Construction Sector Outlook – At a Glance

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Department of Labour
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CONSTRUCTION SECTOR OUTLOOK – AT A GLANCE

The building and construction industry[1] has been particularly affected by the economic downturn, with building construction dropping from a very high level to a record low. Construction employment has suffered from a cyclical pattern of skills shortages in times of peak demand, and surplus workers when demand is low. Any loss of skilled workers and trainees now would be likely to impair the productivity of the industry when demand picks up again.

The focus of this paper is to look at how quickly the construction industry might recover from this downturn, what the full impact on employment will be and which factors could influence employment growth. After summarising recent trends in the construction industry, the paper considers the outlook for the next couple of years based on an analysis of leading indicators of construction activity, recent business surveys and the latest economic forecasts.

Key findings

As at June 2009, the construction industry employed 181,100 people.[2] This represented 8.3 percent of the total workforce. Over the past ten years construction employment has grown by 66 percent, making it the fastest growing industry over this period.[3] Total employment growth in New Zealand was 23 percent.

Each of the construction sub-industries has seen substantial employment growth over the past eight years.[4] Employment has more than doubled in residential building and 'other construction' (which includes landscape construction). Building structure services (which includes concreting, bricklaying and roofing services) has also seen very high growth of 88 percent. The sub-industry that employs the most people is building installation services (which includes electrical, plumbing and heating services), where employment has grown by 62 percent.

[1] The paper generally refers to the 'construction industry', but this includes building construction.

[2] Annualised average figure from the Household Labour Force Survey (HLFS).

[3] Construction was the fastest growing industry of those recorded by the HLFS from March 2000 to March 2009. The HLFS uses one digit ANZSIC96 industry classifications.

[4] Business Demography data has been used to obtain employment figures by construction sub-industry, as the HLFS is not reliable at this level of detail. Business Demography data with not match figures from the HLFS, but they do show the same broad trends.

Employment by construction sector, 2000 to 2008

Construction Sub-industry	2000	2008	2000 to 2008 growth
Other Construction Services	4,500	10,910	142%
Residential Building Construction	8,490	19,990	135%
Building Structure Services	4,250	7,980	88%
Building Installation Services	17,740	28,660	62%
Land Development and Site Preparation Services	5,700	9,100	60%
Heavy and Civil Engineering Construction	17,510	27,780	59%
Building Completion Services	10,330	15,290	48%
Non-Residential Building Construction	7,530	10,930	45%
Total Construction	**76,050**	**130,640**	**72%**

Source: Business Demography data, Statistics New Zealand

However, construction employment peaked in June 2007. By June 2009 it had fallen by 5 percent, from 190,000 to 181,000. This fall in employment was associated with a sharp fall in residential building construction activity, which had been at historically high levels from 2004 through to 2007.

The fall in employment has happened principally within the trade workers occupational group. Employment of professionals in the construction sector, such as architects and engineers, and employment of labourers has held up well. This may be partly due to the flexibility of these occupations in moving between building construction and infrastructure projects. Also, employers tend to hold on to workers in the highly skilled professional occupations during downturns due to their relative scarcity and importance in periods of growth.

[5] Other Construction Services includes landscape construction and hire of machinery with an operator.

[6] Building Structure Services includes concreting, bricklaying, roofing and steel erection.

[7] Building Installation Services includes plumbing, electrical services, air conditioning and alarms.

[8] Building Completion Services includes carpentry, plastering, glazing, carpeting & tiling, and painting & decorating.

Detailed employment estimates for core construction occupations

Occupation	Employed in Dec 2007	Employed in Jun 2009	Change from Dec 2007 to Jun 2009	Projected annual net replacement demand
214 Architects, Engineers and Related Professionals	32,401	33,724	3%	0.8%
711 Building Frame and Related Trades Workers[9]	64,270	58,689	-9%	0.7%
712 Building Finishers and Related Trades Workers[10]	34,189	29,781	-13%	1.5%
713 Electricians	19,118	17,349	-9%	1.1%
841 Building and Related Workers[11]	11,170	10,120	-9%	1.3%
915 Labourers	44,774	47,565	6%	0.5%

Source: Direct Estimates of Employment and Occupational Forecasts, Department of Labour

Paid hours of construction work fell by 12 percent between March 2008 and June 2009. It is likely that some staff are working reduced hours, and this is why the number of persons employed hasn't fallen further.

The number of construction apprentices fell by 18 percent between April 2008 and April 2009, after four years of steady growth. New enrolments in the first quarter of 2009 were down by more than a half from the previous year. Falling numbers of apprentices could affect the future skill levels in the industry, which in turn would reduce productivity and leave New Zealand ill equipped to improve the quality of its housing stock.

Outlook

Based on the recent trends in value of building activity we think that employment could fall up to a further 5 percent, from 181,000 down to 170,000. However, the full extent of this drop may not occur due to staff working reduced hours and some workers (such as engineers and labourers) moving from building to infrastructure projects.

The trend value of residential building activity has fallen each quarter since September 2007, and by June 2009 it was down by over a third. Analysis of residential building consents suggests that the trend value of residential building activity will fall slightly further in the September 2009 quarter, but this downward trend is now flattening off.

[9] Building Frame Workers include builders, bricklayers, stonemasons and carpenters.

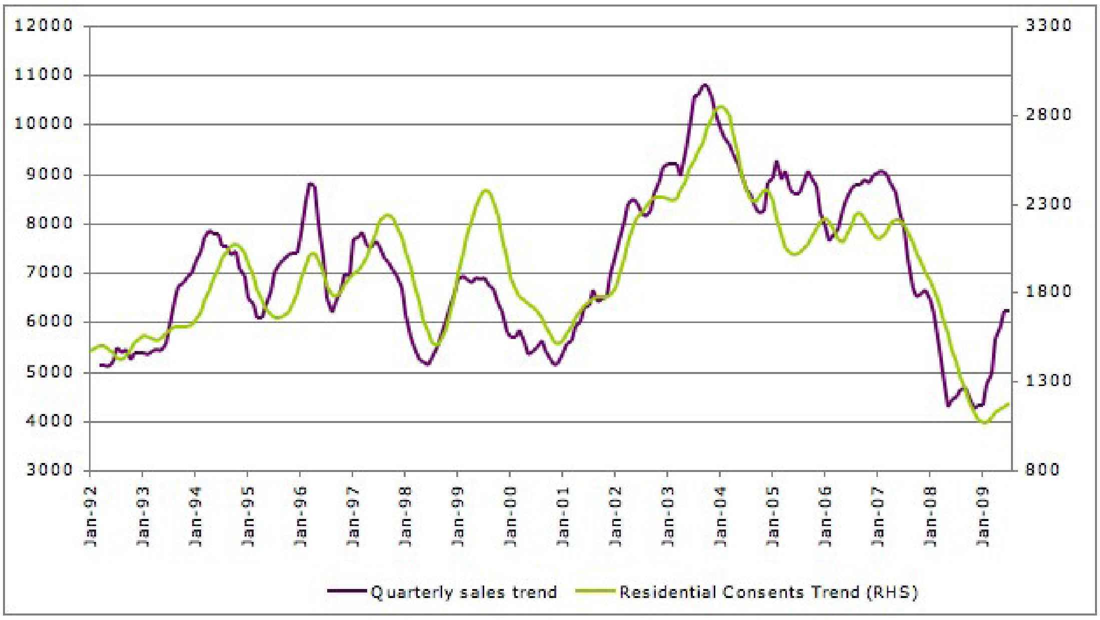
[10] Building Finishers include plasterers, glaziers, plumbers and painter/decorators.

[11] Building and Related Workers include drainlayers, pipe fitters, steel fixers, scaffolders, riggers and steel erectors.

The value of non-residential building activity has been at a high level since 2004. Since 2007 there has been a modest fall in the value of non-residential building consents, and this may put some downward pressure on building activity. However, any fall is expected to be minor.

Increased property sales, driven by low mortgage interest rates and increasing net migration into New Zealand, should drive a recovery in residential construction activity from the fourth quarter of 2009 onwards. But the difficult economic conditions and rising unemployment rate mean we do not expect to see a return in the short-term to the peak levels of house building seen in 2007.

Monthly trends of number of residential property sales and number of residential consents, 1992 to 2009



Source: DoL analysis of REINZ sales figures and Building Consents Data, Statistics NZ

The latest surveys of construction firms showed improving expectations. The figures indicated that the September 2009 quarter will be weak, but not much worse than the June 2009 quarter. This is in line with our analysis of leading indicators. When looking at the business situation six to twelve months ahead, firms in the construction sector were the most optimistic about increasing their activity.

An upswing in construction activity is likely to be associated with only a slow increase in construction employment. This is because firms have, when possible, reduced staff hours rather than the number of staff. They will therefore increase these hours again before recruiting new staff.

The chief executive of the Building and Construction Industry Training Organisation (BCITO), Ruma Karaitiana, has commented:

> "The current loss of apprentices to layoffs is disappointing for two reasons. Firstly, it is wasteful to lose individuals who are committed to the industry and who have made significant progress in developing their technical skills and knowledge. Secondly, the loss of these people will worsen the existing skill shortage in an industry where the majority of those employed are unqualified and under skilled."

Outward net migration of building workers has risen in the past two years. In the year to June 2008 a net 856 building workers were lost through migration, with a further net 662 lost in the year to June 2009. This could exacerbate future skill shortages in the industry.

Conclusion

Overall these findings suggest that the construction industry is approaching the bottom of its downturn. The lowest point for the trend value of building activity is likely to occur around the September quarter of 2009, before turning upward. Employment is likely to fall further before it rises again. When employment picks up the rise is likely to be gradual, as working hours of existing staff can be increased again before firms need to recruit.

The recovery appears to be in sight and it is crucial for the future of the industry that skill levels are maintained. The worst situation would be for further apprentices to be lost, leading to a return to skills shortages in the future.

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