



Incolink

Construction Industry Snapshot

February 2021

Introduction

Construction is a significant employer in areas that have been hit hard by COVID. Significant unknowns and critical challenges still face the construction sector in Victoria including a collapse in immigration and international students, meeting the challenges of unprecedented State investment in infrastructure and social housing, and the uncertainty of the future of the office, with increased prevalence of working from home arrangements.

The construction industry has doubled in size over the past 20 years, contributing more than \$34bn to the State economy. The industry has increased in importance to the Victorian economy over the last twenty years – rising from 5.1 per cent of Victoria's GSP in 1998-99 to a high of 7.8 per cent of GSP in 2018/19. The Construction Industry

today is Victoria's third largest industry, ahead of traditionally important industries such as Manufacturing, Education and Retail. The construction industry employs more than 300,000 persons, over double the number of people employed by the sector 20 years ago.

The health of the industry is critical to Victoria's economic future, and the fate of tens of thousands of employers, workers and their families.

This first Incolink Industry Snapshot aims to provide key insights for employer and worker members, so they can have an insight into what lies ahead for the industry, and so stakeholders can advocate together for policies and investments which support construction.



Key macroeconomic indicators



Consumer Price Index - Melbourne: +1.5% (December quarter)¹



Employment: Victoria's seasonally adjusted unemployment rate is currently (December figure) 6.5 percent, a 0.6 per cent decrease from November²



Current terms of trade: Increased 0.7% for the September quarter (national figure)³



Population: Federal budget calculations indicate a net decrease in overseas migration to Australia of over 90,000 people over the next 2 years, and for Victoria's overall population growth to largely stagnate, growing by around 170,000 people over forward estimates, mostly in 2023/24⁴, reaching around 6.88 million by then; in the previous budget it had been projected to reach 7.18 million by 2022 alone.⁵ As at, June 30, the state's population is 6.694 million, representing a 1.5% increase for the 2019/20 financial year⁶.



Property values: Mean dwelling price of \$682,197 in Melbourne (December); an increase of 1% for the month and 1.5% for the quarter, having fallen for much of the year⁷.

Median house price for the December quarter of \$941,000, a 9.5% increase from the September quarter

Median unit price for the December quarter of \$639,500, a 3.8% increase for the year⁸.



Rental market⁹: Current residential vacancy rate of 4.7% in Melbourne (December) +0.3% from November, +2.2% on same time last year; rental yield at 3.6% for units and 2.6% for houses¹⁰



Office occupancy: Remains at only 13% for Melbourne compared to 45% for Sydney and 61% for Brisbane; however, expected to rebound owing to relaxed restrictions¹¹

Property price quarterly percentage change (weighted average) for each capital (December quarter, change from previous):

Sydney	+1.3%	Adelaide	+3.6%
Melbourne	+1.5%	Darwin	+5.5%
Brisbane	+2.1%	Hobart	+3.2%
Perth	+2.8%	Canberra	+3.5%

¹ ABS - CPI data

² ABS - Labour force data

³ ABS - National accounts

⁴ 2020/21 Federal budget

⁵ 2019/20 Federal budget

⁶ ABS - National State and Territory Population

⁷ CoreLogic Hedonic Home Value Index

⁸ Real Estate Institute of Victoria

⁹ Domain

¹⁰ SQM Research

¹¹ Ibid

Building and construction industry figures

Contribution of construction to GSP: -0.2% for the 2019/20 year from 2018/19¹²; was 7.8% of total GSP in 2018/19¹³; 5.6% of Victorian payroll jobs, a 0.8% decline from March 2020¹⁴

BCI Outlook by construction sector¹⁵: Overall: 26% decrease projected in the value of total construction starts for Victoria (year ending March 2021 compared to year ending March 2020); total value of \$1.43bn, compared to \$1.88bn in March 2020.

This compares to an 11% decrease for the whole of Australia for the equivalent period.

Divided by sector (same time period) - projected value is for commencements in March 2021:

Building construction starts	26% decrease; projected value \$767m
Civil construction	37% decrease; projected value \$663m
Residential	5% decrease; projected value \$450m
Community	47% decrease ; projected value \$36m
Education	22% decrease; projected value \$43m
Office	6% decrease; projected value \$53m
Industrial	49% decrease; projected value \$118m
Retail/hospitality	20% decrease; projected value \$67m

Industry confidence: Property industry confidence has rebounded strongly, from 64 points to 115 on the index (100 being neutral). Stimulus provided in the Federal and state budgets has been particularly beneficial¹⁶

Employment: Total number of payroll jobs in the Victorian construction industry have decreased 19.6% since March 2020¹⁷

Apprentices and trainees¹⁸: There was a decrease in the number of construction trades apprenticeships commenced in the year ending June 30 2020 compared to the previous year - in Victoria (9,780 compared to 10,180).

Approximately 410 females commenced construction apprenticeships in the year to June 30 (4.2% of all commencements) - a slight decrease from 425 in 2018/19 though equivalent to overall decline in commencements.

Approximately 195 people identifying as Indigenous commenced (2% of all commencements) - 205 in 2018/19.



5.6%
of all Victorian
payroll jobs

-0.2%

Contribution of construction to GSP
(for the 2019/20 year)

↓ 26%

**Decrease projected in the
value of total construction
starts for Victoria**

↓ 19.6%



**Decrease in the total
number of payroll
jobs in the Victorian
construction industry**
(since March)

9,780

**Construction trade
apprenticeships
commenced**

(in Victoria 2019/20)



↓ 3.9%

**Decrease in commencements
from previous years**

(in relation to overall commencements figure)

¹² ABS National Accounts

¹³ IBIS World- Economic Impact of Victorian Stage 4 Restrictions

¹⁴ ABS Payroll Jobs and Wages Data

¹⁵ BCI

¹⁶ https://www.propertycouncil.com.au/Web/Content/Media_Release/VIC/2020/Victorian_property_industry_optimistic_for_2021.aspx

¹⁷ Property Council

¹⁸ ABS Australian Industry Report

410



Females commenced construction apprenticeships

(in Victoria 2019/20)



3.5%

Decline in female commencements

195

Indigenous commencements



5%

Decrease in Indigenous commencements



800

Non English commencements

2.5%

Decrease in non English commencements

Approximately 800 people identifying as coming from non-English speaking households commenced (8.2% of all commencements) - 820 in 2018/19.

Cancellations and withdrawals decreased from the previous financial year (7,895 to 8,580).

Completions decreased from 4,930 for 2018/19 to 4,820 for 2019/20.

A total of 29,225 construction trades apprentices were in training as of June 30, up from 27,805 at June 30 2019.

All figures use ANZSIC definition (construction trades).

Building activity: There was an 8.6% increase in dwelling approvals for December (seasonally adjusted), after a 4.6% fall in November.¹⁹

September quarter, total value of work done in all sectors in Victoria - \$14.03bn; 5.7% decrease for the quarter, 3.8% from September 2019²⁰

Overall decrease in commencements of 22% (dollar value) projected for the year ending March 2021 compared to previous, 1% down on the December quarter²¹

Victorian market headline figures²²:

Ongoing projects: 18,522 - Market value: \$296.8b

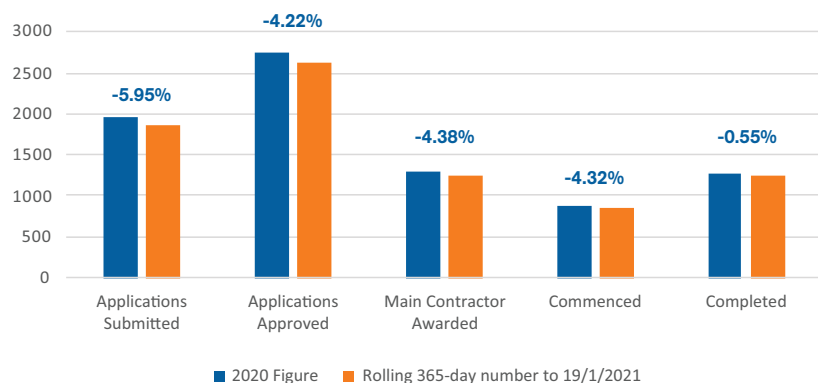
Metro/regional split²³:

Regional	3,547 projects - \$63.9b
Metropolitan	14,103 projects - \$220.2b

Largest categories - New builds:

Residential	12,276 - Market value: \$84.6b
Infrastructure	1,555 - Market value \$42.22b
Industrial	1,206 - Market value \$5.6b
Education	639 - Market value \$6.8b
Office	398 - Market value \$9b
Retail	506 - Market value \$4b

Milestones²⁴:



¹⁹ ABS Building and Construction

²⁰ Ibid

²¹ BCI Forecaster January 2021

²² BCI Analytix

²³ Ibid

²⁴ Ibid

Regional markets²⁵:

To appraise the state of the market compared to others, we have selected 3 regional markets for comparison- Indonesia, a developing economy where COVID is having a significant impact, Malaysia, a middle-income country where COVID is having a lesser albeit significant impact, and Singapore, a developed country which has COVID well controlled.

Overall forecasts are as follows:



44% decrease in the year-on-year value of construction starts for Indonesia;

attributed to decreased consumer confidence and mobility owing to COVID. The economic impact of COVID in Indonesia has been reflected in a spike in unemployment of 1.8% from 5.3% last year to 7.1% as of August 2020.²⁶ The industry was estimated to employ around 7% of the nation's workforce as of 2019.²⁷



7% increase for the same metric in Malaysia;

aided by low interest rates and rebounding consumer confidence, hindered by increased working from home and a shift in consumer preference to online retail- a new COVID state of emergency has however been declared which is likely to impact the projected increase. The current unemployment rate in Malaysia is estimated at 4.8% (November 2020 figure);²⁸ around 10% of the Malaysian labour force is employed in construction, though the industry is dominated by foreign workers.²⁹



22% decrease for Singapore;

attributed to a sharp decrease in both the number and value of project starts; again attributed to changes in work and retail habits. Unemployment in Singapore has fallen to 3.3% having increased for most of the year.³⁰ Like Malaysia, the Singaporean construction sector is heavily reliant on foreign labour meaning the economic impacts of a decline in the sector will be less reflected in local unemployment rates.

Price of materials: There was an overall increase in price of materials for housing construction of 0.2% for the quarter Australia wide.

There was an overall increase in the total cost of domestic construction of 0.6% for the September quarter - the increase in Victoria was also 0.6%³¹.

General price rises for in the Victorian market:



Ceramic products (+2.2%)



Other metal products (+0.4%)



Steel products (+1.5%)

Decrease:



Other materials (-0.4%)



Cement products (-1.2%)

²⁵ BCI Forecaster Reports

²⁶ CEIC Data

²⁷ Asia Construction Report, Indonesia Country Report

²⁸ New Straits Times- Malaysia's Unemployment rate rose 0.1pct in November, January 11 2021

²⁹ Najib, Iskandar et al- Malaysians as the component of Labour Force for Construction Industry in Malaysia

³⁰ Channel News Asia- Singapore's labour market shows signs of recovery as unemployment rates fall for second straight month, January 28 2021

³¹ Cordell Chip Index

Commentary

The economic impact of COVID has now largely flowed through to the sector, as reflected in the overall decrease in the value and number of projects. Economic impacts from the pandemic have precipitated a 25% decline in the value of project starts, as well as the decline in approvals being sought. Whilst the office and retail sectors are only projected to decline by 6% and 20% respectively, there is cause for particular concern in regards to a drop off in these areas owing to shifting work habits, with this impact flowing through to retail and hospitality, particularly in city centres.

The successful suppression of COVID in Victoria (and nationally) have allowed for conditions to remain favourable for a rebound as consumer and industry confidence grows and more workers return to their offices, this will continue to be contingent on significant government investment in the sector. Pursuant to this, new initiatives such as HomeBuilder and the Big Housing Build have already been warmly welcomed by the sector. These initiatives will also ensure that we retain skilled workers in the industry for future projects, including essential infrastructure.

A number of industry stakeholders have identified stamp duty reform/abolition as an area of interest and one that could potentially stimulate growth in the sector at what is currently a challenging time. Reforms, such a transitioning from stamp duty being charged on transactions to a yearly land tax would have the benefit of encouraging a higher volume of sales, as well as increasing GDP by a projected \$17b per annum³².

2020 was a challenging year for the industry, whilst confidence has rebounded, there is evidence to justify serious concern about a continued slowdown in the industry. Going forward, government investment in the sector has never been more critical in preserving the hundreds of thousands of jobs in the Victorian building and construction industry.



³² Helm T, Stamp duty to land tax: designing the transition, Report for Prosper Australia. 2019 p11



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The Safety Net for the Construction Industry

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