

# Building and Construction Industry in the Eye of the Perfect Storm

The Australian building and construction industry is in a precarious situation. Dealing with the surge in work in hand is already challenging. Clouds gathering on the horizon suggest that the industry has not yet ridden out the worst of the storm, according to the latest industry forecasts in the Australian Construction Market Report (ACMR), which FTI Consulting produces for the Australian Construction Industry Forum (ACIF).

## BREAK OUT IN INFLATION SHAPES THE OUTLOOK AND THE RISKS

- Disruption in global supply chains, relaxed fiscal and monetary policy settings and the war in Ukraine is producing heightened inflationary pressure.
- In Australia, overstimulation of economic activity and employment drove unemployment down to record lows – falling to 3.9% in April 2022, according to the Australian Bureau of Statistics (ABS).
- Concern about the rising cost of living is putting pressure on wage increases. The Reserve Bank of Australia has begun a belated campaign to combat inflation, but more vigorous rate rises are inevitable.

## Building and construction work done by category (CVM 2019-20 Reference Year)

		2020-2021	2021-2022(f)	2022-2023(f)	2023-2024(f)
Residential Building	\$ billion	105.3	109.4	111.6	112.8
Non-Residential Building	\$ billion	47.4	46.7	44.9	44.2
Infrastructure Construction	\$ billion	65.0	66.0	72.0	75.4
Heavy Industry including Mining Construction	\$ billion	25.5	27.3	28.2	29.2
<b>Total</b>	<b>\$ billion</b>	<b>243.2</b>	<b>249.5</b>	<b>256.6</b>	<b>262.2</b>
Residential Building	% change	3.2	3.9	2.0	1.1
Non-Residential Building	% change	-4.7	-1.4	-4.0	-1.5
Infrastructure Construction	% change	-2.1	1.6	9.0	4.8
Heavy Industry including Mining Construction	% change	5.0	7.0	3.2	5.7
<b>Total</b>	<b>% change</b>	<b>0.3</b>	<b>2.6</b>	<b>2.8</b>	<b>2.2</b>

Source: ACIF ACMR May 2022

## BUILDING AND CONSTRUCTION OUTLOOK IS PATCHY

**Residential building is still riding the wave** - incentives and ultra-low interest rates drove a surge in demand that is still in the pipeline. There is some growth in work to be done over the remainder of this year.

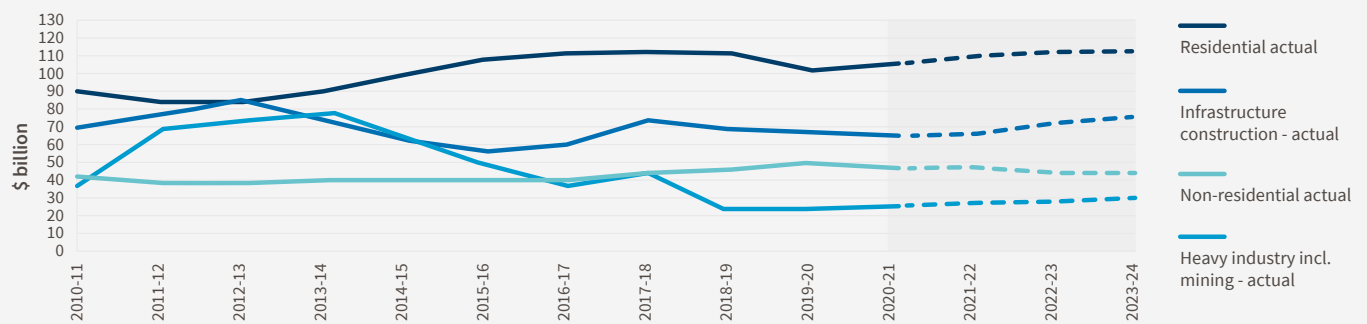
**Infrastructure construction is expected to lift** - reflecting expanded State and Commonwealth Government spending plans. The recent change in Government will support major expansions into renewable energy solutions.

**Expanded mining** - drove an increase in Engineering Construction last year and will support an uplift that will be carried into the next 2-3 years.

**Non-Residential building is already losing ground** - managers and investors in commercial buildings are reassessing their building needs in the COVID normal environment. Work done fell this year and further falls are expected over the next 2 years.

Source: ACIF ACMR May 2022

**Building and construction work done**  
(\$ billion and % change, CVM 2019-20 reference year)



Source: ACIF ACMR May 2022

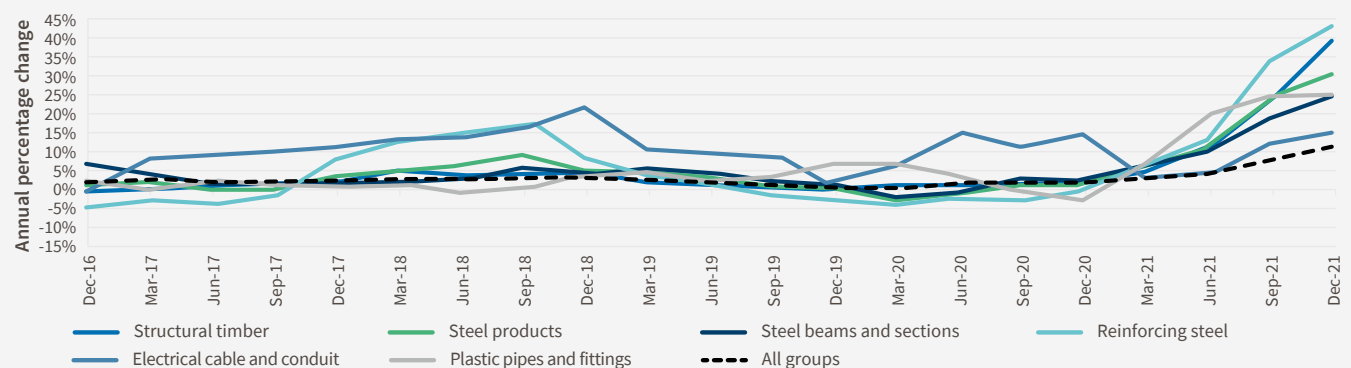
## CONSTRUCTION INPUT COSTS

- Materials costs are rising rapidly.
- A tight labour market is increasing the difficulty of sourcing skilled trades, further contributing to increasing labour costs.
- Continued interest rate hikes will restrict the ease of conducting business.
- The construction industry is directly facing these problems, with several constrained builders falling into insolvency. High profile collapses include Probuild and Condev, and the FTI Consulting-managed insolvencies of Privium and BA Murphy.

### Construction costs rising rapidly

In the year to December 2021 costs increased by around 15%, which is more than the price rises seen over the previous seven-years. Essential construction materials, such as reinforcing steel and structural timber rose by more than 40% over 2021.

**Construction materials - key groups**  
(Weighted average of 6 capital cities)



Source: ABS 6427.0 Producer Price Indexes, Australia

## KEY FUTURE RISKS

### Trade disruptions

The problems in global supply chains may be temporary, but considerable volatility could well become permanent. Further hikes in fuel and energy prices are on their way. There is some risk of further and more sustained cost overruns and delays.

### Shortages

Ramping up expenditure on major infrastructure projects will push up demand for skilled workers and materials, raising costs and adding to delays.

### Fixed price contracts

New home buyers have limited capacity to absorb price increases and delay. Builders working on thin margins will face challenges if they have to absorb cost increases.

### Pandemic uncertainty

High rates of infection remain in the background. Lingering pandemic risks relate to the supply of labour and the need and demand for many categories of buildings which are adjusting to new business models.

### Interest rates

Further rate hikes will soften demand while also raising the cost of doing business. Banks and financiers will have to jump many hurdles to increase lending for buyers of new houses and buildings or to support builders.



### ACIF Australian Construction Market Report

ACIF Forecasts are a primary source of market information for the building and construction industry in Australia. Led by ACIF's Construction Forecasting Council (CFC) and produced by a team of experts in FTI Consulting, the ACIF Forecasts provide decision makers with a reliable and accurate compass for business planning.

Get your copy of the latest Report at the [ACIF website](#) or contact the Report's key author Kerry Barwise below to arrange a tailored one-hour briefing session.



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