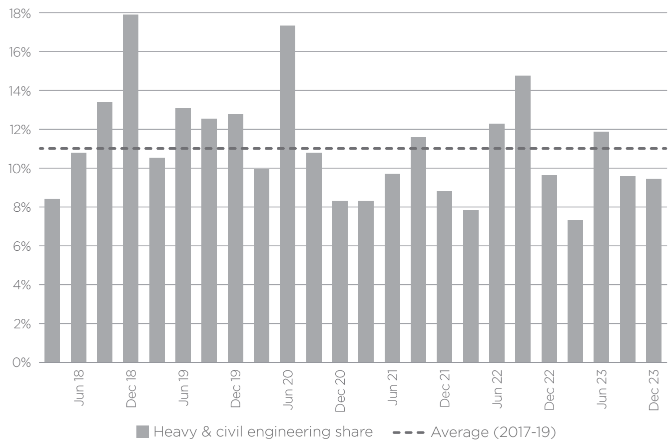
Low female involvement remains a significant challenge, despite some positive developments. As of May 2024, female employment in Queensland's construction industry reached a record high of approximately 46,000, marking a 15.6% increase from 2023. While this growth is encouraging, there is still a need for more women to join the industry. Currently, females make up only about 17% of the total construction workforce, with even fewer in construction trades at around 5% (**Figure 14**). Addressing this underrepresentation remains a priority for achieving greater diversity and workforce expansion in construction.

Figure 12. Number of construction apprentices in-training, Qld



Source: NCVER, CSQ.

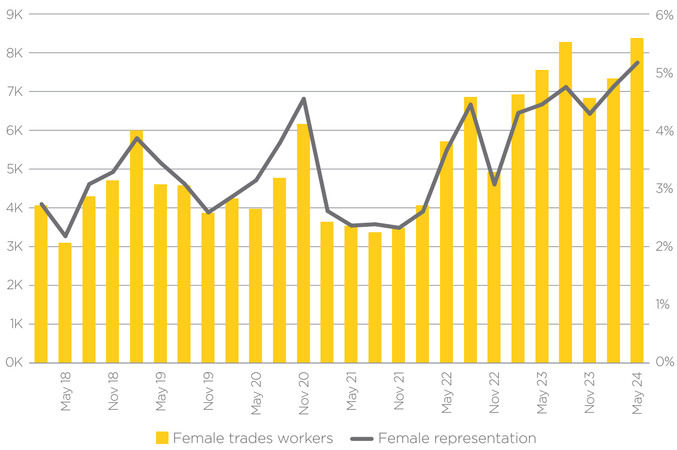
Figure 13. Heavy & civil engineering share of construction industry apprentice commencements, Qld



Source: NCVER, CSQ.

Focus on attracting more women to trades

Figure 14. Female trades workers in construction industry, Qld



Source: ABS, CSQ.

"While this growth is encouraging, there is still a need for more women to join the industry"

Material cost increases appear to be slowing

Material price escalation appears to be returning to historical level growth rates. If this persists, it will provide greater predictability and certainty to project pricing in the industry.

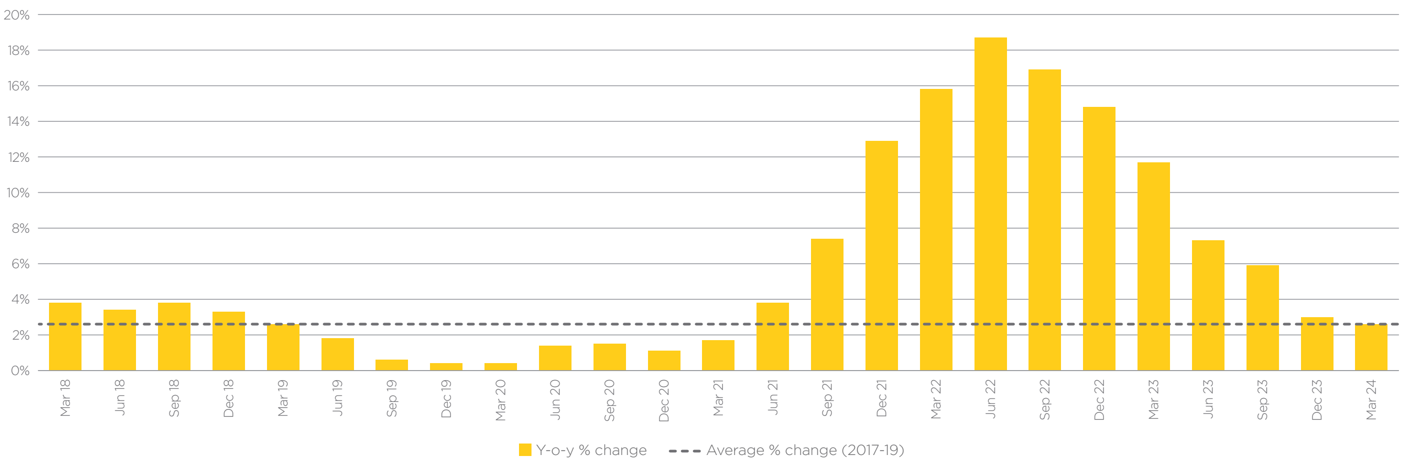
In Brisbane's housing construction sector, the Producer Price Index shows that construction material prices grew at alarming rates between late 2021 and early 2023 due to strong demand and supply pressures both locally and globally. Recent reporting, however, shows significant moderation of this growth (**Figure 15**).

Prices rose by 2.6% in the first quarter of 2024 from the same period in 2023. Most material categories still show price increases over this period, but there has been a decrease in prices for timber by 0.8% and steel by 15.2%.

The recent slowdown in the pace of growth early this year follows a 3.0% year-on-year escalation in material prices in the last quarter of 2023, a stark contrast to the significant surges of between 13% -19% experienced between late 2021 and early 2023.

However, the very significant rises seen through late 2021 and early 2023 have put prices on much higher level than prior to the pandemic, standing 35.6% higher than the pre-pandemic quarter of March 2019.

Figure 15. Material inflation, house construction, Brisbane



Source: ABS, CSQ.

Unlocking our growth potential

Looking ahead, the construction industry faces ongoing challenges but also exciting opportunities for growth and change. The state has strong foundations for demand, fueled by population growth, the shift to net zero emissions, and the Brisbane 2032 Games. This sets the stage for a transformative decade of infrastructure development across Queensland.

With numerous projects spanning different sectors and regions, there will be intense competition for workers from an already limited pool. Developing a skilled workforce remains crucial to build more homes, expand infrastructure for a growing population, and meet net zero goals.

In addition to maximise workforce options, there will be an unprecedented emphasis on innovation and modern construction methods to efficiently deliver the increasing workload.

"Developing a skilled workforce remains crucial"

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