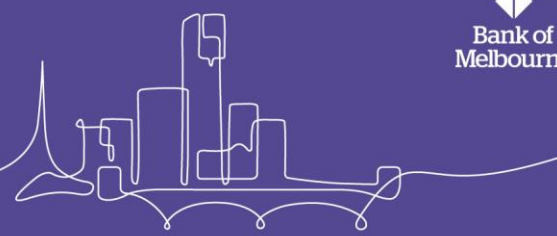


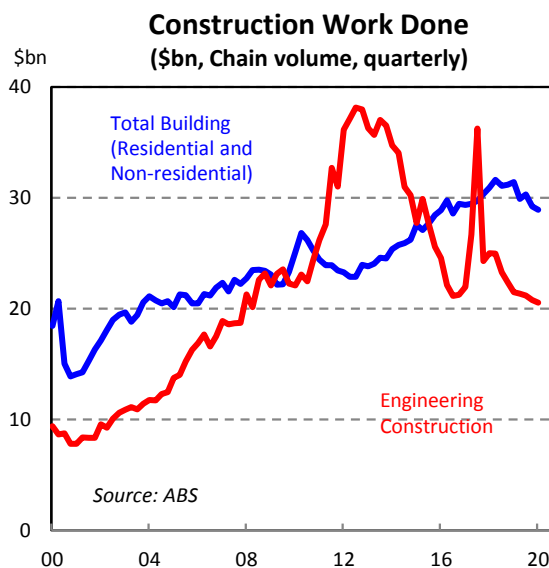
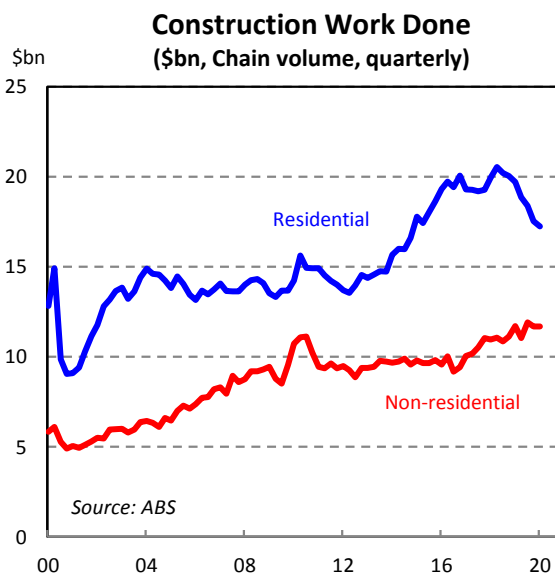


Wednesday, 27 May 2020



## Construction Work Done Weak Footings

- The value of construction work done fell 1.0% in the March quarter following a 2.9% decline in the December 2019 quarter.
- Weakness in residential activity was once again the main driver. Work done in the civil engineering sector also fell while non-residential building construction was flat.
- Negative impacts from COVID-19 containment measures were unlikely to have manifested in the March quarter. Restrictions were implemented very late in the quarter and the construction sector was deemed an essential service.
- It is possible that there was some disruption to activity from the smoke haze caused by the summer bushfire disaster.
- Residential construction continued to fall, despite continued gains in house prices over the quarter. Activity in the sector fell 1.6% over the quarter compared with a 4.6% decline in the December 2019 quarter.
- Engineering construction fell 1.1% following a 1.9% fall in the December quarter.
- The negative impact of COVID-19 restrictions on construction activity will be most acutely felt via weaker demand. There are long and variable lags between the application process and the commencement of new works. While work will be able to continue on the existing pipeline, new projects are likely to be delayed or cancelled amid the prevailing uncertainty.



Construction work done started the year on weak footing, dragged down by soggy activity in the residential sector. Construction activity fell 1.0% in the March quarter, following a 2.9% decline in the December quarter of 2019. The value of work done has been in decline for 6 of the past 7 quarters.

On an annual basis, construction work done was down 6.5% in the March quarter, a slight improvement from a 6.6% decline registered in the December quarter.

Residential construction has been particularly weak since mid-2018. The value of work done in the sector fell 1.6% in the March quarter, its seventh consecutive decline. Activity in the sector has been anaemic despite the recovery in house prices since June last year. More positively, the pace of decline slowed in the March quarter compared to the 4.6% fall registered previously and the quarterly fall was the shallowest since the March quarter of 2019.

New residential building fell 2.1% over the quarter while alterations & additions rose by 1.6%. Within new residential building, the “other” sector (which includes multi-storey and non-detached dwellings) recorded a fall of 4.5% compared with a shallower 0.3% dip in detached dwelling construction. There may have been some disruption to activity on some sites due to the summer bushfire disaster, including heavy smoke in major metropolitan areas. The high-rise sector has also struggled more generally with issues relating to confidence around building quality and with tighter financing regulations.

On an annual basis, residential construction fell 12.5% for the second consecutive quarter. The December quarter result was the largest fall since the June quarter of 2001.

Engineering construction fell 1.1% in the March quarter after falling 1.9% in the December quarter. Work carried out in the public sector fell by 3.0% while private sector engineering activity rose by 0.2%, ending four straight quarterly declines. The pipeline of infrastructure projects in the public sector remains extensive, suggesting some upside in the coming quarters. There is anecdotal evidence that public authorities are taking advantage of reduced traffic and the designation of construction as an essential activity to push ahead with their project schedules.

Non-residential building construction was unchanged in the March quarter. Non-residential construction tends to be volatile but has been relatively resilient over the past year, compared with residential building activity. On an annual basis, non-residential building work done was down slightly by 0.3%.

The performance by state and territory was mixed in the March quarter. Construction work done fell by 8.1% in NSW, its largest quarterly decline since the post-Olympics lull in the December quarter of 2000. Meanwhile, VIC saw a return to positive quarterly growth (3.2%). Positive outturns were also registered in QLD (0.1%), SA (1.1%), WA (4.4%), TAS (0.5%) and the ACT (5.3%). NT construction work done fell by 18.3%, extending its string of quarterly declines to 10.

## Outlook

COVID-19 containment measures were introduced late in March and construction was less affected given it has been designated essential service. The negative impact of the restrictions on construction activity will be most acutely felt via weaker demand. There are long and variable lags between the application process and the commencement of new works. While work will be able to continue on the existing pipeline, new projects are likely to be delayed or cancelled amid the prevailing uncertainty.

**Nelson Aston, Economist**  
Ph: 02-8254-1316

## 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

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