

2024 ANZ Construction Forecast: Shaping the Next Chapter of Construction



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Introduction

2024 is poised to be the worst of times and the best of times.

The global economy is on track to post the slowest half-decade of GDP growth in 30 years, according to the [World Bank](#). Sluggish trade, tight financial conditions and rising geopolitical tensions present clear and present dangers.

The [World Bank](#) expects global growth to fall for the third consecutive year, from 2.6% in 2023 to 2.4% in 2024—almost three-quarters of a percentage point below the average of the 2010s.

But among the bad news are opportunities that have the potential to transform construction on both sides of the Tasman.

Rapid advances in technology—especially in artificial intelligence—can drive large-scale innovation that ignites productivity. Australia and New Zealand are primed for an ‘energy superpower’ future as the world transitions to net zero. And steady population growth is fuelling demand for buildings and infrastructure.

As always, construction’s outlook is a tale of many cities. This report offers a story of two countries that are grappling with four common key trends in 2024.

How will construction leaders in Australia and New Zealand make 2024 the year of productivity and lay the foundations for future growth?

02 The Global Forces Converge in 2024

The region's construction industry stares down the barrel of another challenging year as the global economy continues its slow recovery from the pandemic, as nations grapple with stubborn inflation and high interest rates, and as geopolitical volatility and extreme weather continue to drag down activity and growth.

Economic Outlook Projections

	2022	2023	2024
Australia	3.7	1.8	1.2
New Zealand	2.7	1.1	1.0
All advanced economies	2.6	1.5	1.4
Emerging and developing Asia	4.1	4.0	4.0
China	3.0	5.0	4.2
European Union	3.3	0.7	1.2
India	7.2	6.3	6.3
United States	2.1	2.1	1.5
United Kingdom	4.1	0.5	0.6

Note: Real GDP growth, annual percentage change

Source: [International Monetary Fund](#), October 2023.

Global Risks Create Ripples

“ 2024 is projected to be another tough year. Sluggish global growth is projected to slow further. Investment will remain weak. The debt crisis will continue to spiral...and devastating conflicts and escalating extreme weather are bringing uncertainty and risk to the global economy. The result: development delayed and denied.”

António Guterres, United Nations, Secretary-General

Source: [World Economic Situation and Prospects 2024](#)

While the [International Monetary Fund](#) (IMF) has hailed the resilience of the global economy as “remarkable”, it is keeping a close eye on several emerging risks that will ripple across our region’s construction industry. These include persistent inflation, rising commodity prices and China’s real estate crisis, all of which will have on-the-ground consequences for construction.

Other global forces will continue to impact construction’s fortunes in 2024. The ongoing war in Ukraine and the net zero transition will put extra pressure on energy prices. Population growth will drive demand for public transport, rail and social infrastructure like schools and hospitals. Technological advancements, especially in artificial intelligence, will reshape employment markets and demand for assets.

— EMERGING RISKS FOR ANZ



- + Persistent inflation
- + Rising commodity prices
- + China’s real estate crisis



Climate Resilience Brings Rewards

While the global economy grapples with short-term strains, climate change looms large as the longer-term challenge. The [World Economic Forum's Global Risk Report 2024](#) notes five of the top 10 risks over the next decade are environmental – climate impacts such as extreme weather, biodiversity loss and ecosystem collapse, as well as pollution and natural resource shortages—that “could hit the point of no return”.

How much it will cost to transition to net zero is still up in the air—but [McKinsey puts the figure at \\$3.5 trillion a year](#), every year between now and 2050.

On the flipside, the [World Economic Forum estimates](#) the green transition will lead to more than 30 million jobs by 2030, in the global construction sector. This is expected to double in size in the 10 years from 2020 to 2030 as demand for renewable infrastructure grows.

— WORLD ECONOMIC FORUM



50%

of the top 10 risks over the next decade are environmental

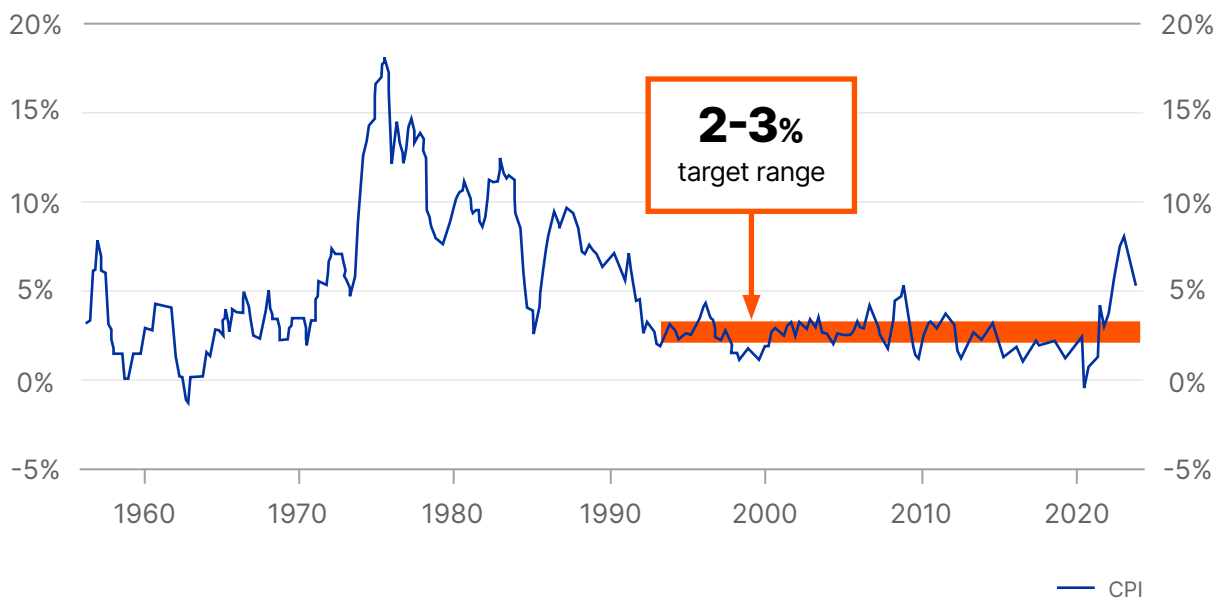
03 At a Glance: Australia

“ We still have to bring inflation back down to target while preserving as much of the gains made in the labour market over the past few years as possible. We are still seeking to tread that narrow path.”

Michelle Bullock, [Reserve Bank of Australia Governor](#), November 2023

The [Reserve Bank of Australia](#) expects the national economy to grow by a modest 1.75% over 2024. But 2024 looks to be a rocky ride. While inflation eased throughout 2023, the [Consumer Price Index](#) remains above the Reserve Bank’s target of 2-3%.

The Ups and Downs of Australian Inflation



Note: Year ended percentage change
Source: [Reserve Bank of Australia](#), 2024



Interest rates hit a [12-year high](#) in 2023, with Australia posting the sharpest falls in household disposable income in the developed world, [according to the OECD](#). By the end of the year, the mortgage holders' interest debt had [ballooned to \\$181 million](#) a day – \$100 million more than in 2022.

[Building approvals](#), a leading indicator of future activity, fell by 4.6% year-on-year. [Master Builders Australia](#) (MBA) forecasts that around 170,100 new homes built in the 2023-2024 financial year, well below the 240,000 required to meet the 1.2 million target set by the [National Housing Accord](#).

“ labour market shortages, lack of shovel-ready development, planning delays and interest rate rises continue to be the biggest impediments to home building.”

Master Builders Australia (MBA)

The value of construction work rose slightly over the year, driven by residential buildings. Non-residential building was sluggish, according to the [Australian Bureau of Statistics](#).

Infrastructure construction faces some uncertainty after 50 projects, worth \$7 billion, lost federal funding in November following the [Australian Government's strategic infrastructure review](#). The savings have been redirected to 38 existing and planned projects to pay for labour and material cost overruns.

Despite uncertain economic conditions, Australia's fundamentals remain strong. Australia is expected to welcome 315,000 migrants in 2023-24, following historic highs of close to 500,000 in 2023.

Population growth will inevitably drive demand for homes, workplaces, schools, hospitals and supporting infrastructure, and explains the “steady” confidence shown by Australia's property industry. According to the December 2023 [Property Council survey](#), forward work estimates are positive in each state and territory and the industry remains “broadly optimistic” about the year set to unfold.



04 At a Glance: New Zealand

“ While labour and material costs are hard to control, there are some levers we can pull. Infrastructure providers and decision-makers can focus on driving productivity in construction and optimising projects’ scope and design to ensure that we get the most bang for our buck.”

Peter Nunns, Director of Economics, [New Zealand Infrastructure Commission](#)

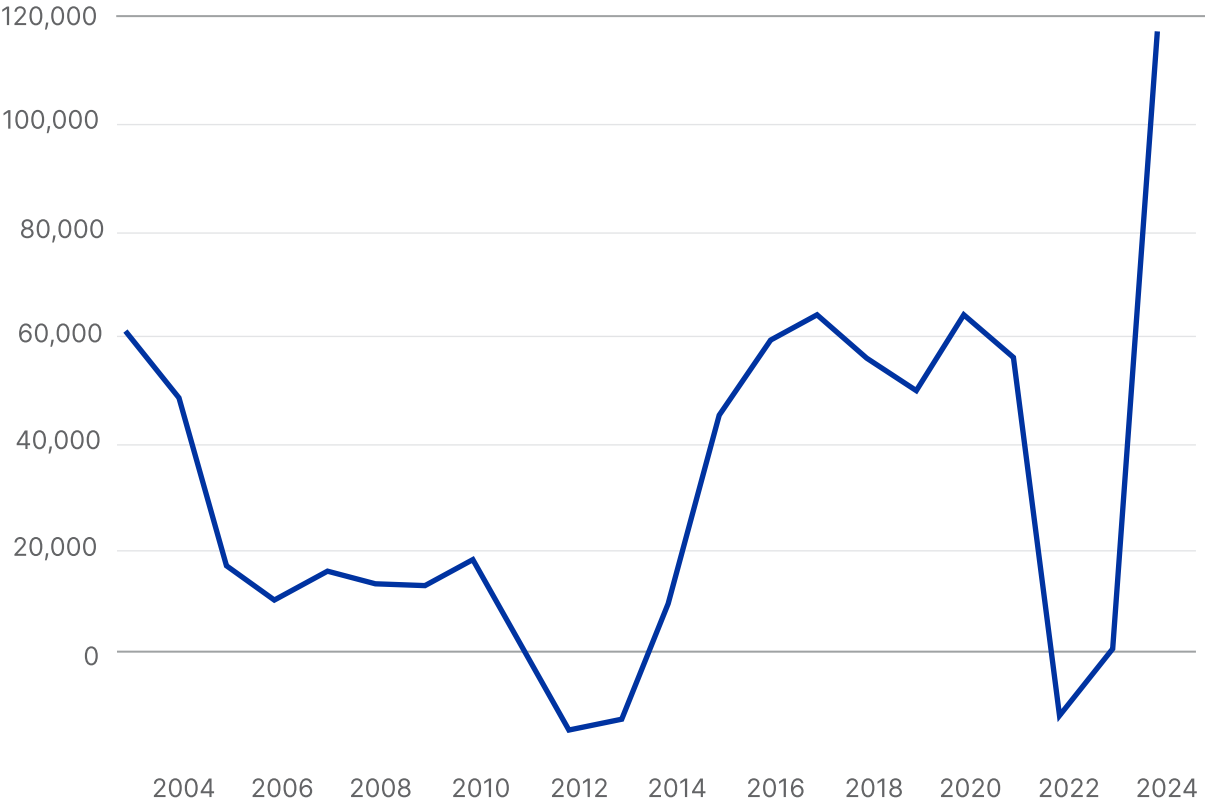
[New Zealand's Treasury](#) forecasts economic growth to average just 1.5% over the next two years, as elevated interest rates increase the cost of borrowing and servicing existing debt, weakening consumption and investment.

While inflationary pressure has eased, Treasury expects interest rates “to stay around current high levels for longer”. This will stall activity across the economy and place construction projects on the back burner.

The main indicator of activity, [residential building approvals](#), fell by more than 26% from October 2022 to 2023. Treasury surveys of business sentiment also warn that fewer orders, weaker production and subdued intentions to invest are ahead.

However, public sector investment, especially in renewable energy, continues at pace. New Zealand's [population grew by 2.7% last year](#), with net migration levels nearing 130,000 people, who will all need places to live.

New Zealand's Net Annual Migration



Source: [Stats NZ](#)

NEW ZEALAND'S POPULATION

2.7%

population growth in 2023

130,000

net migration levels neared 130,000 people

05 4 Trends for Construction in 2024

Looking beyond the macroeconomic forces framing the year ahead, there are four major trends influencing construction businesses on both sides of the Tasman.

01

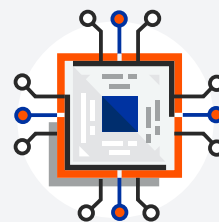
Costs Mount Amid Skills Squeeze



Extreme labour shortages exacerbate the cost crunch

02

AI Fuels Digital Drive



Construction companies harness digital to boost productivity and profit

03

Climate Action Heats Up



Leaders look at climate risk through three risk lenses

04

Mental Health is Top of Mind



Work-life balance, flexibility and inclusive sites are just the start

01

Costs Mount Amid Skills Squeeze



The last two years have set 2024 for a super skills squeeze. If 2022 was characterised by the profitless boom, then 2023 was all about insolvencies.

A record number of Australian construction companies collapsed in 2023, [according to corporate regulator ASIC](#). A devastating 2,349 Australian construction firms ceased trading in 2023 – nearly 28% of all insolvencies – as a “perfect storm” of rising interest rates, high material costs and a super-tight labour market converged.

Across the pond, 123 New Zealand construction companies crashed in the second quarter of 2023 and a further 126 in the third quarter. Insolvency specialist [BWA Insolvency](#) predicts a “second wave” of business failures is on the way.

“ It has been a challenging time for some businesses that got caught up in the perfect storm of increased material prices, labour shortages and rising interest rates while locked into fixed-price contracts.”

Denita Wawn, Chief Executive, Master Builders Australia

Source: [News.com.au, December 2023](#).

The cost of labour is a predictor of project success or failure, as labour soaks up around 50% of most construction budgets. With many large subcontractors going under, those remaining are spread super thin – and this comes at a time when skills are already hard to find.

As Hutchinson Builders founder Scott Hutchinson told the [Australian Financial Review](#) in January, extreme labour shortages have added to construction costs, as “you’ve got to employ more people and those people aren’t as nearly as good. The cost then runs over because you’re not getting enough productivity, and then you go broke. It hasn’t been like this in my working lifetime, and I’m 64.”

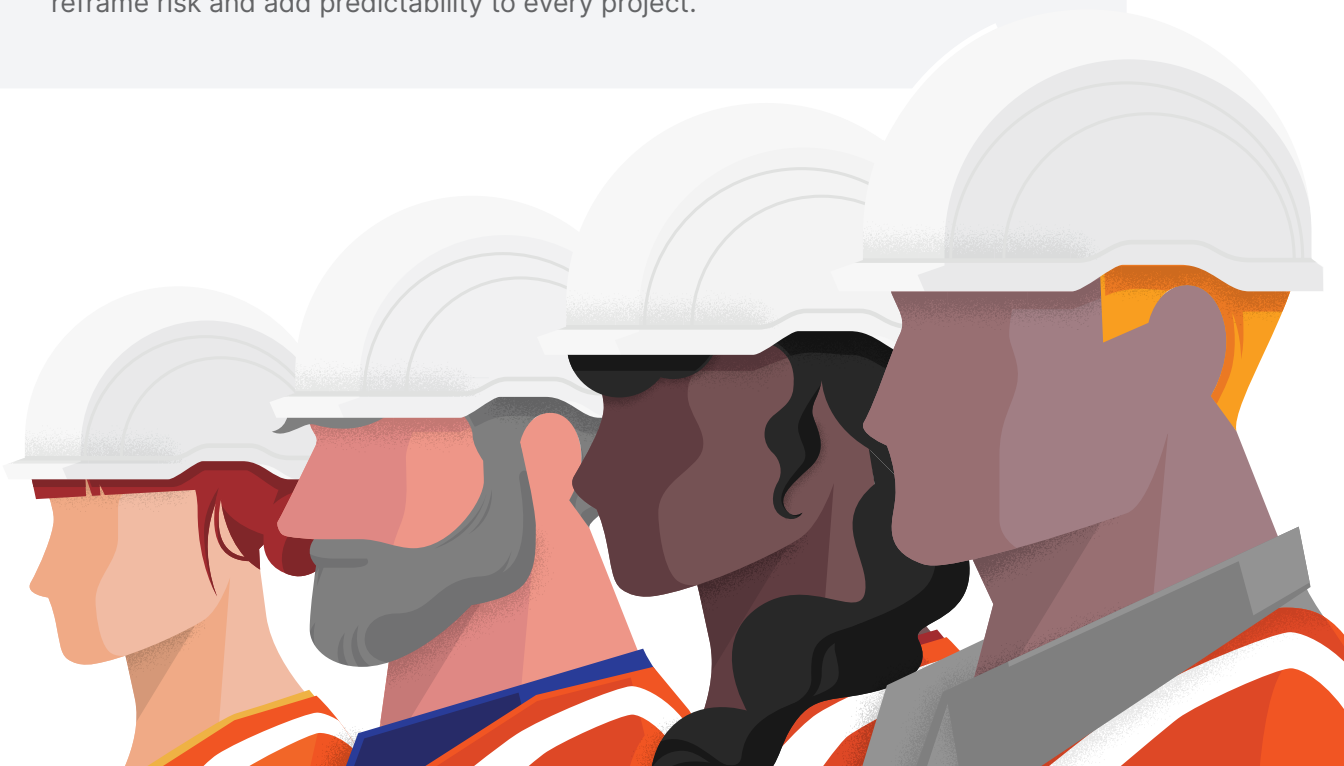
Skills in Short Supply

The [Australian 2023 Skills Priority List](#) shows 36% of occupations were in national shortage (332 out of 916) – about 5% higher than in 2022. Just some of the occupations that are in shortage and are likely to stay so in 2024 are:

- + Architects and drafts people
- + Bricklayers
- + Building inspectors
- + Bulldozer operators and earthmoving operators
- + Carpenters and joiners
- + Engineers, civil, electrical, environmental, mechanical and structural
- + Construction estimators, project managers and contract administrators
- + Riggers, crane chasers, lift operators
- + Scaffolders, steel fixers, stone masons
- + Urban and regional planners

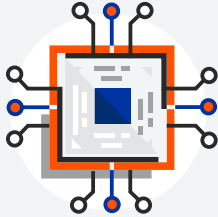
— HOW CAN CONSTRUCTION LEADERS RESPOND?

Some construction leaders are rethinking their contracting models, others are digitising their businesses at speed to ground their decisions in data, reframe risk and add predictability to every project.



02

AI Fuels Digital Drive



Tech evangelists and industry analysts have been forecasting artificial intelligence as construction's next frontier for several years. But in 2023 – hailed as generative AI's "breakout year" – the predictions turned out to be true.

[McKinsey suggests](#) generative AI has the potential to automate up to 70% of workers' time across industries.

[Goldman Sachs](#) predicts generative AI could uplift global GDP by 7% (or almost US\$7 trillion) and boost productivity by 1.5 percentage points over 10 years.

“ I can't think of anything that's been more powerful since the desktop computer.”

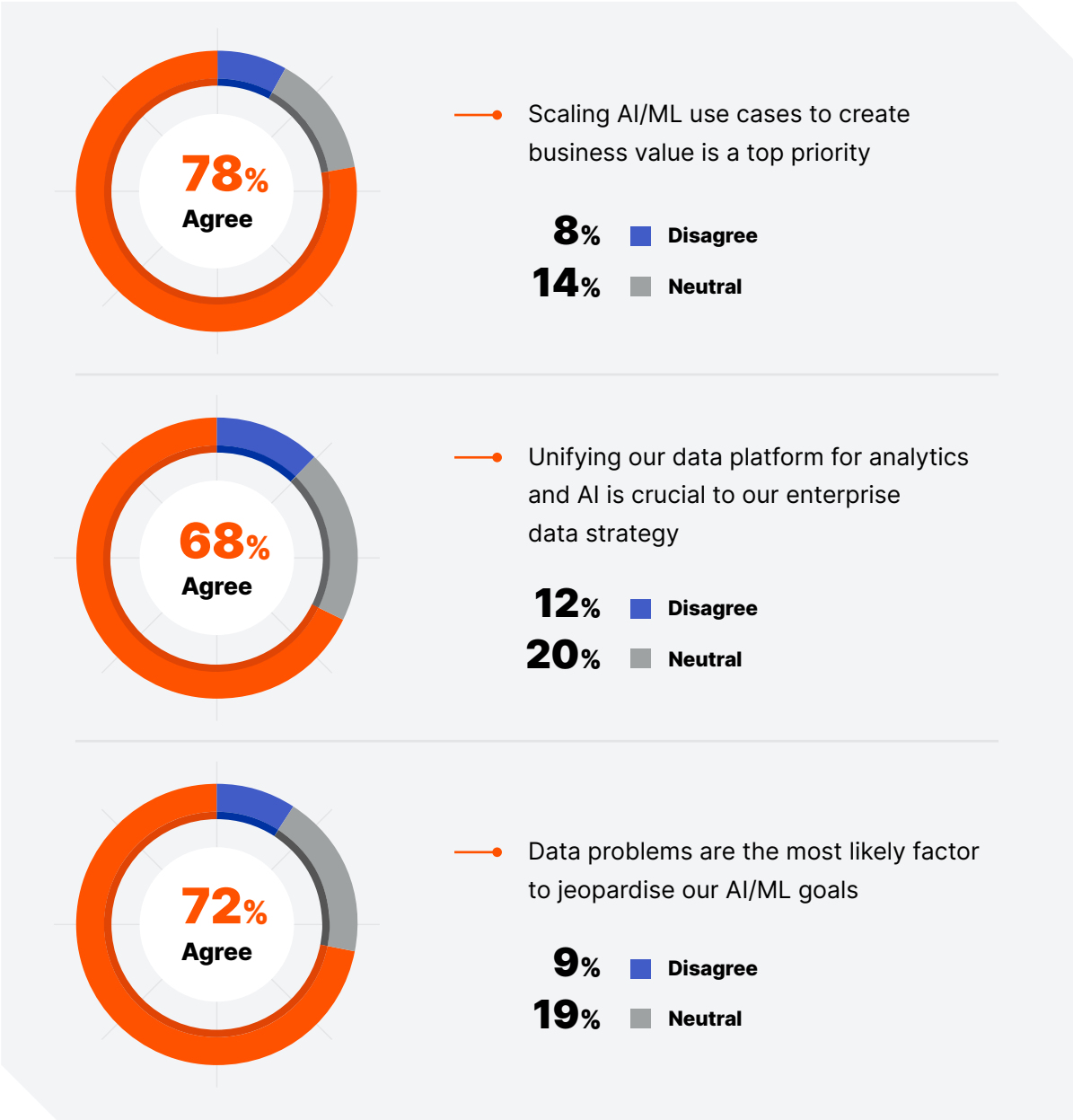
Michael Carbin, Associate Professor, MIT

Source: [The Great Acceleration: CIO Perspectives on Generative AI, 2023](#).

Generative AI can't lay a brick, build a frame or operate a crane. But it can already expedite and optimise designs, automate routine tasks, uncover project limitations, offer a helping hand in the field and unearth solutions in real time.

The [list of construction use cases](#) grows by the day. But to harness the full power of AI in all its current and future forms, construction companies must get their data houses in order – and that starts with the fundamentals of digitalisation.

AI Priorities for Future-Focused Leaders



Source: [The Great Acceleration: CIO Perspectives on Generative AI](#), MIT Technology Review Insights, 2023

Procure’s [How We Build Now 2023 report](#) revealed a hard reality: just 14% of construction companies on both sides of the Tasman have a data strategy in place. Data lays the foundation for fresh insights, faster decisions and innovations as previously unimagined use cases for AI are unveiled.

03

Climate Action Heats Up



With 2023 confirmed as the hottest year on record, 2024 will be the year of unprecedented climate action whether construction companies can afford to or not.

Australia and New Zealand are already developing and delivering the world's greenest buildings. The 2023 [GRESB](#) benchmark for sustainable real estate assessed nearly 170,000 assets with a value of AU\$11 trillion (NZ\$12 trillion). Oceania – which covers New Zealand, Australia and Pacific nations – came out on top.

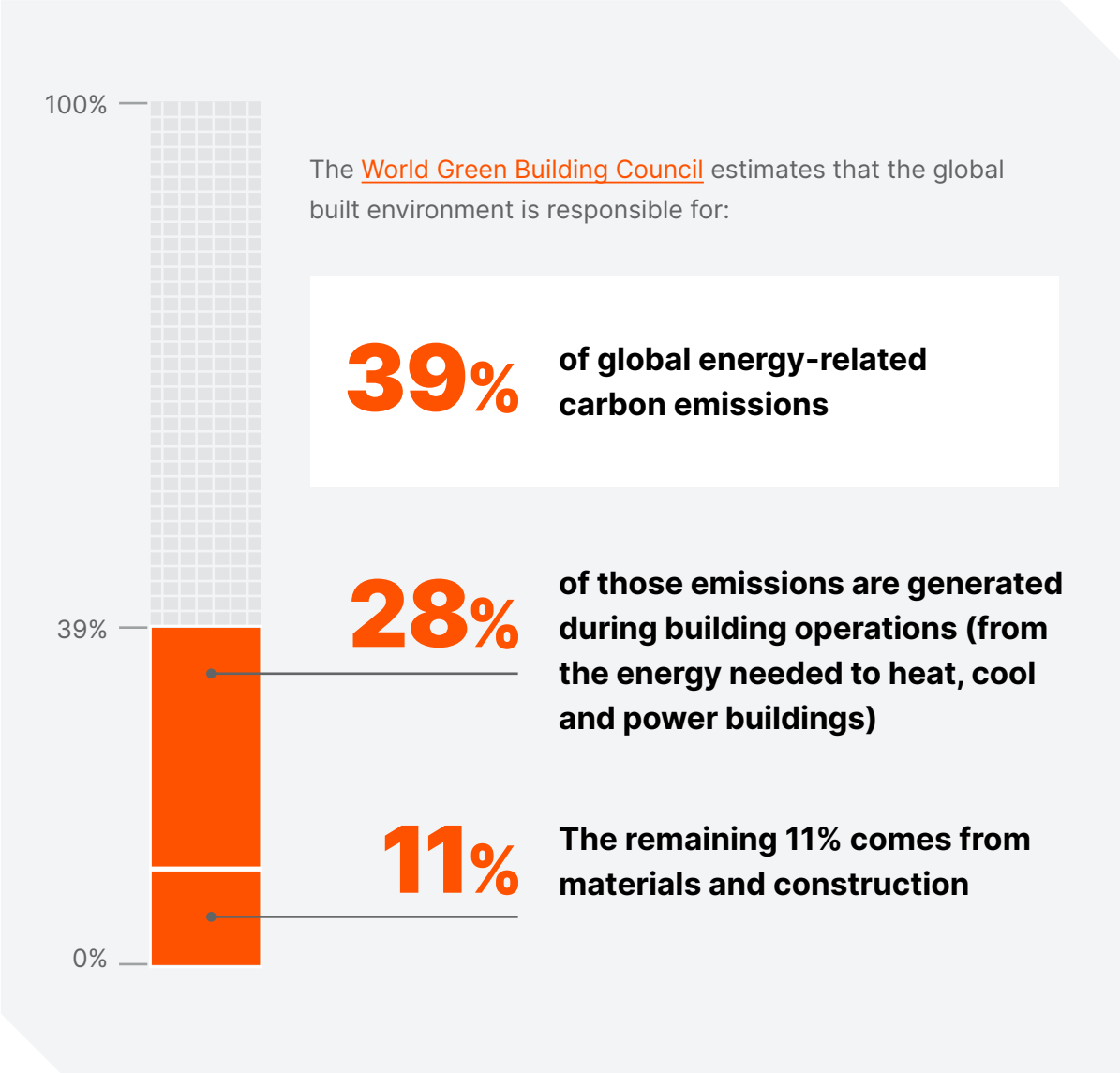
“ 2023 was an exceptional year with climate records tumbling like dominoes. Not only is 2023 the warmest year on record... [temperatures] likely exceed those of any period in at least the last 100,000 years.”

Samantha Burgess, Deputy Director, [Copernicus Climate Change Service](#)

But buildings are responsible for around a [quarter of Australia's carbon emissions](#) and [up to 20%](#) of New Zealand's. The construction industry also creates about 38% of [Australia's total waste](#) and roughly [50% of New Zealand's](#).

And then there's the emerging and enormous challenge of embodied carbon emissions – those created during the manufacture and transport of materials, during construction, demolition and disposal.

Building a Big Problem



By 2050, as the world's population approaches 10 billion, the global building stock is expected to double in size. By then, embodied carbon emissions will be responsible for half of the entire carbon footprint of new construction.



Corporate leaders are beginning to look at their businesses through three risk lenses:

+ Physical risks

such as damage to infrastructure and disruption to schedules following extreme weather events

+ Transition risks

like changes to policy, technology or market dynamics, can leave investors holding stranded assets or companies with outdated business models

+ Liability risks

bring legal and regulatory consequences when companies fail to take the appropriate actions to address emissions or overstate their impact

Reporting requirements and regulations are also ramping up following the release of the [International Sustainability Standards Board's](#) new sustainability standards. This is expected to drive the biggest changes to financial reporting and disclosure standards “in a generation”, according to Chair of the [Australian Securities & Investments Commission](#) Joe Longo.

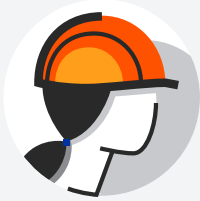
Meanwhile, [New Zealand building regulations](#) introduced in December 2023 require building product manufacturers, suppliers and retailers to share better information about the products they supply and provide evidence to support any claims they make about their building products.

These are just a few signs of the times and the road towards low-carbon construction, while long, is clearly marked.

Expect to see a wave of data requests on everything from the emissions generated during the manufacture of materials to how those materials are handled when buildings are deconstructed.

04

Mental Health is Top of Mind



Mental health is a growing concern in construction on both sides of the Tasman.

Australian construction workers are eight times more likely to die from suicide than from an accident at work, according to [Mates in Construction](#).

Australia loses a construction worker every second day to suicide.

The story in New Zealand is just as sorrowful, with [research finding](#) almost 7% of working-age male suicides are by workers in the building industry.

The reasons for this are complex, but long working hours, job insecurity, pressure to deliver multiple projects under tight deadlines, and dealing with injury or illness while working are all factors.

The [Cost of Doing Nothing Report](#), prepared by BIS Oxford Economics, found the combination of workplace injuries, mental illness, suicide, long work hours and a lack of diversity cost Australia's economy around \$8 billion annually. But construction leaders and industry associations are coming together to find solutions.

“ ...a job in the construction industry requires employees to be present or available for six to seven days a week, engaging in long work hours to deliver complex projects, dealing with ever-changing demands of high-pressure project delivery targets, while on fixed-time contracts, it's unsurprising that something must give.

Grant Fuller and Professor Luke Downey, [The State of Mental Health in the Infrastructure Construction Industry](#), CEDA, March 2023

[Australia's Construction Industry Culture Taskforce](#) has developed a draft 'culture standard' which includes access to flexible work hours and job sites that operate from Monday to Friday to give workers "time for life".

[Roberts Co's](#) trial of a five-day week at Sydney's Concord Hospital Redevelopment got the ball rolling, finding that the mental health benefits outweighed the fractional cost increase. Several companies are now trialling five-day sites, while Master Builders and the University of Technology have embarked on a ["first of its kind" study](#) to understand its impact on work-life balance.

Many construction companies, armed with [solid evidence](#), are now rolling out strategies that emphasise work-life balance, flexibility and sites that are positive, inclusive and values-driven.

**GET
CONSTRUCTION
TALKING**
THE B1M PROCORE



Procore and video publisher The B1M have teamed up with construction's leading mental charities across the US, UK, Ireland, Australia and New Zealand to get people talking about mental health. We've created a free-to-view video and podcast series, alongside events and awareness campaigns, to help improve mental health in construction. The goal is to raise \$1 million for construction's mental health charities.

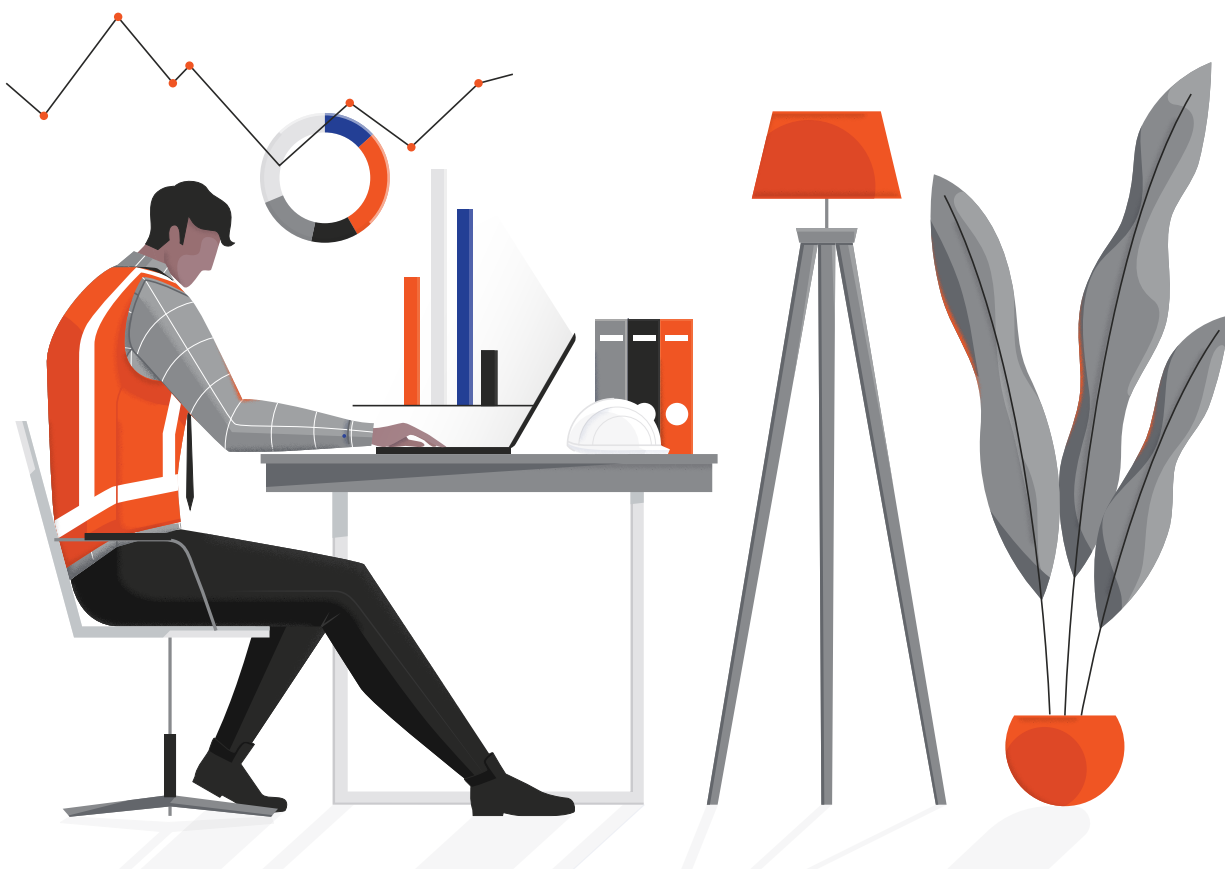
[LEARN MORE](#) →

06 Taking Advantage of The Trends

Construction is always a risky business. Deadlines are tight and margins are slim at the best of times. But in a volatile economy, when money is tight, costs are high, skills are squeezed and geopolitics are unpredictable, the hazards are clear.

All construction businesses will experience headwinds, but some will feel the wind in their sails. How construction leaders choose to navigate 2024 will depend on their strategy, vision, values and appetite for risk.

In 2024, businesses on both sides of the Tasman can start a new chapter in the construction industry's story that balances people, planet, productivity and profit.



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