



**MASTER BUILDERS  
AUSTRALIA**



**BUILDING AND CONSTRUCTION  
INDUSTRY FORECASTS**

**ACT**

**SEPTEMBER 2023**



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# OVERVIEW

Master Builders Australia's latest industry forecast provides a deep dive in the current economic conditions of the building and construction industry and an activity projection over the next five years until 2027–28.

As the only industry body representing all three sectors – residential, commercial and civil – the forecasts help paint a clearer picture on the industry's outlook.

The forecasting uses robust techniques which involve both targeted economic models based on industry knowledge and research.

Building and construction is one of the largest sectors of the Australian economy with the value of building work done equivalent to over 10 per cent of Gross Domestic Product (GDP).

Our industry packs its biggest punch when it comes to the provision of full-time employment and support for small business. During May 2023, there were 1.33 million people employed in the building and construction industry. About 85 per cent of these jobs were full-time in nature, a far higher proportion than in the rest of the economy. This means that construction has consistently been the economy's largest provider of full-time jobs over many decades. During May 2023, there were 1.14 million full-time jobs in the construction industry – more than every sector of the economy outside of health and social services.

The average profit margin across all building and construction businesses tends to fluctuate around 5 per cent but this can quickly be eaten away in a high inflation environment – especially if the builder is locked into fixed-price contracts, as is customary in the residential building sector.

At one stage during the pandemic, the cost of building homes increased by 20 per cent over

the course of 12 months. Latest figures show that these cost pressures have eased back, although new home building costs still increased by 7.3 per cent over the year to June 2023.

The most up-to-date data from the Australian Bureau of Statistics (ABS) indicates that at the end of June 2023, there was a total of 444,419 construction businesses in operation across Australia. This is more than any other sector of the economy. The most striking feature of our industry's construction businesses is their size: of the total, the overwhelming majority (98.7 per cent) are small in size with less than 20 employees. Well over one half of our construction businesses (58.0 per cent) have no employees at all, typically operating as sole traders or partnerships.

The small size of construction businesses is reflected in their pattern of turnover. The majority (57.2 per cent) turn over less than \$200,000 per year. Just 1.4 per cent of building and construction businesses have annual revenues in excess of \$10 million.

The structure of construction activity means that the support offered by it to other parts of the economy is strong. This is because there is a high domestic content to our industry's inputs including building materials, labour and professional services. As a result, it is estimated that for every one million dollars' worth of residential building activity the entire economy is better off to the tune of three million dollars. Similarly, one million dollars' worth of residential building activity is estimated to support a total of nine full-time jobs across Australia's economy – including three jobs in other sectors outside of building and construction.

# ECONOMIC BACKDROP

Australia's economy is navigating a challenging period. There is no denying millions of Australians and business owners are feeling the mounting pressure of rising costs of living.

Economic growth is weak, unemployment is starting to rise, productivity is stagnant, and inflation is not yet under control. There is a reasonable risk that Australia's economy could shrink in the near future – assuming it is not already doing so.

The 4.00 percentage point increase in the cash rate since May of last year is the main culprit when it comes to the deceleration of economic growth and tightening of purse strings. Of course, interest rates only went up because inflation did first.

However, it is not all doom and gloom, there are good reasons for believing that we are winning this battle provided we stay the course: from a peak of 7.8 per cent late last year, the inflation rate has dropped back to 6.0 per cent. While this is still well above the Reserve Bank of Australia (RBA)'s target of between 2 per cent and 3 per cent, it is moving steadily in the right direction.

Some parts of the economy are stubbornly resisting the move to lower inflation particularly in the building and construction sector: rents have accelerated and are up by 6.8 per cent on a year ago, the biggest increase in almost 15 years. While inflation in the price of goods has generally eased, services inflation has gotten worse and now stands at its highest since 2001 which is a reflection of a tight labour market.

Compared with goods, the provision of services relies heavily on the supply of suitably skilled workers. Many areas of the economy, including construction, are suffering from labour shortages and this had particularly detrimental effects on service costs.



That said, there is some evidence that labour market bottlenecks are starting to abate. Australia's unemployment rate rose to 3.7 per cent in July 2023 with about 14,600 fewer people at work during the month. In another sign of softness, there was an increase in the number of workers doing part-time hours at the expense of full-time positions.

Despite the jobs market's recent stumble, there are still 387,000 more people at work in Australia compared with this time last year. It is no coincidence that this is relatively in line with the volume of net overseas migration to Australia (+387,000) during 2022, the last 12-month period for which we have figures.

Clearly, inward migration is a key driver in the expansion of Australia's labour market. As well as providing more workers, inward migration adds to the number of consumers in the economy, meaning the economy receives support on both the demand and supply fronts. The way in which high inward migration skews our economic gears in favour of growth, it may be enough to avoid a recession.



**EVELYN SCOTT PRESCHOOL TO YEAR 10, ACT  
BY JOSS CONSTRUCTION, FINALIST IN THE 2022  
NATIONAL SUSTAINABILITY IN A COMMERCIAL BUILDING AWARD**

Having more workers does not guarantee that living standards will get better without other economic levers being pulled. The collective productivity of our economy's labour force also matters hugely.

In recent years, the hourly output of Australia's workers has stagnated. This is the crux of the productivity challenge. There are no simple cures to the productivity ills that confront us and the efforts of governments to tackle this challenge cannot be left to silos.

Freeing up the ways in which businesses and workers can interact with each other could provide a springboard for improvements in innovation and enterprise across our economy. The Federal Government's upcoming industrial relations legislation poses a real concern by taking away much-needed flexibility and freedoms of employers, their employees and independent contractors; inadvertently sending productivity backwards and passing on higher costs down the supply chain. Similarly, reducing the tax

burden on productivity-boosting investment and technological development could also help break us out of the productivity doldrums.

The RBA opted to keep interest rates on hold at its last three meetings. It is possible that interest rates have peaked. If they haven't, we are probably close to the top. Financial market expectations are that interest rates will begin declining gently in the second half of 2024. Once we reach this phase, it is likely to be favourable from the perspective of household and business confidence, but this will be dependent on government decisions in the near future and continued cooperation of the state and territories across the federation.

# KEY FORECAST ASSUMPTIONS

Over the next five years, building and construction activity will be very dependent on the macroeconomic environment. In this section, we describe the baseline economic assumptions that underpin our new set of projections.

The short term will see economic activity weakening; Gross Domestic Product (GDP) growth is anticipated to slow from an estimated 3.1 per cent in 2022–23 to just 1.1 per cent in 2023–24.

However, amid lower interest rates and solid population growth, the pace of economic growth is likely to accelerate to 1.6 per cent during 2024–25. GDP growth is then expected to reach 3.2 per cent in 2025–26 before easing very marginally the following year (3.1 per cent).

The labour market takes time to heal in response to accelerating economic activity. From 3.5 per cent during 2022–23, the unemployment rate is likely to jump to 4.5 per cent during 2023–24 and peak slightly higher at 4.6 per cent during 2024–25. From there, the journey is expected to be a downward one: we are anticipating that the unemployment rate will ease back to 4.3 per cent in 2025–26 and decline further to 3.7 per cent in 2026–27. This would represent a very low unemployment rate by historic standards.

Few factors have a bigger influence on building and construction activity than interest rates. The RBA's official cash rate currently stands at 4.10 per cent. We expect that it will remain at this level for the rest of the 2023–24 financial year. It is then projected to decline to 3.50 per cent by June 2025 and sink to 2.50 per cent in June 2027.

Of course, interest rates will only go down because inflation is getting back under control. Our forecasts assume that from 6.0 per cent today, the annual inflation rate will drop back to 3.6 per cent in mid-2024 and then decline to 2.8 per cent in mid-2025. From there, we anticipate that inflation will steady out at 2.4 per cent.

Net overseas migration is typically the largest driver of housing demand. For our forecasts, we adopt the same underlying assumptions as the Commonwealth Treasury did at the time of the May 2023 federal budget. This involves net inward migration easing from +315,000 in 2023–24 to +260,000 in 2024–25. From there, migration is assumed to stabilise at +235,000 annually over the medium term. The recently released *2023 Intergenerational Report* has stuck with this medium-term migration assumption.

# OVERALL PERFORMANCE

The total volume of construction activity in the ACT dropped by 2.1 per cent during 2022-23 with \$3.67 billion worth of work done across the territory. Activity is likely to take a significant step back during 2023-24 with a decline of 13.2 per cent likely to occur. Unlike other parts of the country, residential building will remain the largest plank of the ACT's construction industry over the next five years, followed by non-residential building. Despite the significant volume of work relating to Stage 2 of the Light Rail project, engineering construction will remain the smallest of the three components of the territory's construction industry.

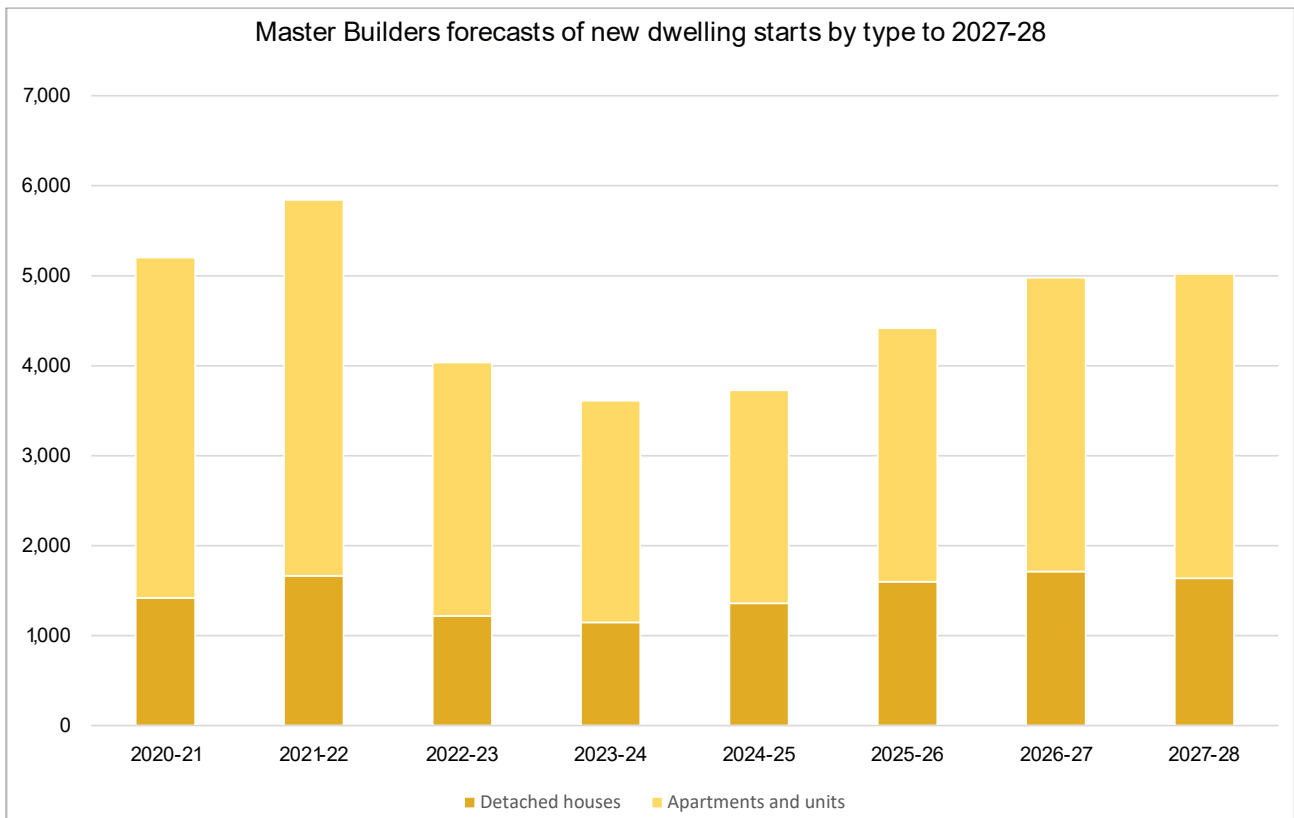
## Master Builders Australia forecasts of total construction activity for ACT to 2027-28 (millions of 2020-21 dollars)

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
\$3,701	\$3,746	\$3,669	\$3,186	\$3,311	\$3,434	\$3,664	\$3,854
No data	+1.2%	-2.1%	-13.2%	+3.9%	+3.7%	+6.7%	+5.2%

Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)



**ECLECTIC HOUSE, ACT**  
**BY MEGAFLORA GROUP, FINALIST IN THE 2022**  
**NATIONAL CONTRACT HOME – \$2M TO \$4M**



### Master Builders Australia forecasts of total new dwelling starts for ACT to 2027-28

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
5,203	5,843	4,036	3,609	3,726	4,418	4,976	5,021
No data	+12.3%	-30.9%	-10.6%	+3.3%	+18.6%	+12.7%	+0.9%

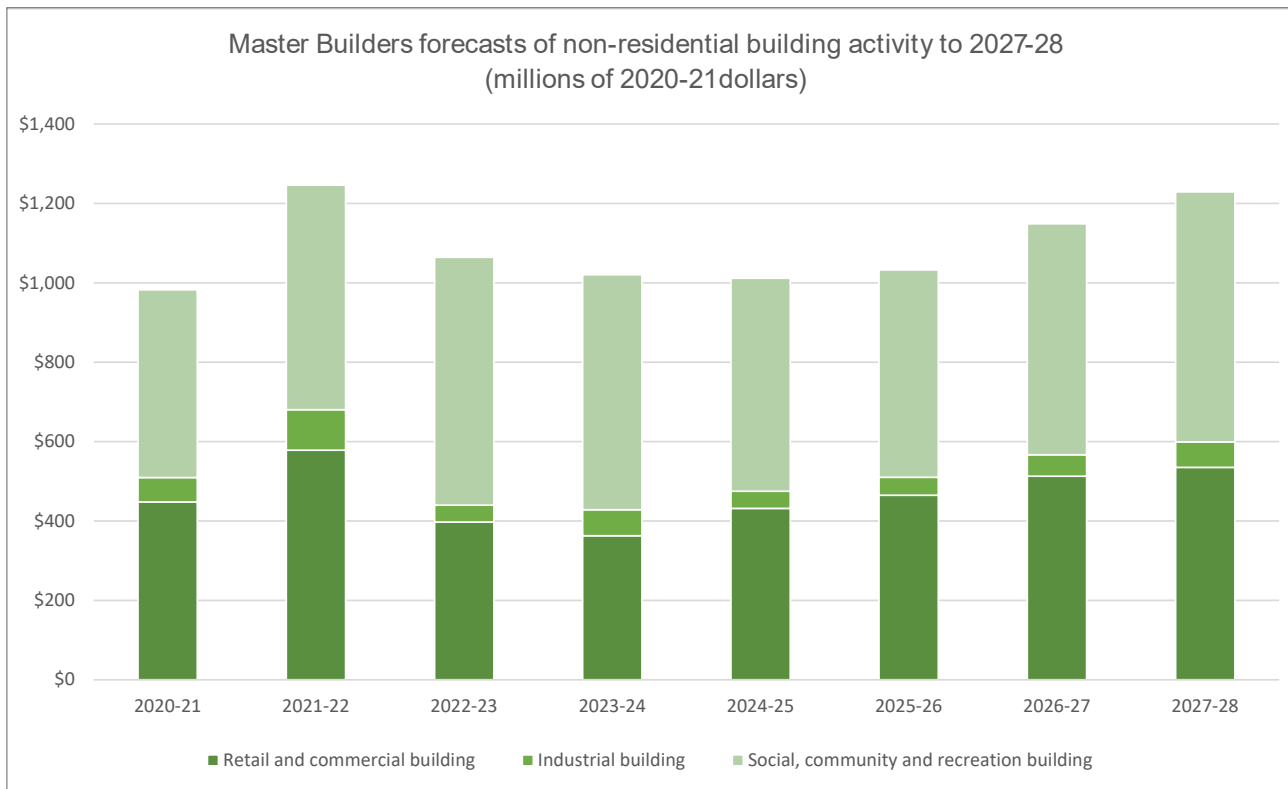
Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)

Detached houses account for a fairly low share of new home building activity in the ACT and this means that the dynamics of residential building here are quite different to the rest of the country. During 2022-23, detached houses accounted for just 30.2 per cent of all new builds.

Total new dwelling commencements peaked at 5,843 during 2021-22 but are estimated to have dropped by 30.9 per cent during 2022-23. Both detached house starts and those in higher density saw major reductions. Our expectation is that activity will bottom out during 2023-24 with work beginning on 3,609 new homes. From then

on, activity will climb quite steadily especially on the higher density side of the market. By the end of our forecast horizon in 2027-28, new home building starts are expected to be above the 5,000 mark again – some 24.4 per cent higher than in 2022-23, with detached houses accounting for about one in three of the newly started homes (32.6 per cent).

From a technical perspective, it is important to emphasise that our forecasts do not take into account the initiatives unveiled at National Cabinet in August 2023, including the New Home Bonus and the National Planning Reform Blueprint.



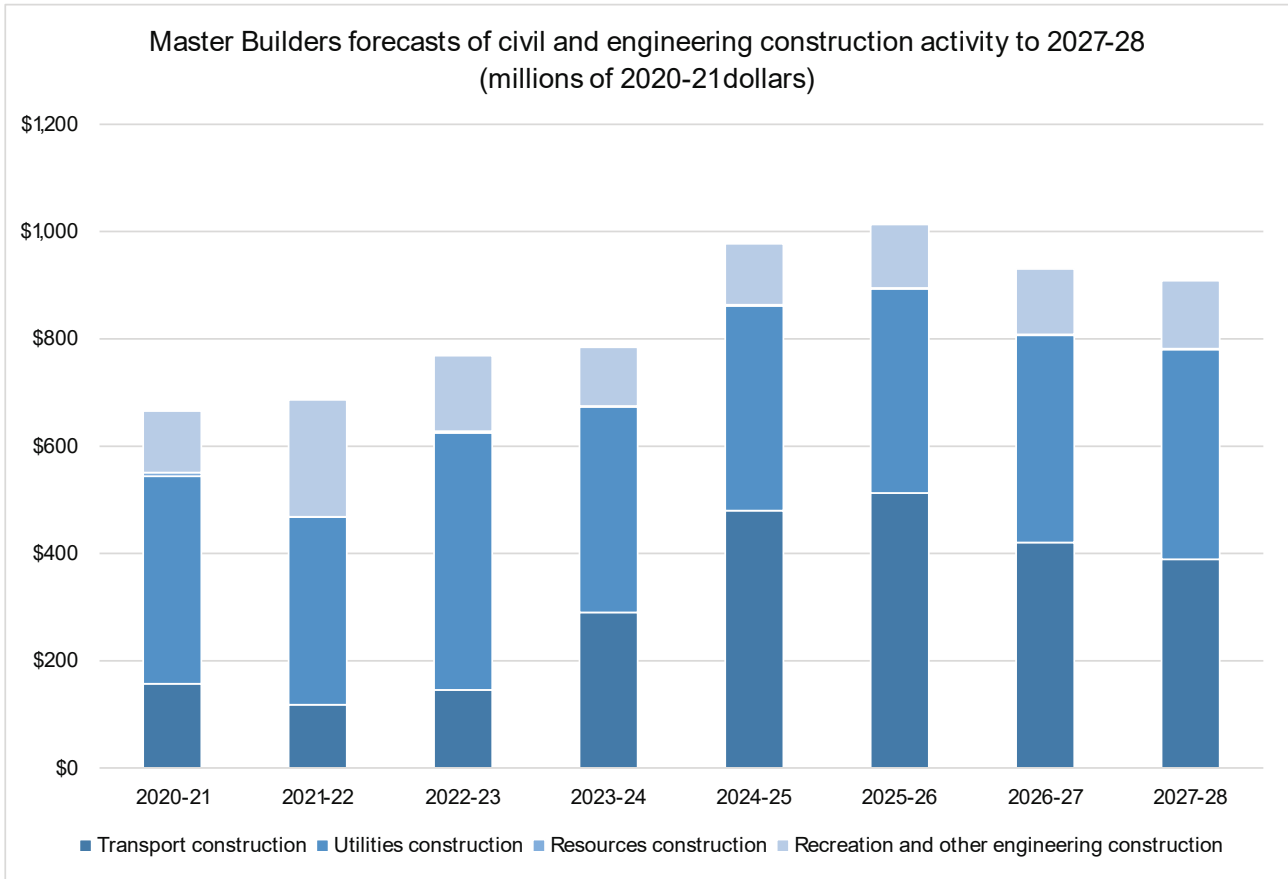
### Master Builders Australia forecasts of total non-residential building activity for ACT to 2027-28 (millions of 2020-21 dollars)

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
\$982.4	\$1,246.4	\$1,064.2	\$1,020.1	\$1,011.9	\$1,032.3	\$1,148.9	\$1,229.4
No data	+26.9%	-14.6%	-4.1%	-0.8%	+2.0%	+11.3%	+7.0%

Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)

Non-residential building work in the ACT had a bumper year in 2021-22 (+26.9 per cent) although a large chunk of the new ground was lost the following year (-14.6 per cent). Activity is continuing to move backwards and it is our expectation that non-residential building activity in the ACT will bottom out at \$1.01 billion during 2024-25. From there, the journey upwards is likely to be quite smooth with the size of the market likely to reach \$1.23 billion by 2027-28.

For the ACT, projects relating to social, cultural and recreation buildings are the most important section of non-residential building. This part of the market is very dependent on the public sector and it is likely to grow smaller over the next three years. However, once it bottoms out over the next year, retail and commercial building work is set to see a strong and sustained uplift over the remainder of the forecast horizon.



**Master Builders Australia forecasts of total engineering and civil construction for ACT to 2027-28**  
(millions of 2020-21 dollars)

2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
\$665.5	\$686.1	\$768.7	\$784.6	\$977.4	\$1,013.3	\$930.6	\$908.3
No data	+3.1%	+12.0%	+2.1%	+24.6%	+3.7%	-8.2%	-2.4%

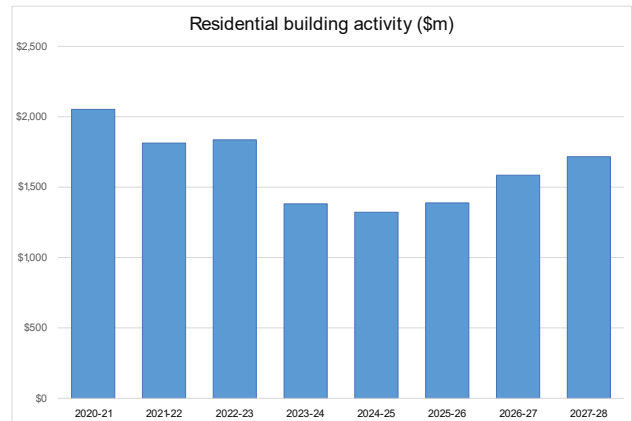
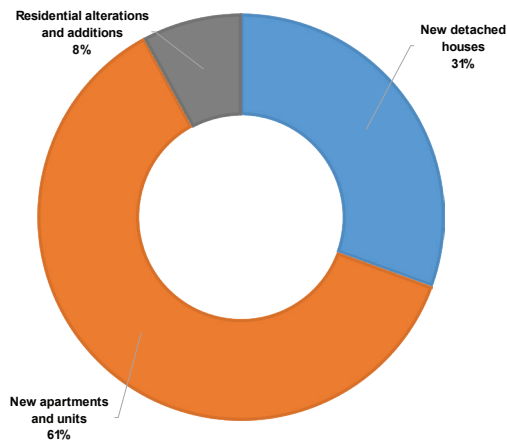
Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)

Engineering construction has never packed as big a punch in the ACT compared with most other states. During 2022-23, the volume of work still racked up a decent increase (+12.0 per cent) taking the total volume of activity to \$768.7 million. Much of the increase is related to Stage 2 of the Light Rail kicking off. Action here is likely to peak during 2025-26 when over \$500 million worth of transport infrastructure work is

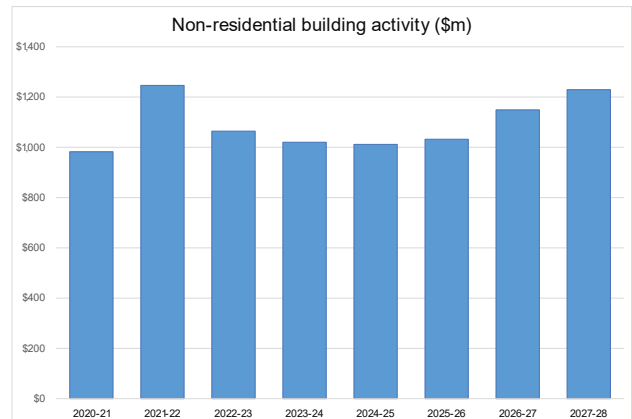
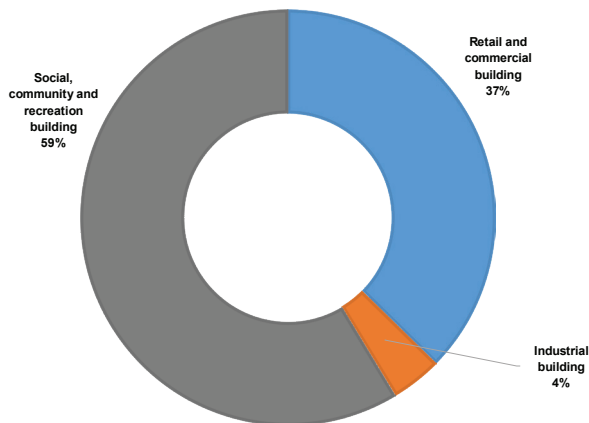
likely to be completed across the ACT. As Light Rail tapers off, some of the slack will be taken up by the modest expansions we are expecting in the areas of utilities and recreation construction work. As with many parts of the market, steady population growth creates the need for greater volumes of work in most parts of engineering construction over time.

# BUILDING AND CONSTRUCTION WORK DONE

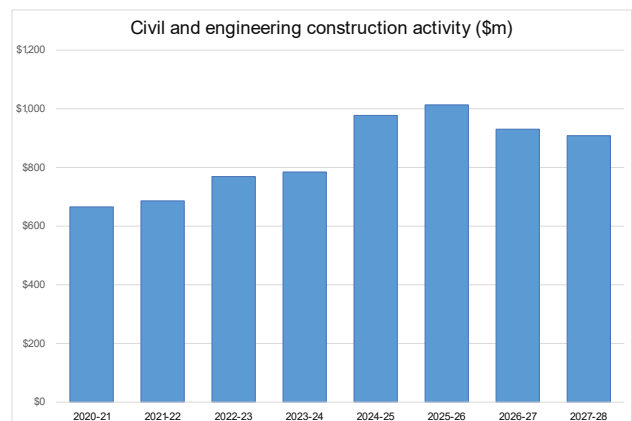
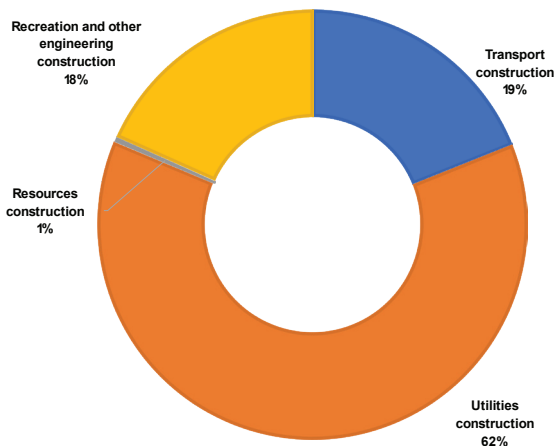
Composition of residential building work done in 2022-23



Composition of non-residential building work done in 2022-23



Composition of civil and engineering construction work done in 2022-23



**All construction activity: Master Builders Australia forecasts for ACT to 2027–28**  
(millions of 2020–21 dollars)

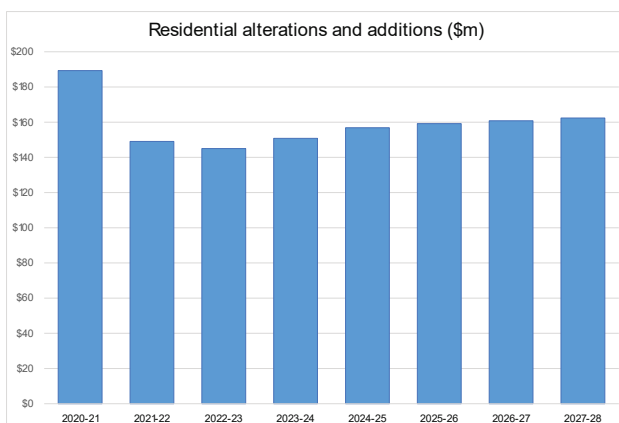
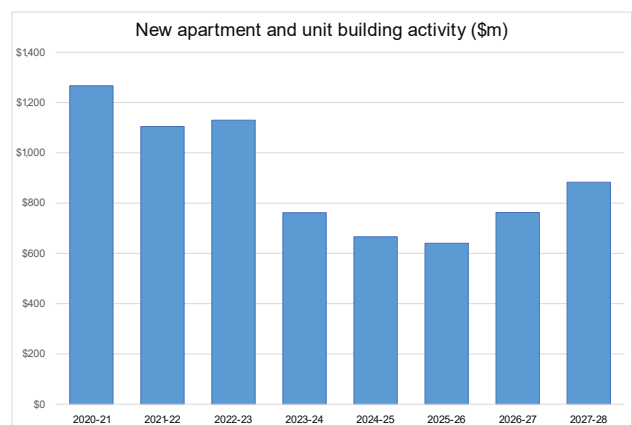
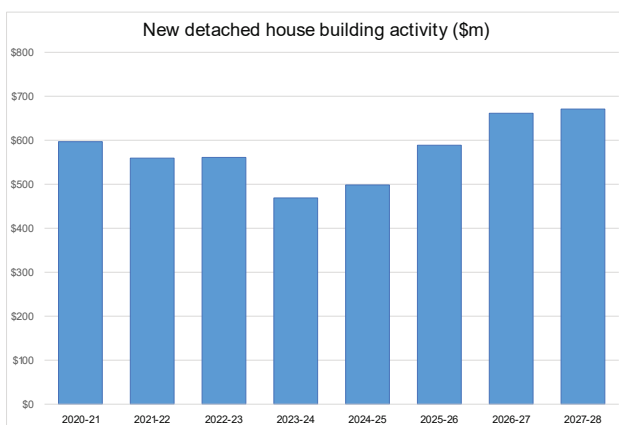
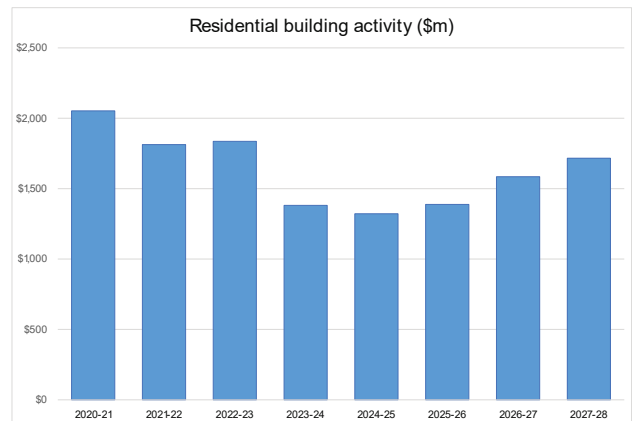
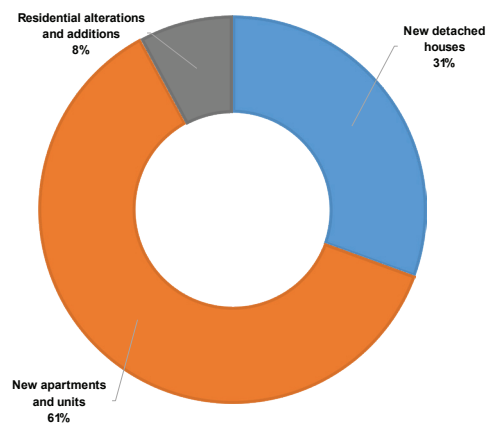
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Total building and construction activity</b>	\$3,700.7	\$3,745.6	\$3,668.8	\$3,186.2	\$3,310.7	\$3,433.8	\$3,664.3	\$3,854.0
<i>Change on previous year (%)</i>	No data	+1.2%	-2.1%	-13.2%	+3.9%	+3.7%	+6.7%	+5.2%
<b>Residential building activity</b>	\$2,052.8	\$1,813.1	\$1,835.8	\$1,381.4	\$1,321.5	\$1,388.2	\$1,584.8	\$1,716.2
<i>Change on previous year (%)</i>	No data	-11.7%	+1.3%	-24.8%	-4.3%	+5.0%	+14.2%	+8.3%
<b>Non-residential building activity</b>	\$982.4	\$1,246.4	\$1,064.2	\$1,020.1	\$1,011.9	\$1,032.3	\$1,148.9	\$1,229.4
<i>Change on previous year (%)</i>	No data	+26.9%	-14.6%	-4.1%	-0.8%	+2.0%	+11.3%	+7.0%
<b>Civil and engineering construction work</b>	\$665.5	\$686.1	\$768.7	\$784.6	\$977.4	\$1,013.3	\$930.6	\$908.3
<i>Change on previous year (%)</i>	No data	+3.1%	+12.0%	+2.1%	+24.6%	+3.7%	-8.2%	-2.4%

Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)

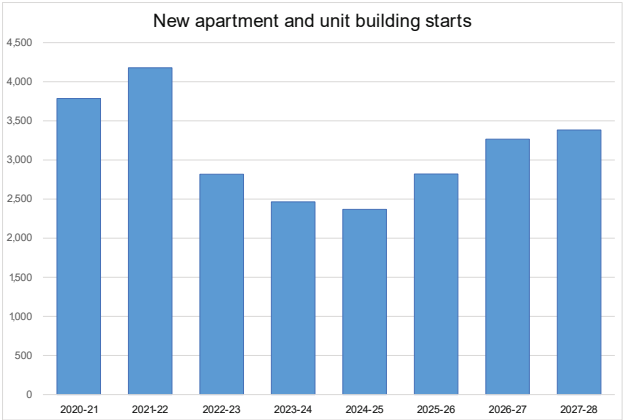
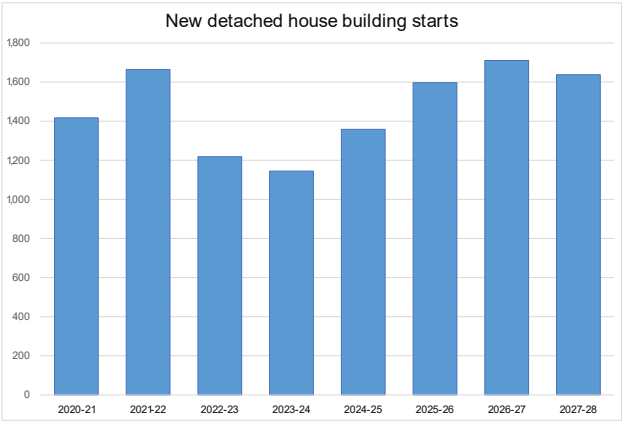
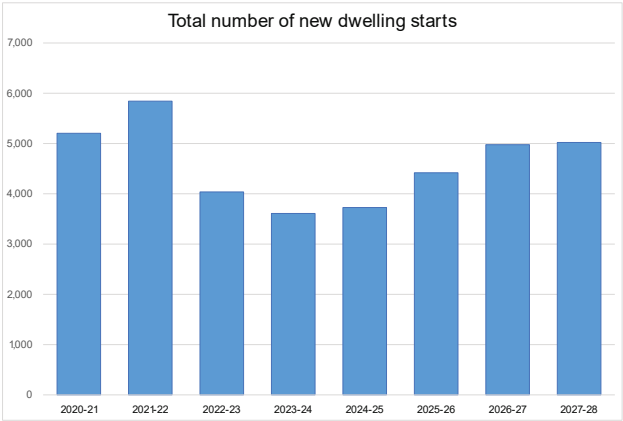
# RESIDENTIAL BUILDING

## WORK DONE BY SECTOR

Composition of residential building work done in 2022-23



# NUMBER OF DWELLING COMMENCEMENTS BY SECTOR



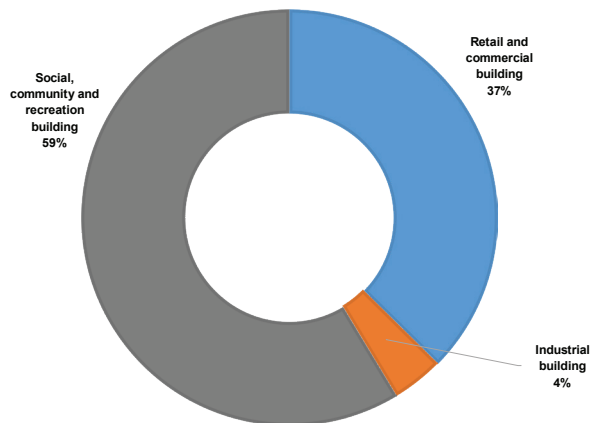
**Residential building activity: Master Builders Australia forecasts for ACT to 2027-28  
(millions of 2020-21 dollars)**

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Total residential building activity</b>	\$2,052.8	\$1,813.1	\$1,835.8	\$1,381.4	\$1,321.5	\$1,388.2	\$1,584.8	\$1,716.2
<i>Change on previous year (%)</i>	No data	-11.7%	+1.3%	-24.8%	-4.3%	+5.0%	+14.2%	+8.3%
<b>New detached house building</b>	\$596.8	\$559.4	\$561.0	\$468.9	\$498.4	\$588.8	\$661.4	\$670.9
<i>Change on previous year (%)</i>	No data	-6.3%	+0.3%	-16.4%	+6.3%	+18.1%	+12.3%	+1.4%
<b>New apartment/unit building</b>	\$1,266.7	\$1,104.7	\$1,129.8	\$761.7	\$666.2	\$640.2	\$762.5	\$883.0
<i>Change on previous year (%)</i>	No data	-12.8%	+2.3%	-32.6%	-12.5%	-3.9%	+19.1%	+15.8%
<b>Residential alterations and additions</b>	\$189.3	\$149.1	\$145.0	\$150.8	\$156.8	\$159.2	\$160.8	\$162.4
<i>Change on previous year (%)</i>	No data	-21.3%	-2.7%	+4.0%	+4.0%	+1.5%	+1.0%	+1.0%

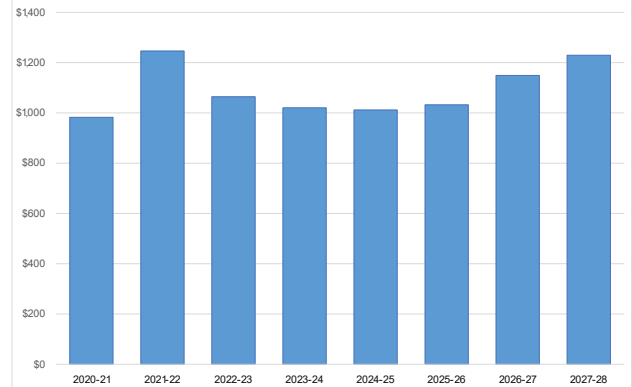
Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)

# NON-RESIDENTIAL BUILDING

Composition of non-residential building work done in 2022-23



Non-residential building activity (\$m)



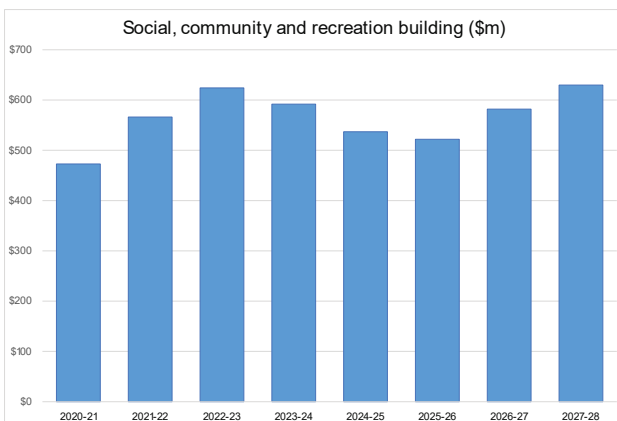
Retail and commercial building activity (\$m)



Industrial building activity (\$m)



Social, community and recreation building (\$m)



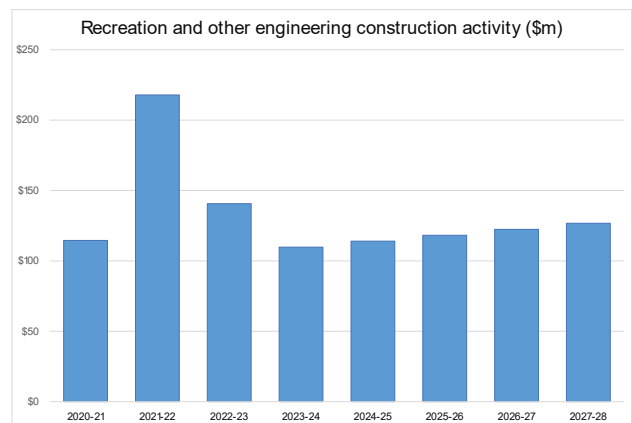
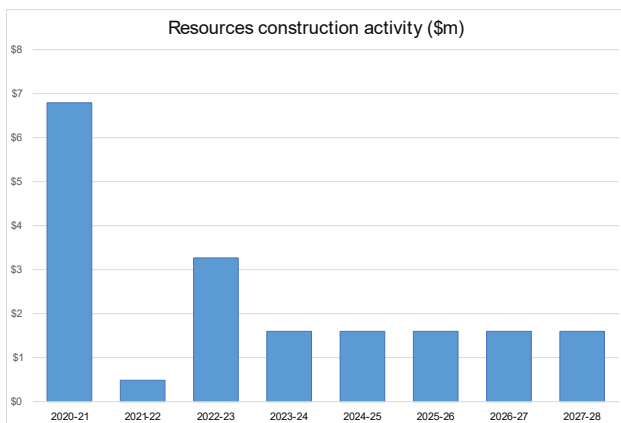
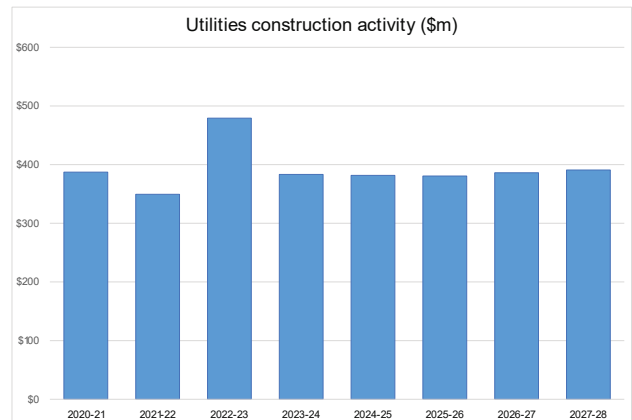
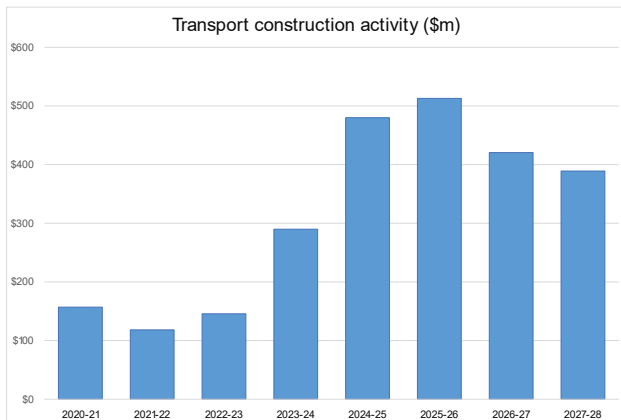
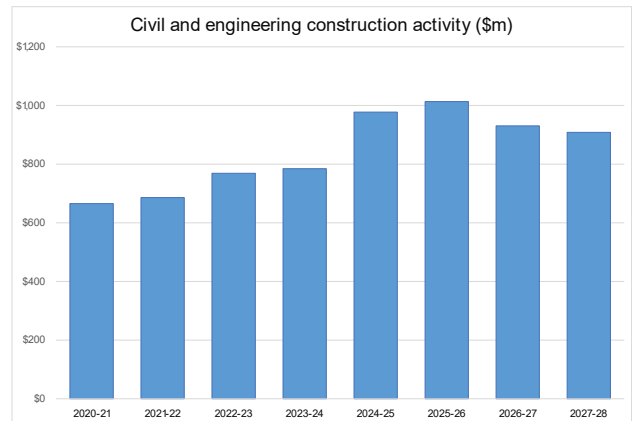
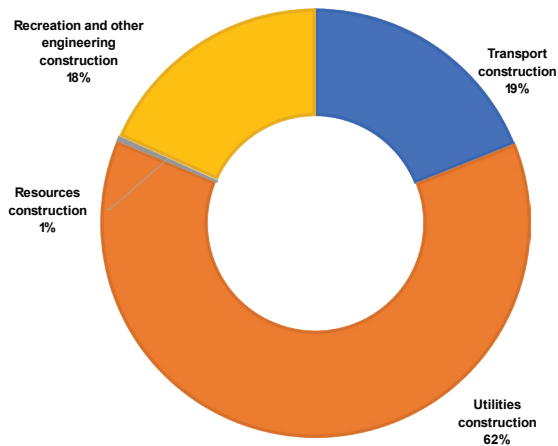
**Non-residential building activity: Master Builders Australia forecasts for ACT to 2027-28**  
(millions of 2020-21 dollars)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Total non-residential building activity</b>	\$982.4	\$1,246.4	\$1,064.2	\$1,020.1	\$1,011.9	\$1,032.3	\$1,148.9	\$1,229.4
<i>Change on previous year (%)</i>	No data	+26.9%	-14.6%	-4.1%	-0.8%	+2.0%	+11.3%	+7.0%
<b>Retail and commercial building work</b>	\$448.1	\$578.7	\$397.6	\$362.9	\$432.2	\$465.0	\$513.0	\$535.0
<i>Change on previous year (%)</i>	No data	+29.2%	-31.3%	-8.7%	+19.1%	+7.6%	+10.3%	+4.3%
<b>Industrial building work</b>	\$61.4	\$101.5	\$42.6	\$65.5	\$42.8	\$45.2	\$54.0	\$64.6
<i>Change on previous year (%)</i>	No data	+65.2%	-58.1%	+53.8%	-34.7%	+5.7%	+19.4%	+19.6%
<b>Social, cultural and recreational building work</b>	\$472.8	\$566.1	\$624.1	\$591.8	\$536.9	\$522.0	\$581.9	\$629.8
<i>Change on previous year (%)</i>	No data	+19.7%	+10.2%	-5.2%	-9.3%	-2.8%	+11.5%	+8.2%

Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)

# CIVIL AND ENGINEERING CONSTRUCTION

Composition of civil and engineering construction work done in 2022-23



**Engineering and civil construction activity: Master Builders Australia forecasts for ACT to 2027–28**  
(millions of 2020–21 dollars)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
<b>Total engineering and civil construction activity</b>	\$665.5	\$686.1	\$768.7	\$784.6	\$977.4	\$1,013.3	\$930.6	\$908.3
<i>Change on previous year (%)</i>	No data	+3.1%	+12.0%	+2.1%	+24.6%	+3.7%	-8.2%	-2.4%
<b>Transport construction work</b>	\$157.0	\$118.2	\$145.6	\$289.9	\$480.0	\$513.0	\$420.5	\$389.1
<i>Change on previous year (%)</i>	No data	-24.7%	+23.2%	+99.1%	+65.6%	+6.9%	-18.0%	-7.5%
<b>Utilities construction work</b>	\$387.2	\$349.5	\$479.2	\$383.3	\$381.7	\$380.6	\$386.2	\$390.8
<i>Change on previous year (%)</i>	No data	-9.7%	+37.1%	-20.0%	-0.4%	-0.3%	+1.5%	+1.2%
<b>Resources construction work</b>	\$6.8	\$0.5	\$3.3	\$1.6	\$1.60	\$1.60	\$1.60	\$1.60
<i>Change on previous year (%)</i>	No data	-92.9%	+572.7%	-51.1%	0.0%	0.0%	0.0%	0.0%
<b>Recreation and other engineering construction</b>	\$114.5	\$217.9	\$140.6	\$109.8	\$114.0	\$118.2	\$122.4	\$126.7
<i>Change on previous year (%)</i>	No data	+90.3%	-35.5%	-21.9%	+3.8%	+3.7%	+3.5%	+3.5%

Source: Master Builders Australia-produced forecasts and analysis of ABS Building Activity (8752.0)



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