Price Pressures are Building

The cost of construction remains the most significant pinch point for building businesses in 2022 as the industry works through a detached building boom. This boom, combined with supply constraints is placing significant pressure on the price of residential land, building materials and skilled labour.

The supply of land is not keeping up with demand

Over the year to September 2021 the median price of residential land increase by 12.6 per cent. This is the strongest annual increase since 2006. This rapid increase in price is not surprising given the sudden increase in demand.

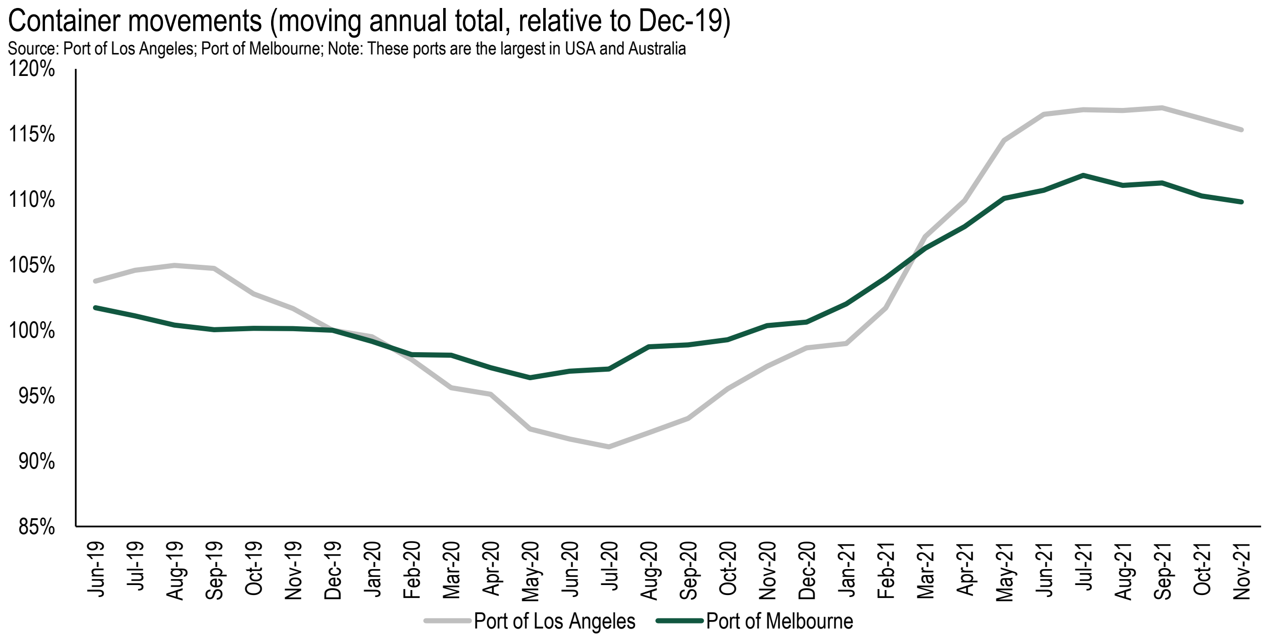
Since the onset of COVID in 2020, demand for residential land surged as households looked for more space and greater amenity in their homes. Low interest rates and stimulus measures such as HomeBuilder further supported demand.

What is more concerning is the significant drop in the volume of sales toward the end of 2021. The low volume of sales in the September quarter shows that supply has not yet responded to the increase in demand that occurred in 2020. With a large volume of work already approved, but not yet commenced, this acute shortage of land is not going to impede building activity immediately. It does however indicate that home building will be constrained by a shortage of land at the end of 2022 and heading into 2023.

Global supply chains are under stress

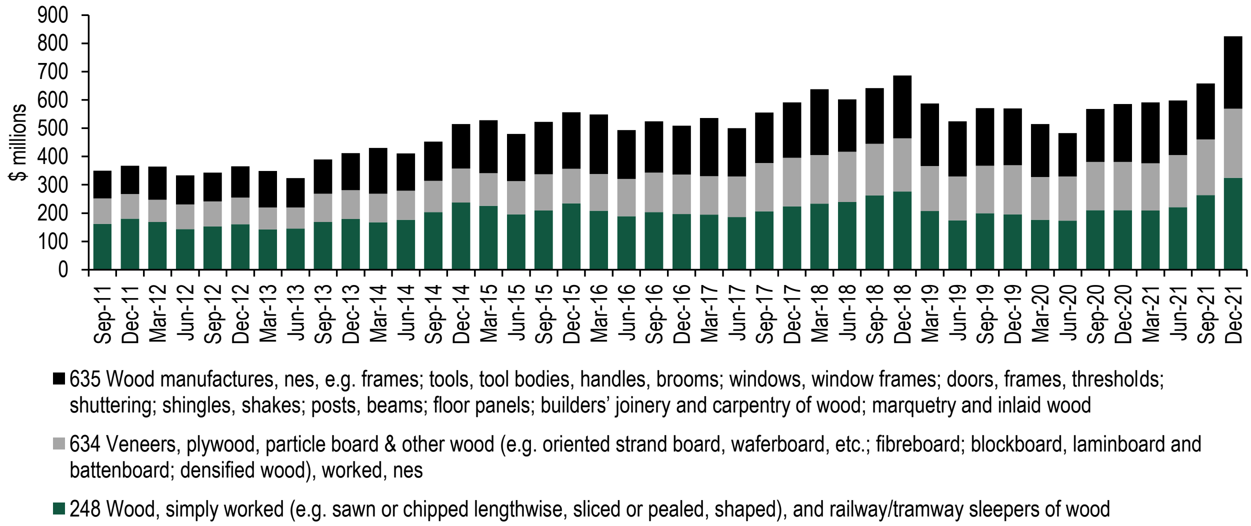
According to the ABS, the price of building materials increased by 12.0 per cent in 2021. This is the strongest annual increase since 1981. The bulk of building materials are produced domestically and are readily available. Some materials, notably timber for framing, are in short supply. Demand for detached housing has increased across developed economies leading to a sudden surge in demand for timber and other materials.

There are signs that the global shipping constraints are easing. Shipping volumes at the port of Melbourne, which is Australia's largest port, were about 10 per cent higher in 2021 than they were in 2019 prior to COVID.



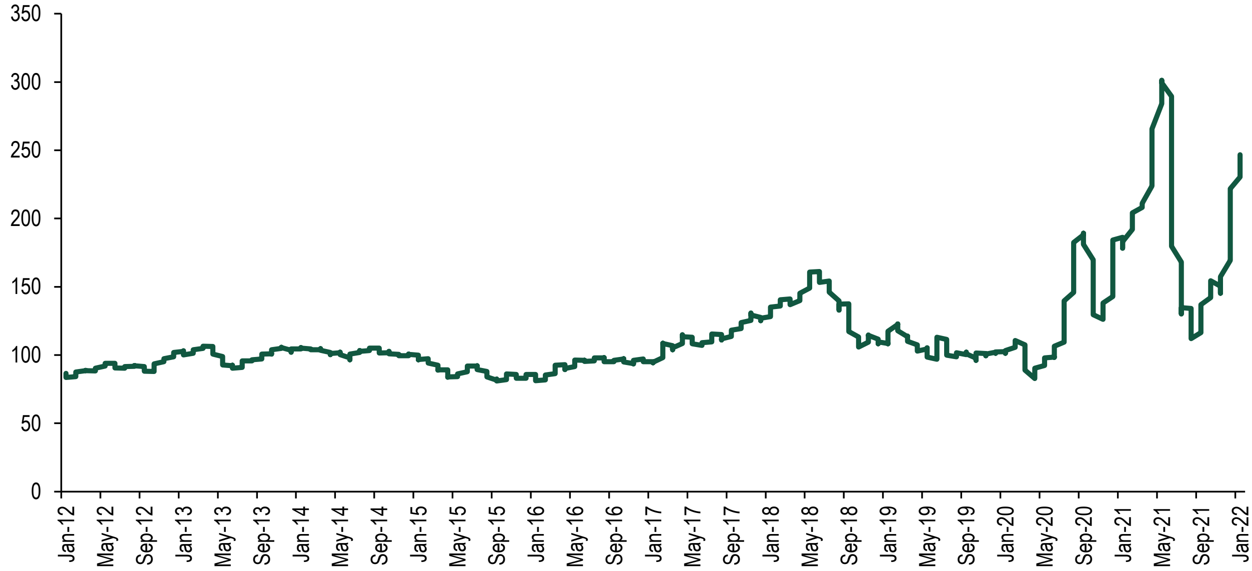
The value of select wood imports also reached its highest level on record in the December 2021 quarter. These are positive signs, but it will continue to take time before the supply of materials, including timber, are sufficient to meet demand.

Selected imports of wood, quarterly, by 3-digit SITC
Source: ABS
Note: these categories may contain wood items that are not relevant to home building but this is the most detailed breakdown of the data that is available.



Domestic supply chains have also been disrupted by worker shortages and flooding. Severe floods in South Australia have cut off key railway supply routes that link the eastern states to Western Australia and the Northern Territory.

Weekly Bank of Canada Commodity Price Index - Forestry
Source: Bank of Canada



Skilled trades are in high demand

Skilled trades have been in high demand since the beginning of 2021. In the September 2021 quarter, the HIA Trades Availability Index deteriorated from -0.53 to -0.69, indicating a shortage. This is the most significant shortage recorded by the index since the inception of the Report in 2003 and is occurring in every region. As a result of this shortage, over the year to September 2021, the price of skilled trades increased by 5.2 per cent.

Bricklaying continues to have the most acute shortage with an index reading of -1.30. It is followed by carpentry (-0.99), roofing (-0.91) and ceramic tiling (-0.90). Finishing trades such as painting, plumbing and plastering recorded some of the stronger quarterly declines in availability. This reflects the large volume of projects initiated by HomeBuilder starting to reach completion.

The latest omicron wave is exacerbating the shortage of skilled trades as an increased number of people enter isolation after contracting the virus or being a close contact.

When will these pressures ease?

Sales of new detached homes in December 2021 increased for the fifth consecutive month and demonstrates that there has been a mini-boom in demand following the end of HomeBuilder in March 2021. This ongoing demand suggests the current boom in detached housing starts will continue into 2023.

Even as global shipping returns to pre-pandemic levels, and the supply of skilled labour improves, the upward pressure on the cost of construction will persist into 2023. Even when this pressure eventually subsides, prices are unlikely to revert to pre-COVID levels.