



Australian Construction Sector Outlook

Navigating a period of transformation in construction

The Australian construction sector is at a pivotal juncture, facing a mix of challenges and opportunities.

Geopolitical tensions, domestic pressures such as higher borrowing costs, and workforce shortages, are reshaping how the industry operates. While at the same time, developments in sustainable construction practices and innovative building techniques reflect an industry that is both adaptable and forward-thinking.

In light of these dynamic conditions, our Australian Construction Sector Outlook provides insights into the current and future state of the sector. Authored by Oxford Economics and Control Risks, with contributions from our QBE Heavy Industry, Risk Solutions, and Sustainability experts, this report offers a comprehensive analysis of the factors influencing the construction landscape today.

A key theme explored is supply chain management. Global trade disruptions and subsequent project delays have heightened the importance of robust contingency planning. This report delves into practical strategies for assessing and diversifying your supply chain to minimise your risks.

Preparedness is essential for navigating this rapidly evolving environment. By understanding the emerging risks and opportunities, you can better position your business to adapt and succeed in the years ahead.

Dale Gleeson

General Manager of Elders Insurance
and Heavy Industries
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What is the construction sector?

The construction sector in Australia is a multifaceted industry.

From tradespeople providing direct services to consumers, to companies engaged in large-scale construction projects and infrastructure development, the sector encompasses a wide spectrum of businesses. Services offered range from residential and non-residential construction, renovations, and extends to heavy engineering, land development, and site preparation. Together, these entities play a crucial role in shaping Australia's urban landscape and driving economic growth.



Australian construction sector snapshot



Employs more than
**1.3 million
workers**

Approximately 10% of the
national workforce*



Contributed
approximately
AU\$161bn

to the economy*



Accounts for
7.4%

of Australia's total GDP*



60%
of building projects
in Australia
are driven by NSW and VIC*

*As of March 2024¹ ^2023 Figures²

1. Australian Bureau of Statistics, [Labour Force Australia Detailed](#)
2. Oxford Economics forecasts, April 2024



Short term outlook for the Australian construction sector

Building activity in Australia



Residential construction accounts for approximately

50%



Non-residential construction accounts for just over

40%

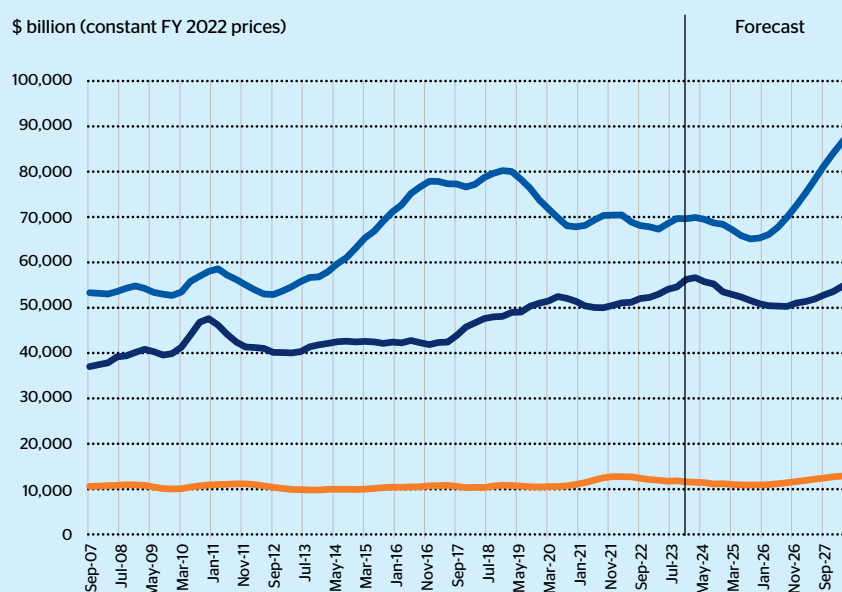
The short-term outlook for total building, a measure of work undertaken, suggests a mixed trajectory.

Residential construction has historically dominated the sector but has seen a decline in recent years. In Q3 2023, residential construction accounted for \$69.6 billion, representing a share of 50.6 per cent of total building activity. This is down from a historical peak of 60 per cent in 2016. Meanwhile, non-residential construction and A&A (alteration and addition works) accounted for 40.9 and 8.4 per cent, respectively (Figure 1).

While a modest increase is forecasted in FY 2024, a subsequent 5 per cent decline is expected in FY 2025 across both residential and non-residential building.³ This outlook is influenced by various factors, including rising build costs, extended project timelines, as well as a large backlog of work with fixed-term contracts.

Coupled with the increase in builders entering administration,⁴ these factors are expected to contribute to a further decline in home buyer confidence.

Figure 1: Historical and forecasted building work in Australia by sector⁵



Source: Oxford Economics

Residential Non-residential A&A

3. Oxford Economics forecasts, April 2024 4. Australian Securities & Investments Commission (ASIC) Insolvency Data, April 2024 5. Oxford Economics forecasts, April 2024





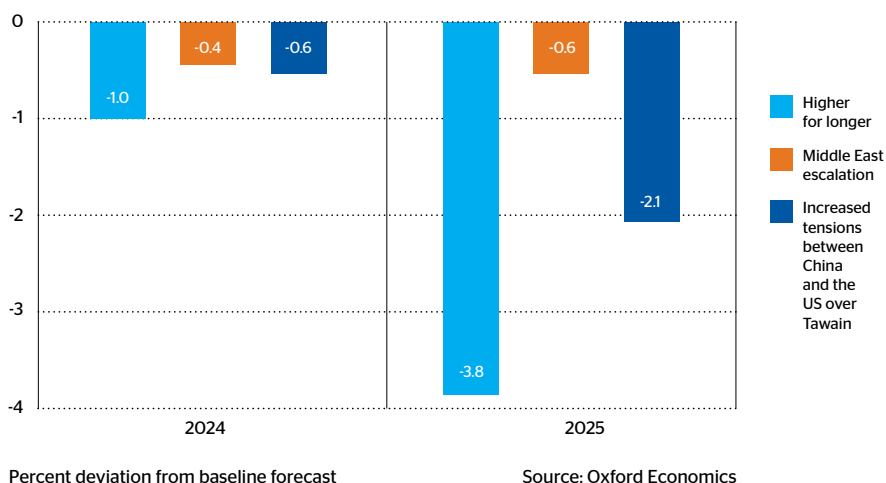
Furthermore, concerns regarding high inflation could prompt further tightening of monetary policy and prolonged higher interest rates by the Reserve Bank of Australia (RBA), exacerbating the sector's challenges with higher interest rate costs for builders and consumers (Figure 2).

Despite these hurdles, public investment activity remains relatively robust, driven by ongoing projects in transport and health sectors. However, short-term risks persist, including disruptions in the supply chain, increased shipping costs, and fluctuations in interest rates.

Escalating conflicts in Ukraine and the Middle East could exacerbate supply chain challenges, affecting shipping costs and material availability.⁶ Meanwhile, tensions between major economies like China and the United States may lead to increased sanctions and tariffs on Chinese goods, which could further increase the cost of building.

Figure 2 illustrates how higher for longer interest rates, tensions in the Middle East, and unease between the US and China over Taiwan, could impact construction activity. Under a higher for longer interest rate scenario, it is anticipated that construction could be 1 per cent lower than it would have been in 2024 and around 3.8 per cent lower in 2025.

Figure 2: Potential impact of higher for longer interest rates, Middle East escalation, and increased tensions between the US and China on construction activity.⁷



Supply chain risks and geopolitical influences

Supply chain risk in the construction sector includes various challenges that can disrupt the flow of essential materials and goods for construction projects.

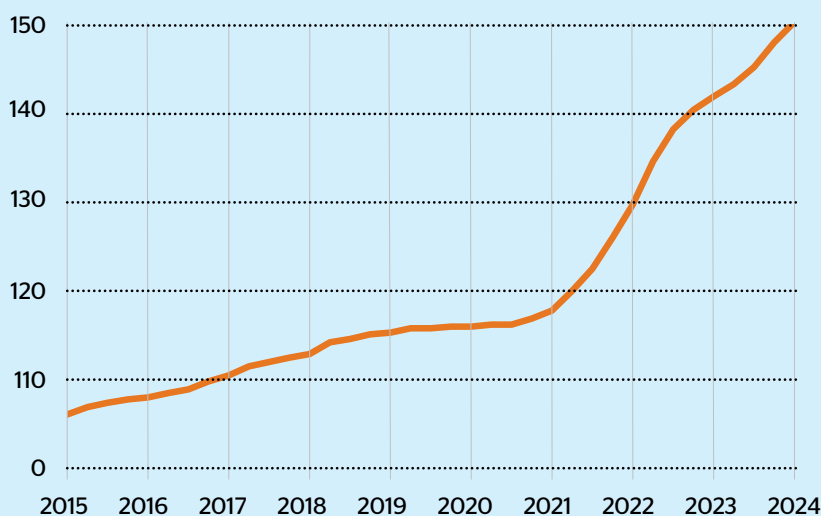
This can include difficulties in obtaining building materials, delays in delivery dates, and increases in prices.

Offshore manufacturing plays a significant role in the construction supply chain. Recent increases in shipping costs and delays have led to rising construction costs, a trend expected to continue in the near future (Figure 3). Moreover, the Australian construction sector has typically relied on fixed-term contracts for many projects, which set a definite project price. However, delays in project completion and escalating costs of intermediary goods can chip away at profit margins for companies.

Figure 3: Price changes in construction costs⁸

Index (Q2 2012 = 100)

This index reflects the price change of construction costs relative to Q2 2012.



Source: Australian Bureau of Statistics, Oxford Economics

— Construction producer prices for buildings (LHS axis)



Geopolitical tensions, including conflicts in regions like Ukraine and the Middle East, have impacted on the availability and cost of certain construction materials due to sanctions and increased tariffs, whilst disrupting key maritime sea lanes.⁹ This has resulted in increased freight costs and prolonged procurement times for construction materials, as shipping routes are redirected to avoid high risk maritime corridors and alternative suppliers and products are identified. With the outlook for these disputes uncertain, global supply chain disruptions may continue and potentially increase if, for example, attacks on commercial shipping in the Indian Ocean intensify.



“Heightened vigilance and contingency planning are crucial to reducing supply chain disruptions and navigating the uncertain geopolitical landscape effectively.”

Craig Rogers

Manager of Risk Engineering
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Impact of higher borrowing costs and security risks

While it appears the Reserve Bank of Australia (RBA) may have finished tightening monetary policy for now, the recent interest rate rises have reverberated throughout the construction industry, placing significant pressure on dwelling construction.

Higher borrowing costs have dampened demand as households grapple with mortgage affordability, particularly those with fixed interest rates who are due to move, or have recently moved, to higher variable interest rates. Construction businesses have also felt the impacts, with reduced construction activity leading to lower revenue and increased insolvency rates. This concern is heightened as profit margins erode with each delay on previously approved construction projects.

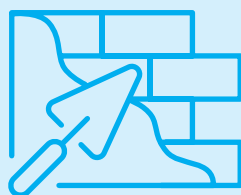
Notably, insolvency data for the nine months ending on 31 March 2024 revealed an increase in the number of Australian companies entering external administration.

“

We're seeing a number of claims for construction site thefts, particularly in volume housing developments prior to occupation. To minimise risk of theft, consider enhancing security measures such as surveillance cameras, on-site security personnel, and secure storage for valuable materials and equipment.”

Matthew Boon

Head of Underwriting
Heavy Industries
QBE Australia Pacific



27.7% (2,142)

of insolvencies were from within the construction sector¹⁰

Simultaneously, there is also the risk of theft on construction sites and in unoccupied developments, which has the potential to increase in an economic environment of high inflation and rising prices for construction materials.



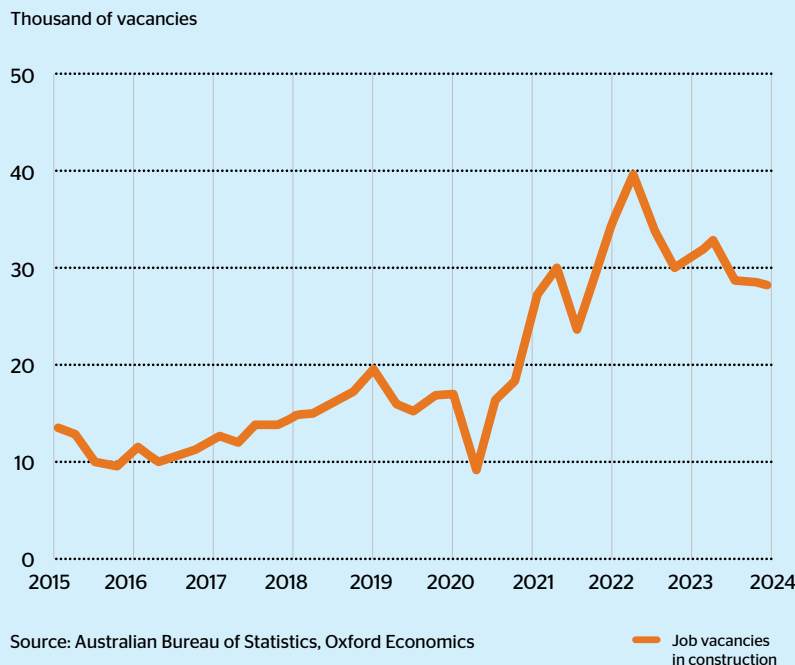
Labour and skilled workforce shortages

The construction industry is facing a skilled workforce shortage, with limited potential for the workforce to be reinforced by additional workers.

This shortage, particularly acute in trades and blue-collar labour, is currently facing nearly 28,000 vacancies—almost double the pre-COVID-19 average (Figure 4). With an ageing workforce and a lack of new labour market entrants, this situation may worsen in the coming years.

The scarcity of skilled labour not only affects project timelines but also widens the “green jobs gap” as the industry aims to achieve net-zero targets. Without a significant influx of younger workers, increased skilled migration, or improved productivity, companies may face challenges in attracting talent and completing projects on time.

Figure 4: Job vacancies in the construction sector ¹¹



“

At a company level, proactive measures such as investment in apprenticeships or vocational training, and greater focus on safe work practices to prevent injury, can help reduce labour shortages in your business.”

Matthew Boon

Head of Underwriting
Heavy Industries
QBE Australia Pacific

11. Australian Bureau of Statistics, [Producer Price Indexes](#)





“ The first in a decade increase in energy efficiency standards require businesses to adopt innovative technologies and building techniques to meet the new regulatory requirements and consumer expectations.”

Nicola Schroder

Group Head of Sustainability
QBE Insurance Group

Regulatory changes and sustainability requirements

The Australian construction sector is transitioning to new building standards under the updated National Construction Code (NCC).¹² As State governments roll-out implementation plans, businesses will need to be across regulatory amendments and policy announcements to ensure compliance as the standards evolve in 2025.

Tougher efficiency requirements under the NCC means new homes are required to meet higher standards in terms of their energy use. This focus on the environmental sustainability of new construction projects is also designed to improve occupant health and comfort and reduce energy costs, and may impact choices around housing design, construction materials used, as well as the types of appliances and utilities installed in homes.



Infrastructure development and evolving technology



While Federal and State governments remain committed to a strong infrastructure program,¹³ greater scrutiny over cost overruns and ongoing labour shortages could see fewer major projects added to the national investment pipeline in the coming years.

However, technological advancements present positive opportunities for industry growth. Modular construction, driven by demand for sustainable building practices, could transform the construction landscape for commercial premises, public buildings, and residential dwellings. This is evidenced by the establishment of a NSW Government Taskforce to explore the use of modular builds to deliver its social housing program.¹⁴ Enabling technologies such as advanced materials, automation and additive manufacturing are helping to foster the development of modular construction techniques.

At the same time, regulatory ambiguities around issues such as approval processes may continue to present barriers to the wider uptake of modular construction in the sector. Greater support from the financial services industry, for example through the introduction of additional progress payments for construction companies to remove potential financing barriers to project delivery, may also help promote its usage.

13. Department of Infrastructure, Transport, Regional Development, Communications and the Arts, [Independent Strategic Review of the IIP - Project changes summary](#). 14. NSW Government, [Exploring modular housing to deliver more social homes sooner](#)



Managing risks for a more resilient business



Understand and diversify supply chains

In navigating today's dynamic landscape, building supply chain resilience is vital. Diversifying suppliers, maintaining open communication channels, and implementing robust contingency plans can help mitigate the impact of disruptions. Staying informed about geopolitical developments and exploring alternative procurement strategies can also enhance resilience and reduce the frequency and impact of interruptions.

When engaging new suppliers, do so with quality control front of mind, as poor-quality supplies could lead to future complications. Gaining deeper knowledge of the businesses within your supply line could help you mitigate risks and adhere to sustainability and compliance targets. This includes understanding crucial factors such as supplier financial health, location, transportation methods, and affiliations.

“Understanding the structure and geographic concentration of your suppliers can help you assess and identify vulnerabilities within your supply chain.”

Matthew Fermanis

Head of Risk Solutions
Commercial
QBE Australia Pacific





Prioritise employee safety and cultivate future talent

Prioritising employee safety, training and upskilling is vital to bridging future skill gaps and reducing reliance on skilled migration. This can include various approaches, from in-house training to apprenticeships, or higher education programs tailored to developing the next generation of industry professionals.

Additionally, a concerted effort is needed to promote safe work practices and ensure the wellbeing of workers. According to Safe Work Australia's Key Work Health and Safety Statistics, the construction industry recorded the second highest number of claims for serious work-related injuries and illnesses between 2021 and 2022, with a total of 15,600 claims.¹⁵

To promote safer workplaces, SafeWork NSW has recently launched their "It's the safe way or no way" campaign, which aims to raise awareness about reducing workplace risks and promoting safer practices in high-risk industries like construction.¹⁶

By prioritising safety training, adhering to stringent safety protocols, and fostering open communication channels, construction businesses can create environments where employees feel valued, supported, and a sense of company loyalty.



Engage early and frequently with industry association bodies

Firms and sole traders across the construction sector should be encouraged to associate with the industry at large. Engaging early and frequently with association bodies could improve standards across the sector and build strong advocacy for favourable regulatory conditions that are supportive of both the industry, and the workers within it.





Insurance protection for construction businesses

While proactive strategies can mitigate many of the risks your business may face, the dynamic nature of the construction industry can present unforeseen challenges.

From accidents on worksites and workers compensation claims, to debtor defaults and safeguarding your specialised equipment, QBE can play a pivotal role in minimising your exposures. By working closely with us, you'll develop a tailored approach to improve your resilience to these potential challenges. And if the worst does happen, we're there to help you navigate through it.



Conclusion

In the face of increasing uncertainty, it's clear that proactive risk management is essential for businesses operating within the construction sector. Successfully navigating emerging challenges such as supply chain disruptions, regulatory shifts, and sustainability requirements will require a thoughtful and robust risk management strategy. By cultivating a culture of agility and preparedness, businesses can position themselves to be more resilient amidst the evolving economic and geopolitical landscape.

Thank you to the experts who shared their knowledge with the authors of this report:

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This report was prepared by Oxford Economics and Control Risks for QBE Insurance Group.

“Thriving amidst uncertainty requires resilience, and having detailed insights readily available is crucial for making informed decisions and forging ahead with confidence.”

Dale Gleeson

General Manager of Elders Insurance
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