

Construction eases, but still plenty of work

Construction work done

- **Construction activity:** Construction work done fell by 3.0 per cent in the December quarter – the fifth fall in six quarters. The value of construction work done is down by 7.4 per cent on a year ago.
- **Calendar year:** In 2019, \$204.6 billion of construction work was done, down 7.2 per cent over the year.

The data on construction work is important for builders, building material companies and developers.

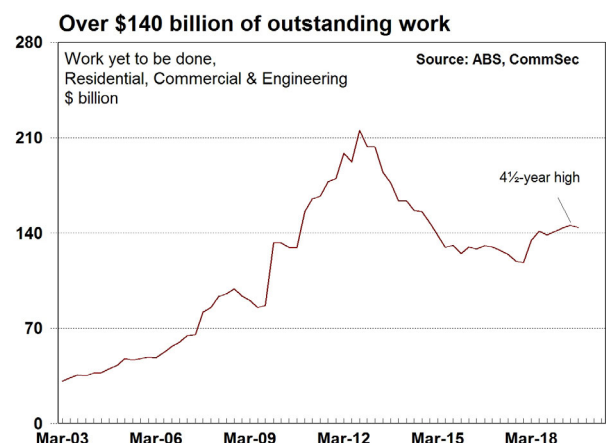
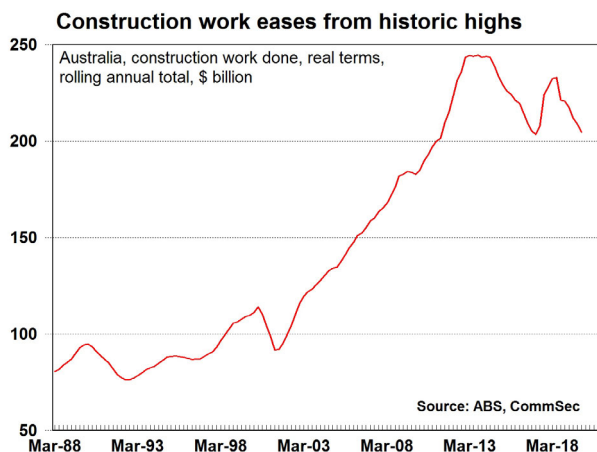
What does it all mean?

- An extraordinary amount of construction work has occurred in Australia over the past five years. In fact work done in both NSW and Victoria soared by over 40 per cent from 2014 to 2019. But now work flows are adjusting to more balanced supply-demand metrics. Residential work peaked around 18 months ago and is now down 15 per cent from the highs. Commercial work hit record highs in the September quarter but eased in the December quarter. Still, on the work yet to be done, commercial work will test record highs in the next year while residential work softens – at least for the next six months. Bushfire reconstruction work will slowly pick up over 2020.
- Construction-dependent firms won't be short of work in 2020, but businesses may have to travel a bit further to tap into the opportunities. The good news is that price pressures are well contained. In fact building costs (residential and commercial) are rising at the slowest annual pace in around seven years.
- The data hasn't been updated since mid-January, but the latest reading showed \$144 billion of construction work still to be completed. Engineering work totals \$74 billion with around \$38 billion of residential work and a record \$32 billion of commercial work.

What do the figures show?

Construction work done – December quarter

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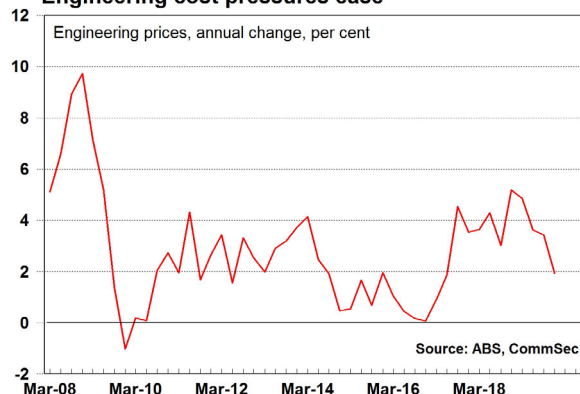
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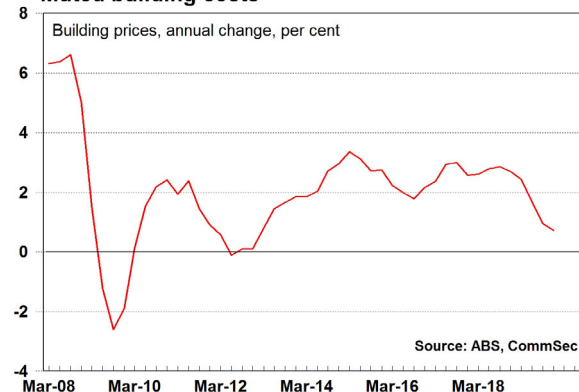
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- **Public sector construction** work rose by 0.7 per cent in the quarter after a 3.6 per cent lift in the September quarter.
- **Private sector** activity fell by 4.2 per cent in the December quarter – the fourth successive quarterly fall.
- **Construction work fell across six states and territories** in the December quarter: NSW (down 4.6 per cent); Victoria (down 2.8 per cent); Queensland (down 3.4 per cent); South Australia (down 5.4 per cent); Western Australia (down 2.9 per cent); Tasmania (down 6.6 per cent); Northern Territory (up 0.6 per cent); ACT (up 1.5 per cent).
- **Engineering work** fell by 1.5 per cent in the December quarter – the sixth straight decline. Work done is down by 8.0 per cent over the year.
- **Commercial (non-residential) building** fell by 3.4 per cent in the December quarter after rising 7.5 per cent in the September quarter. Work done is up 3.3 per cent on the year.
- **Residential building** fell by 4.6 per cent in the December quarter – the sixth straight decline. Work done is down 12.8 per cent over the year – the biggest annual fall in 18 years.
- **Alterations & additions** fell by 1.3 per cent in the quarter to be down by 5.8 per cent over the year. **And new residential work** fell by 5.1 per cent over the quarter and by 13.7 per cent over the year to December
- **Construction costs** rose by 0.2 per cent in the December quarter, with building costs up 0.1 per cent and engineering costs up by 0.3 per cent.
- Over the year, **construction costs** rose by 1.2 per cent (slowest pace in three years) with building costs up 0.7 per cent (slowest pace in seven years) and engineering costs up by 1.9 per cent (slowest in 2½ years).

Engineering cost pressures ease



Muted building costs



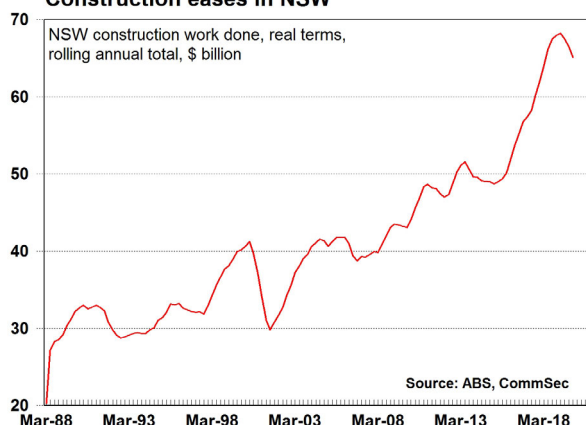
Bushfires

- The ABS noted: “*Bushfires resulted in minor disruption to data collection activities during the December 2019 quarter in New South Wales, Victoria and the Australian Capital Territory. Quality assurance undertaken by the ABS confirmed that these disruptions did not result in any impacts to Construction activity statistics. Whilst it is expected that bushfire rebuilding and recovery activity will have some impact on future Construction activity estimates this activity is not yet present in the December estimates.*”

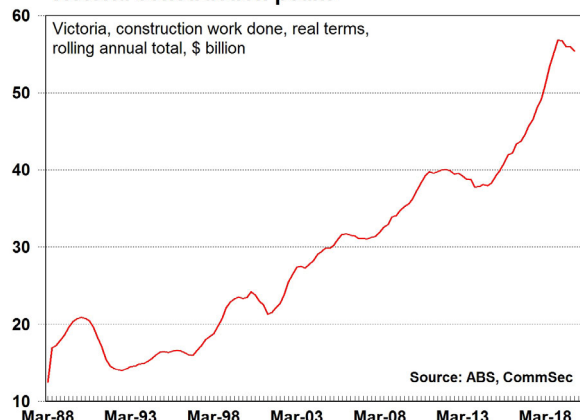
What is the importance of the economic data?

- The Bureau of Statistics releases quarterly estimates of **Construction work done**. The estimates are based on a survey and cover around 85 per cent of the construction work done in the period. Revised estimates will be

Construction eases in NSW



Victoria construction peaks



released in coming months. The data is useful largely for historical purposes but the work yet to be done estimates provide an early warning signal of future activity. The residential work figures give a good early guide to the strength of residential investment in the national accounts.

What are the implications for interest rates and investors?

- There is still plenty of construction work to go around. In fact some firms like Monadelphous continue to highlight the difficulty in attracting and retaining good skilled workers for engineering projects.
- In terms of the outlook for home building, the Housing Industry Association said *"We estimate the industry commenced construction on 174,770 homes in 2019, and we are forecasting for activity to rise only marginally (by 0.6 per cent) in 2020."*
- The fall in residential work in the December quarter means that dwelling investment will be drag on economic growth in the December quarter. We will get another piece of the 'GDP puzzle' tomorrow with business investment data. The data will likely show an easing of building/construction investment by Aussie businesses.

Construction pipeline



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MAJOR TRANSPORT PROJECTS (OVER \$2 BILLION)

