

# 2023 Construction Market Sentiment Survey

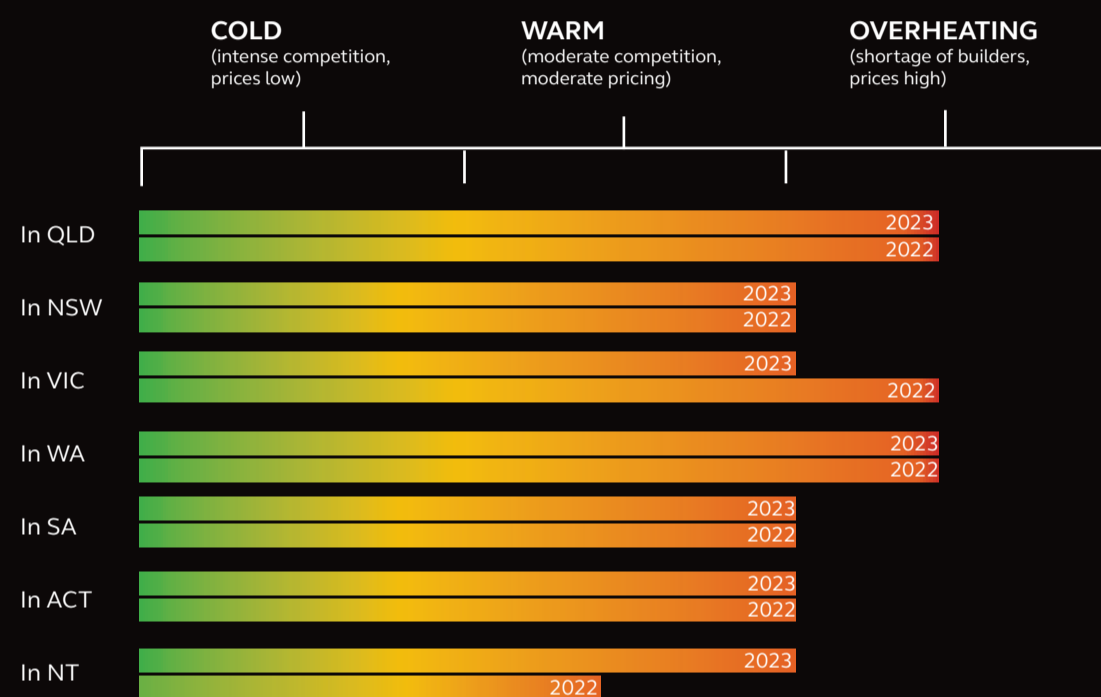
April 2023

In 2022, the value of total construction work in Australia was \$247.1Bn. This was an 11% increase on construction output on the previous year, reflecting that this was the Covid recovery year as Australia came out of lockdown much later than many other countries.

To better understand the issues that are now impacting and challenging the construction market, Arcadis and the Australian Constructors Association (ACA) have partnered to engage with builders via this Market Sentiment Survey.

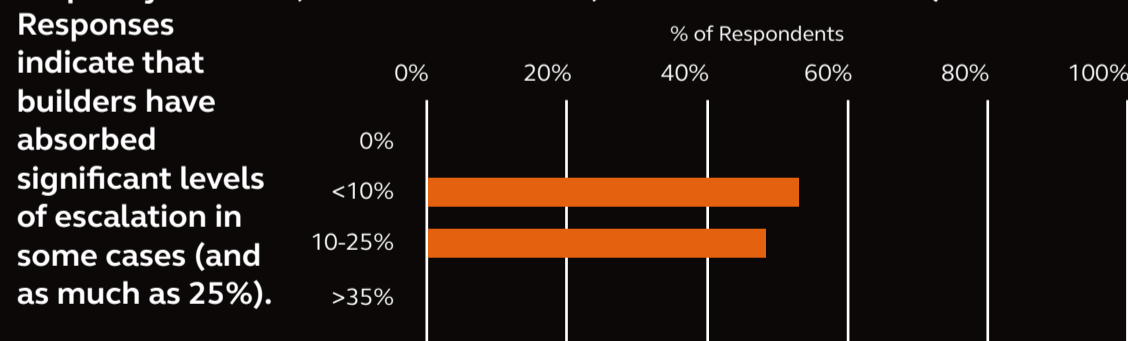
## MARKET OUTLOOK

Market outlook has stayed relatively consistent across most states. However, the outlook for Victoria has cooled slightly from 2022, while the outlook for the Northern Territory has improved significantly.



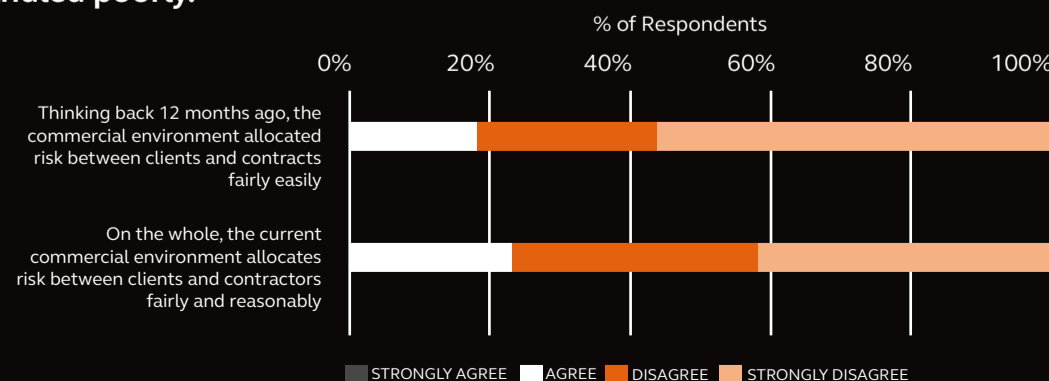
## ESCALATION ABSORPTION

We asked respondents how much cost escalation had they absorbed on their projects once all contractual mitigations had been implemented (i.e. scope adjustments, contract variations, extensions of time etc).



## CONTRACTING & PROCUREMENT ENVIRONMENT

Three-quarters of respondents agree that contract risk allocation is handled poorly.



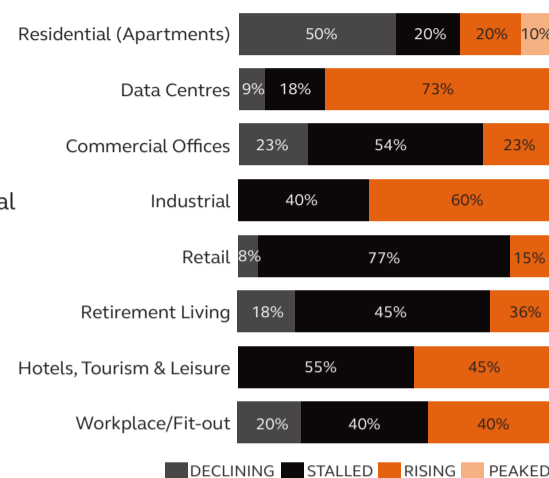
## The sectors that are running hot

Based upon responses, the hottest sectors across the construction industry are Defence (93%), Energy/Power (90%), Health (85%), Data Centres (73%), and Aviation (70%). Retirement Living, which was one of the strongest performing sectors last year, has fallen from 78% of respondents indicating that it was a rising market to just 36% in 2023.

### COMMERCIAL PROPERTY



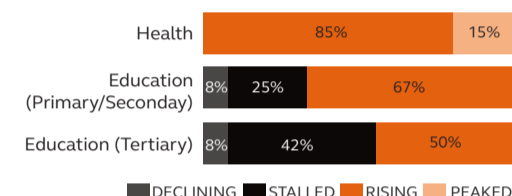
80% of respondents confirmed that the residential sector had either peaked or is now in decline. Similarly, commercial office activity has also declined with 77% confirming that this sector is in decline or has stalled. Data Centres (73%) and Industrial (60%) are two of the strongest performing sectors.



### SOCIAL INFRASTRUCTURE



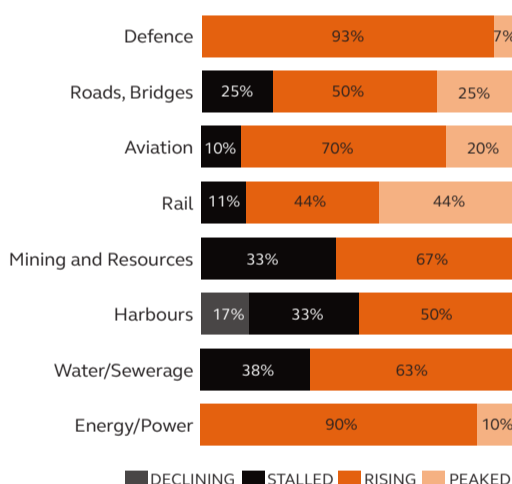
Health continues to significantly outperform with all respondents in agreement as to the strength of the sector. Education (across all tiers) also appears to be a rising market when compared to 2022 responses.



### INFRASTRUCTURE



The Defence and Energy / Power sectors continue to be dominant, which continues the trend seen in 2022. Interestingly, 44% of respondents believe that the Rail sector has now peaked compared to just 8% last year, while 44% believe that the market is still rising (compared to 90% in 2022).



## What Contractors said:

"There are more and more hidden costs in contract administration and onsite staff to manage overly prescriptive management specifications than ever before."

"The ratio of staff to direct costs continues to climb faster each year as we see actual site productivities decrease due to continued administrative road blocks."

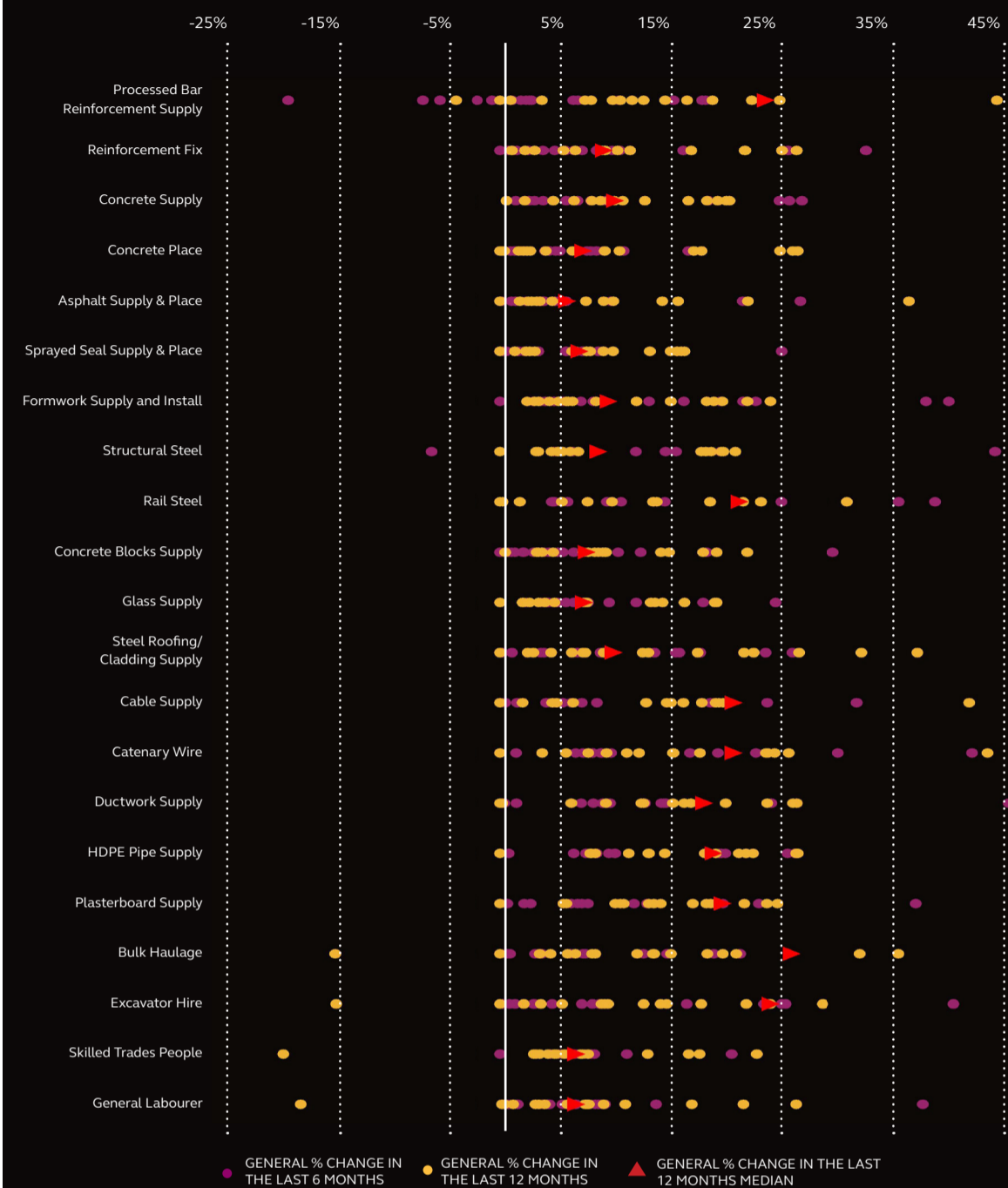
"Low price is a mirage when businesses are not sustainable. Contractors are tendering without [any] real prospect of success, and especially without the prospect of sustainable margins when they win."

"The future issue in construction is the availability of skilled tradesman to carry out the required potential pipeline of work. The remaining issues are minor in comparison."

"Value for Money [is] still a term that is used when [the] real meaning is lowest cost. A contractor's right to achieve sustainable profit margins [is] still not recognised by clients."

## BASKET OF GOODS (ALL RESPONSES)

Pricing volatility has started to ease, based on the latest responses. However, some respondents have actually noted prices have fallen for specific materials, although this is not a widely shared view. Still, there are signs of increasing volatility in skilled trades and labour. While material pricing appears to be a softening picture, this is clearly being offset by labour costs ahead of the next round of EBA negotiations. It is likely, therefore, that labour costs will accelerate further over the course of 2023 and beyond.

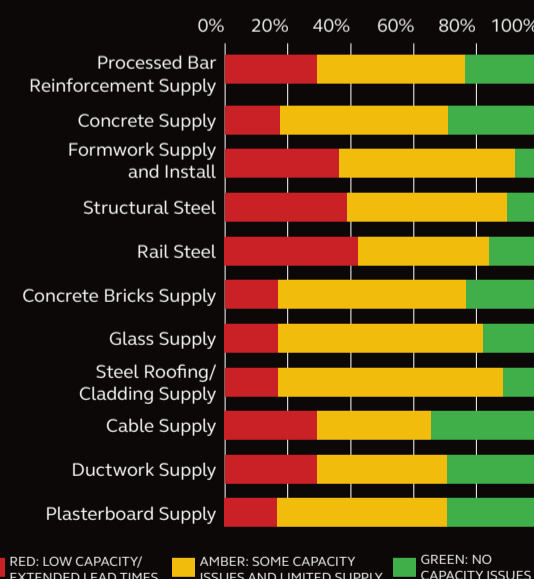


## CAPACITY PERCEPTION

### MATERIALS



Market feedback indicates that many of the supply and logistical issues experienced last year are now largely resolved. However, our latest survey responses indicate the opposite view - there is a growing list of materials that are becoming harder to come by. We can infer from this that there is still a great level of uncertainty in the market regarding material supply, and therefore cost, and that we may not be out of the woods just yet.



### LABOUR



Our survey last year indicated that labour supply was not a critical issue but that there were concerns about future capacity. What a difference 12 months makes - nearly 50% of respondents have now placed key trades in the 'red' (low capacity) category. This highlights the growing concern regarding labour availability and capacity to meet the current and projected pipeline.

