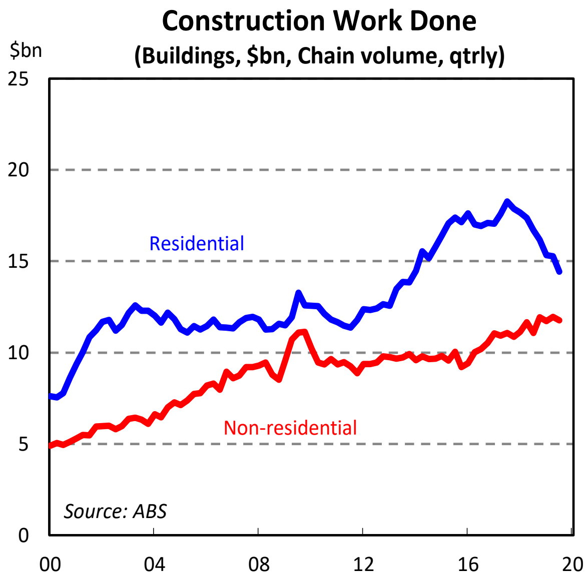
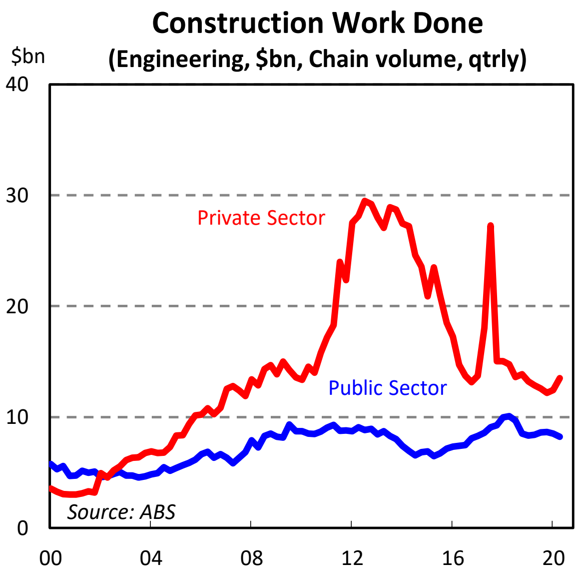
Wednesday, 26 August 2020

Construction Work Done

COVID's Lopsided Impact

- **The construction sector was surprisingly resilient over the second quarter, when nationwide lockdown measures were in place. Construction work done fell just 0.7% in the quarter.**
- **While lockdown measures were in place at the height of the pandemic over late March and April, construction was deemed as essential and operations continued throughout this period.**
- **Some sectors were more resilient than others. The biggest surprise came from the strength in private engineering construction, which rose 8.6%, and was likely driven by mining activity. The mining sector has fared relatively well during the pandemic.**
- **Residential construction fell sharply and was down 5.5% in the June quarter. Residential construction was likely to have been most affected by "stay-at-home" orders. The spike in unemployment and weakness in incomes are expected to further weigh on activity in the housing market.**
- **While today's data suggests construction may not have been as negatively impacted over the second quarter as previously feared, there are many headwinds for the industry. The Stage 4 lockdown measures currently in place in Melbourne will affect construction sites more directly in the September quarter as operations onsite must be limited to 25% of their baseline workforce. Moreover, there is a lagged impact from softer demand on the construction industry. Soft economic conditions will eventually flow through to weaker applications and then construction activity.**





The construction sector was surprisingly resilient over the second quarter, when nationwide lockdown measures were in place.

Construction work done fell just 0.7% in the quarter, a milder fall than the -7.0% median estimate and our forecast of a decline of 3.4%.

While lockdown measures were in place at the height of the pandemic over late March and April, construction was deemed as an essential service and continued operations throughout this period.

Some sectors were more resilient than others. The biggest surprise came from the strength in private engineering construction, which rose 8.6%, and was likely driven by mining activity. The mining sector has fared relatively well during the pandemic. Mining has not been directly affected by social distancing restrictions and demand for resources has remained buoyant.

However, some areas of construction were negatively impacted, reflecting significant uncertainty during the April to June period.

Residential construction fell sharply and was down 5.5% in the June quarter. Residential construction was likely to have been most affected by "stay-at-home" orders. The spike in unemployment and weakness in incomes are expected to further weigh on activity in the housing market.

Non-residential building construction was also weak, falling 1.5% in the quarter. Over the medium term, further weakness is expected as demand for additional commercial and retail space will remain sluggish.

Another surprising area of weakness was public construction, particularly within engineering. Public sector engineering construction fell 3.3% in the June quarter. A fast-tracking of infrastructure projects by State governments and pressure to support a stronger economic recovery would suggest that this sector should rebound faster than other areas of construction.

Outlook

While today's data suggests construction may not have been as negatively impacted over the second quarter as previously feared, there are many headwinds for the industry. The Stage 4 lockdown measures currently in place in Melbourne will affect construction sites more directly in the September quarter as onsite operations must be limited to 25% of their baseline workforce.

Moreover, there is a lagged impact from softer demand on the construction industry. Soft economic conditions should eventually flow through to weaker applications and then construction activity. In particular, residential and non-residential building work are likely to be the most negatively affected, although the government's residential construction grants could provide some offset. That being said, infrastructure (or engineering construction) will likely gain support from the mining sector and public spending.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist
Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898

Economist
Nelson Aston
nelson.aston@bankofmelbourne.com.au
(02) 8254 1316