AUSTRALIAN CONSTRUCTORS ASSOCIATION

ARCADIS

2024 Construction Market Sentiment Survey

May 2024

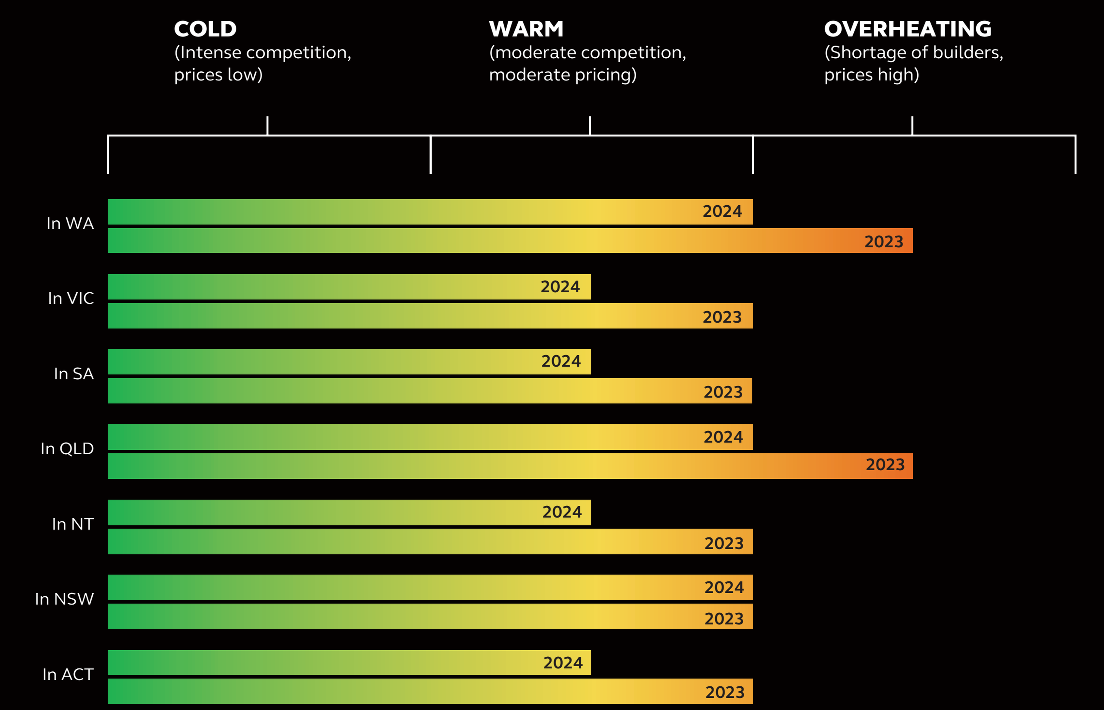
Australia is slowly moving through the post-pandemic recovery. Following a steep increase in construction output in 2022, activity slowed somewhat in 2023 and ongoing delays and commitments to project pipelines is dampening overall sentiment across the industry.

This survey has identified the following key themes:

- Political interference is severely impacting the construction industry and the bottom lines of contractors, likely due to regulation changes and confirmed project commitments (and uturns).
- The industrial relations environment, specifically as it relates to rising labour costs, is increasing construction construction costs while reducing construction productivity.
- Escalation absorption and risk exposure continue to be significant impediments to project success and business viability.
- The current environment – which is categorised by higher construction costs – is impeding the private sector and driving clients to consider utilising hard-dollar tenders and lump sum contracts.

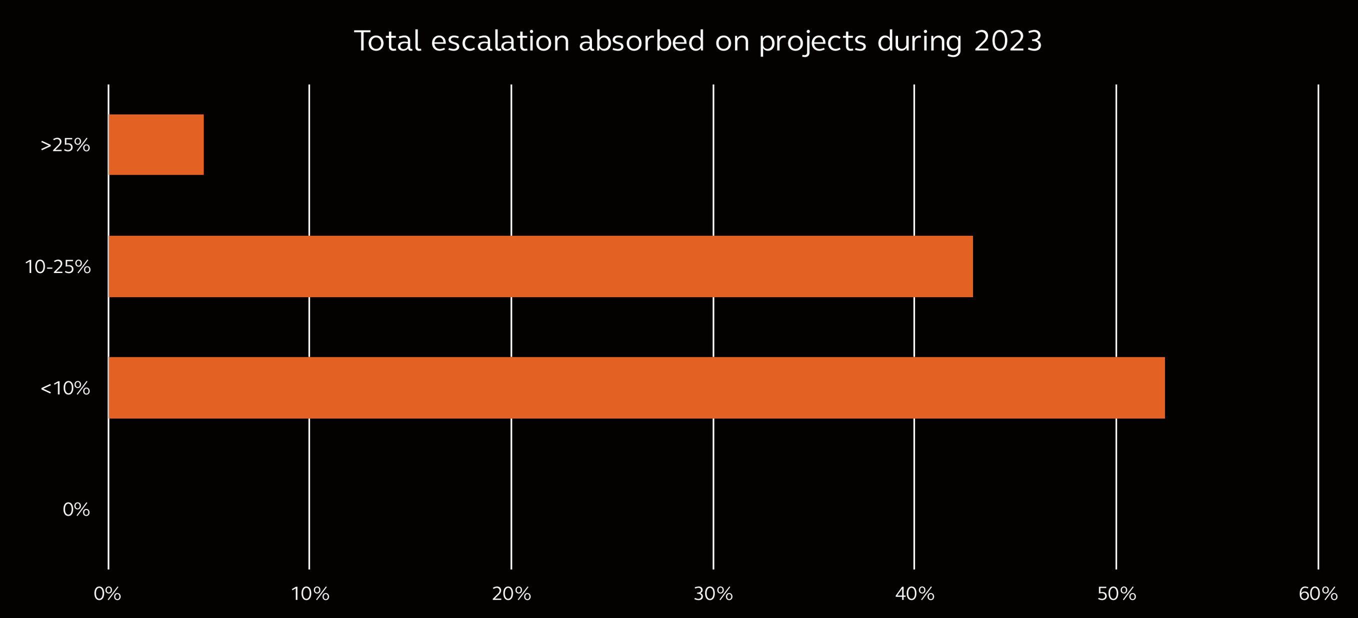
MARKET OUTLOOK

Market outlook has reversed across most markets, with overall sentiment declining. Only NSW has maintained the same level of outlook as last years survey. Our analysis indicates that this due to large swathes of projects across the country being delayed over the past 12-18 months and that promised pipelines and commitments have not yet eventuated.



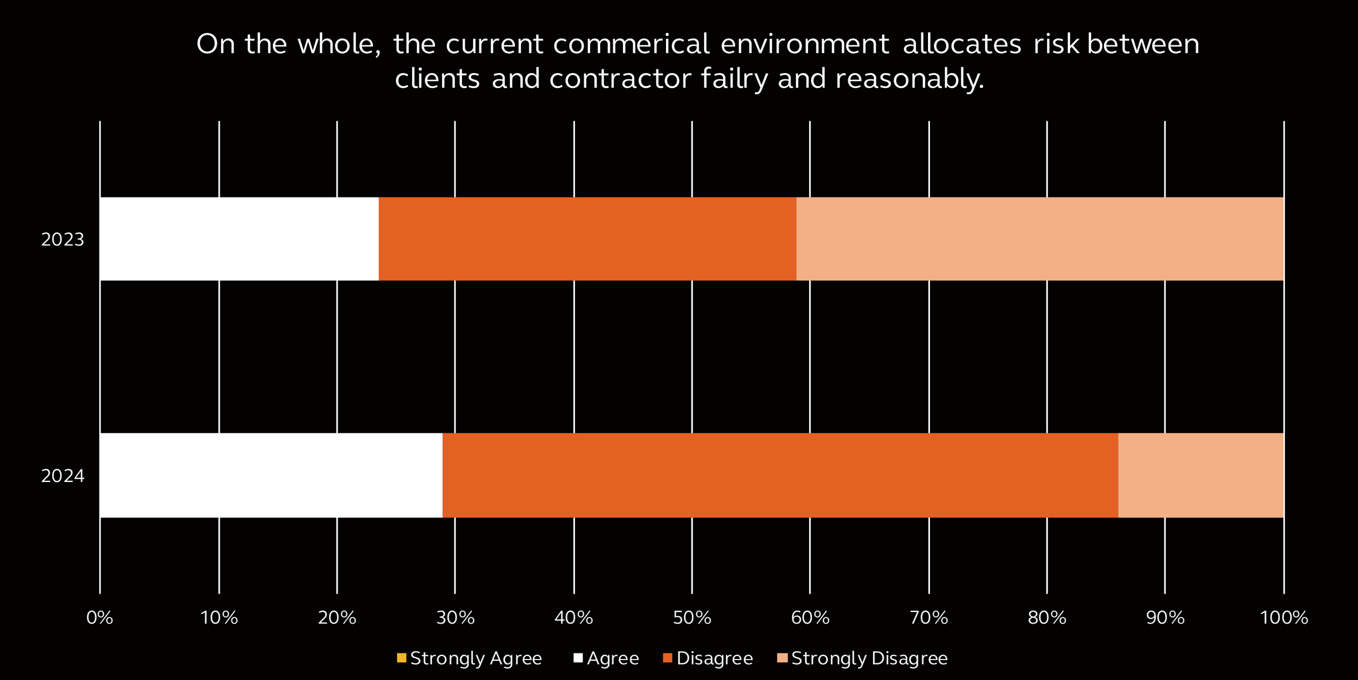
ESCALATION ABSORPTION

We asked respondents how much cost escalation they continue to absorb on their projects once all contractual mitigations had been implemented (i.e. scope adjustments, contract variations, extensions of time, etc). Responses indicate that contractors have continued to absorb significant levels of escalation in some cases and that this may be a worsening picture.



CONTRACTING ENVIRONMENT

Nearly three-quarters of respondents (71%) agree that current contracts do not adequately and fairly allocate risk between contracting parties. This is a similar result to last year's survey and indicates that this situation has not improved.

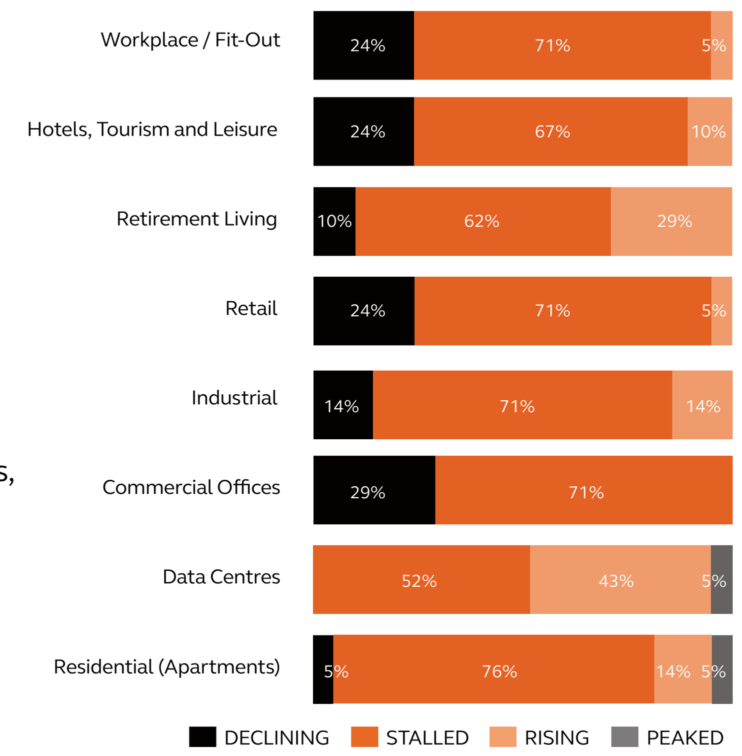


The sectors that are running hot

Based upon responses, the hottest sectors across the construction industry are Energy and Power (81%), Water (71%), and Defence (67%). All of these sectors sit under the Infrastructure segment and are representative of rising public sector investment. Interestingly, there are growing signs that Transport Infrastructure (namely Roads and Rail) have started to peak.

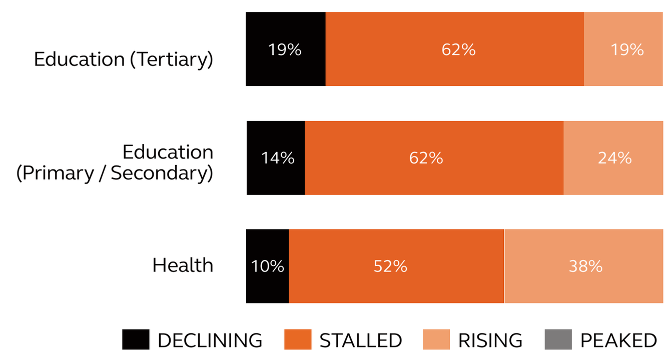
Commercial Property

81% of respondents have confirmed that the Residential Sector has either stalled or is in decline. In fact, the majority of sectors that fall under the Commercial Property market are currently deemed to have declined or stalled, with the only real exceptions being Data Centres, with **43%** indicating that this is a rising market, and Retirement Living **(29%).**



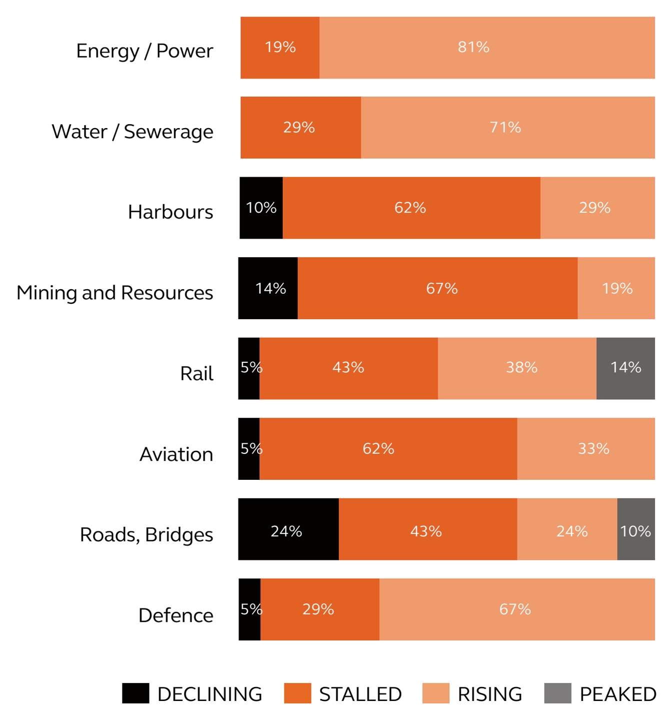
Social Infrastructure

As per last years survey, Health continues to outperform the other sectors in this market with **38%** of respondents in agreement as to the strength of the sector. However, overall sentiment in Education and Health has fallen from last year's survey, with most respondents indicating that these markets have stalled. This is likely in response to delays to project commitments that ultimately undermine industry confidence.



Infrastructure

The Defence and Energy / Power sectors continue to be the most dominant, which continues the trend that started in 2022. The Water sector seems to have improved its fortunes, with **71%** indicating that this is a rising market. Interestingly, **14%** of respondents believe that the Rail sector has now peaked compared to just **44%** last year – so it is clear that there is still a great deal of uncertainty in this sector, although this is a significant step-back from 2022 where **90%** of respondents indicated that Rail was a rising market.



What Contractors said:

"[The] industrial relations environment is heading downhill with unreasonable power given to unions without any consideration of [the] productivity effects. Governments [that are empowering these changes] are then reluctant to take on any of the costs or risk that comes with the changing IR environment."

"Governments [have] restricted budgets and therefore [are] starting to revert to hard dollar contracts or contracts that give limited relief for factors outside [of] the contractor's control."

"We are very focused on the form of contract / risk allocation but one of the largest sources of risk is when the tender design and/or site investigations are underdeveloped. I would really like the industry to place more focus on this as regardless of contract model, doing more (say) utilities investigations before going to tender reduces risk for everyone."

"Several large government funded construction projects (Road, Rail, Aviation) are stalled or delayed. Appetite for greater clarity of this forward pipeline is strong and will give confidence to invest in capability. There is a significant uplift in tenders for renewable projects. However disparate procurement processes and contracts makes it difficult to predict when this work will transact."

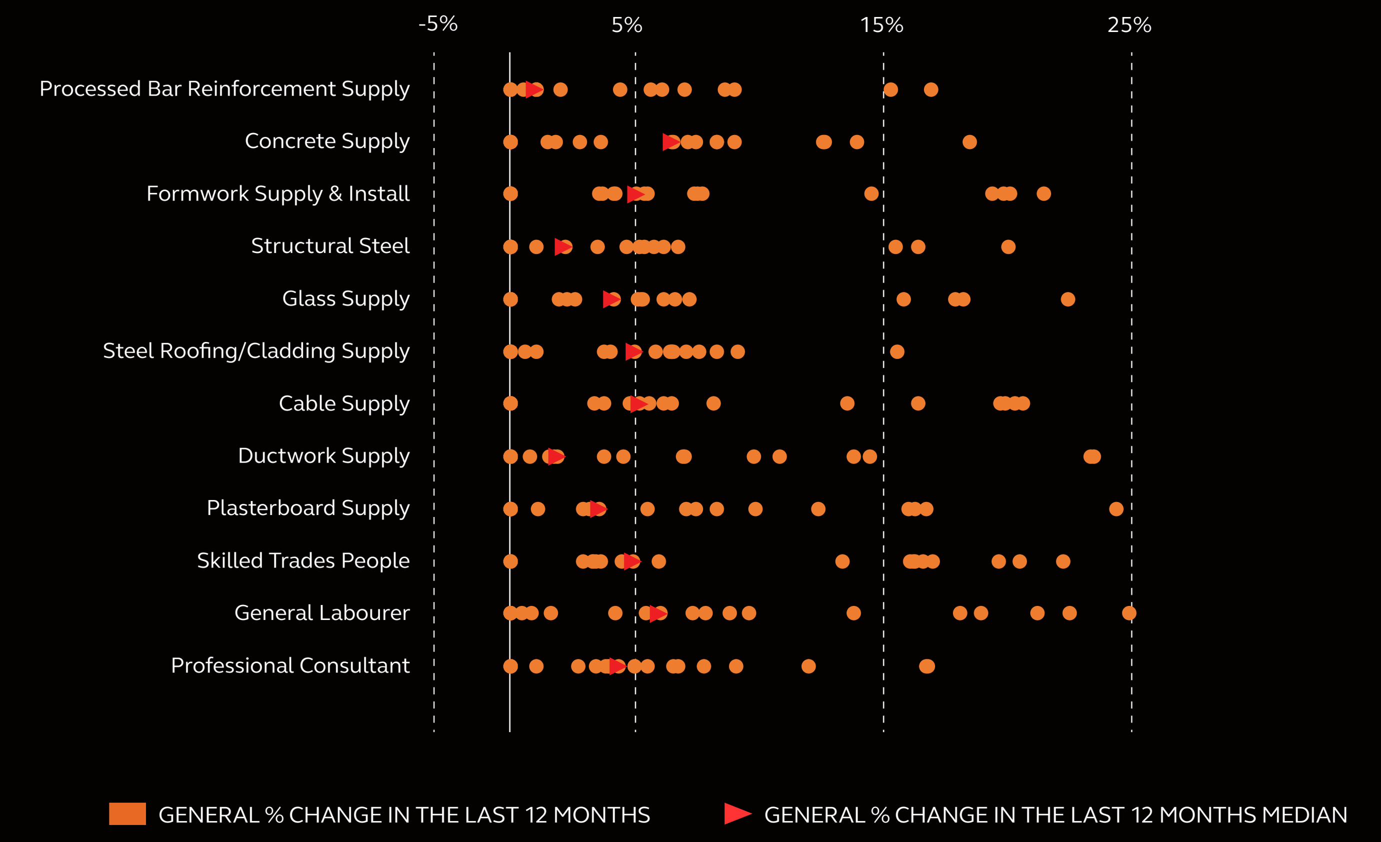
"There has been a significant correction in overspending in the infrastructure space and government spending. This has escalated the market in non-[government] and private areas making it difficult to get feasibilities to work on other projects."

"Margins are already very low after overheads [are considered], so [these] need to increase to make the whole industry viable."

"The apportionment of contract risk/liability is the single largest impediment to growth of our business."

BASKET OF GOODS (ALL RESPONSES)

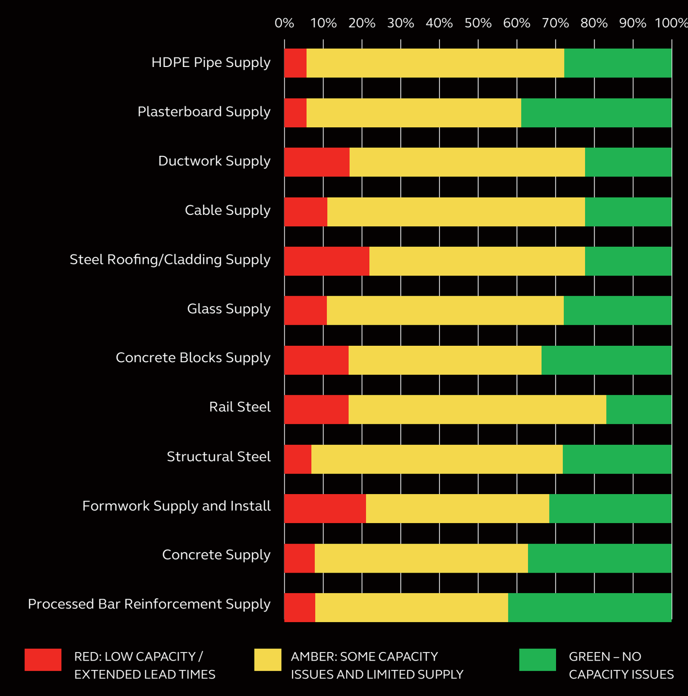
Pricing volatility has continued to ease, and material price escalation now appears to be close to long-term trends, which is a welcome sign. However, skilled trades, general labour, and consultant costs have all held steady from last year, with an average increase of approximately 5%. It should be noted that some respondents have indicated that costs associated with Skilled Trades People have increased between 15% and 20%, which is likely due to the status of EBA negotiations in various jurisdictions.



CAPACITY PERCEPTION

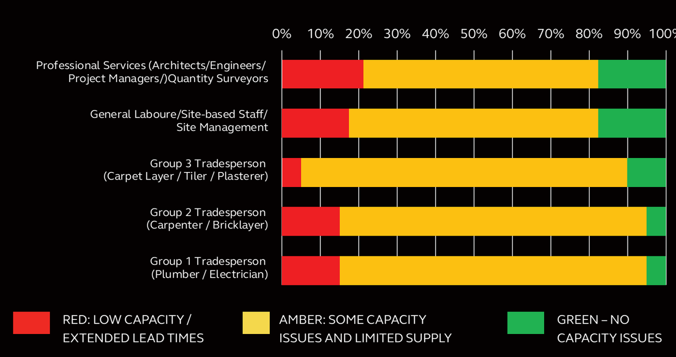
Materials

Market feedback indicates that many of the supply and logistical issues experienced over the last two years continue to resolve themselves and that materials are becoming increasingly available. This has perhaps taken 12 months longer to resolve than first anticipated.



Skills and Labour

Our survey last year indicated that labour supply was not a critical issue but that there were concerns about future capacity. Interestingly, the situation appears to have improved slightly, but this does not mean that challenges of labour capacity have been abated. It is more likely that this is a result of the current market slow-down, which is evidenced by the market analysis elsewhere in this paper. This year we have introduced a new category – Professional Services – and this is highlighted as the largest area of concern by respondents in terms of availability / capacity.



BUSINESS IMPACT

This year we have introduced a new category where we asked respondents what were the biggest factors that significantly impacted or influenced their business in the preceding 12 months. The top three responses, by a significant amount, comprised:

1. Political Changes
2. Access to Skilled Labour
3. Government Red Tape