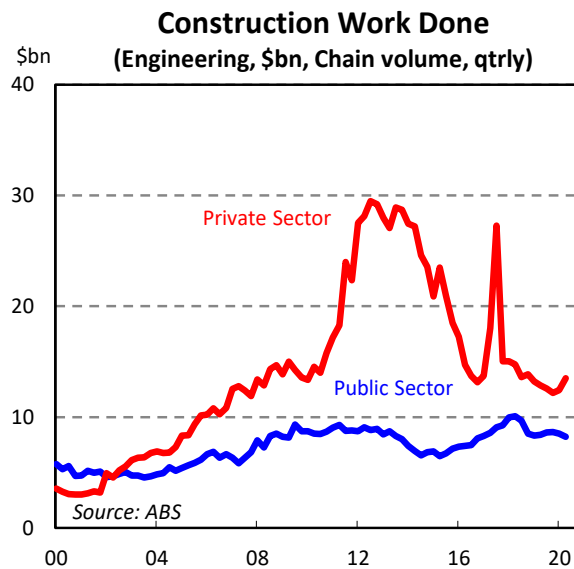
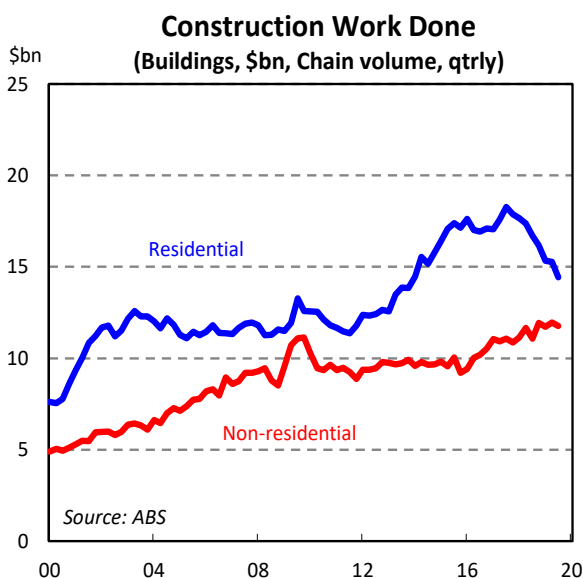


Wednesday, 26 August 2020

## 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@banksa.com.au  
(02) 8254 3251

### Senior Economist

Janu Chan  
chanj@banksa.com.au  
(02) 8253 0898

### Economist

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

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

---

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.