Annual Wage Review 2024–25

Fair Work Commission

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Introduction

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy.

The aggregate contribution from the industry to the Australian economy was over $133.8 billion in 2024, with over 1.1 million workers in the construction industry, of which tens of thousands are small businesses reliant on the industry for their livelihood.

The residential building industry is one of the most important sectors of the Australian economy providing housing for millions of Australians. A home is often the greatest source of wealth and savings for many families. The industry contributes to the economy in a number of ways providing hundreds of thousands of Australians with jobs, generating billions of dollars of economic output each year and stimulating spending on housing services.

The residential building industry ranges from single dwelling construction to multi-unit apartment buildings, and encompasses the home renovations market. The industry has important linkages with other sectors, such as manufacturing and retailing, so its impacts on the economy go well beyond the direct contribution of construction activities.

Housing supply and affordability – must be a key focus

It is extensively recognised that Australia is currently faced with housing supply and affordability challenges.

In July 2024 the Federal Government has made a notable commitment to delivering 1.2 million homes over 5 years, through the National Housing Accord, a pivotal milestone in government policy and direction. While the residential building industry is supportive and is working towards this target it must be recognised it cannot be achieved in a vacuum.

HIA forecasts show that to reach this goal, housing supply cannot fall below 240,000 new homes each year. While new home building activity is expected to climb from the low levels experienced in the post pandemic slump, commencements unfortunately are set to sit around 174,020 in 2024-25. This is a slow start to achieving the Government's goal.

HIA recently engaged the Centre for International Economics (the CIE) to undertake a review of taxes, fees and charges on new housing and apartments. The March 2025 report identifies that governments collectively, are adding in excess of half a million dollars to the cost of a new home, which new home buyers are then required to repay for decades as part of their mortgage.[1]

A key reason to Australia's acute housing shortage is due to the taxes and regulatory imposts on new home and apartment building.

These imposts in turn impede productivity in the sector.

Global supply chain disruptions and inflationary pressures have also seen the cost of construction rise by over 40 per cent since 2019.

[1] Centre for International Economics, Taxation of the housing sector, report prepared for the Housing Industry Association Ltd, March 2025

The primary solution to resolve Australia's housing shortages is to remove government taxes and unnecessary regulations to allow the industry to deliver the homes Australians are demanding.

Governments increasing the cost and red tape on building a new home makes it harder to boost supply, leads to longer build times and results in housing becoming further out of reach for more Australians.

Housing must be a priority. Housing in all forms and types, across our cities and in our regions. Delivering more housing must drive the policy debate, including this Annual Wage Review.

Recommendation

HIA submits that for its 2024-2025 Annual Wage Review, the Expert Panel should consider the following specific issues confronting the residential building industry:

- The industry's economic performance, including productivity, viability, inflation and employment growth;
- Policy settings that may adversely impact the Federal Government's commitment to build 1.2 million homes over 5 years; and
- Cost of living pressures that demand a need to support the supply of housing. Only when the supply of housing meets underlying demand can the issue of housing affordability be addressed. The provision of housing is critical to maintaining adequate living standards, a key factor of the Expert Panels considerations during an Annual Wage Review.

In light of the current landscape, HIA strongly submits that the Expert Panel takes a conservative approach in this year's minimum wage review.

HIA acknowledges and supports the ACCI's position of a 2.5 per cent increase, and considers this as an appropriate response to the Annual Wage Review.

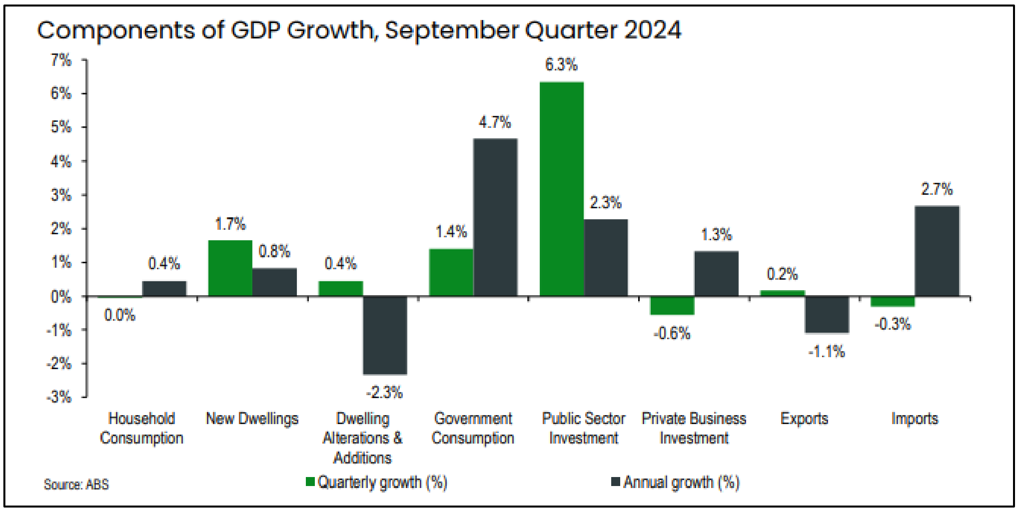
The performance of the national economy

National Economy

While inflation may have moderated in 2024 this does not mean that the cost of goods and services are any cheaper, just growing at a more modest pace.

Regardless of the ongoing growth in GDP, households have experienced a per capita recession for nearly two years. While there does appear to be some improvement in consumer sentiment compared to when the Reserve Bank of Australia (RBA) first started hiking interest rates, the damage of the inflationary cycle has already been done.

Public sector spending as a share of GDP climbed to its highest on record. Employment in non-market sectors has also grown more sharply compared to market-sector jobs, thanks to continued investment in the care economy and an increase in the size of the public service.



Despite global economic challenges, the tailwinds of high commodity prices, strong population growth and low unemployment have kept the Australian economy resilient.

Productivity-enhancing reform needs to occur to build Australia's future. High energy costs are deterring investment into Australia, which is the key to attracting the investment necessary to improve productivity.

Residential building industry

The effects of a tighter monetary policy environment disproportionately and immediately impact the residential building industry.

The lack of investment in multi-unit developments is poised to tip the balance of housing supply further in favour of detached homes over the rest of this decade.

Recent housing finance data reveals those buyers across all categories – investors, first-home buyers, and trade-up owner-occupiers – are showing increased interest in both the established housing market and new home construction.

This shift towards new detached builds is also evident in the Building Activity data for the September quarter of 2024. The first quarter of the 2024/25 financial year has seen a notable rise in detached home construction starts.

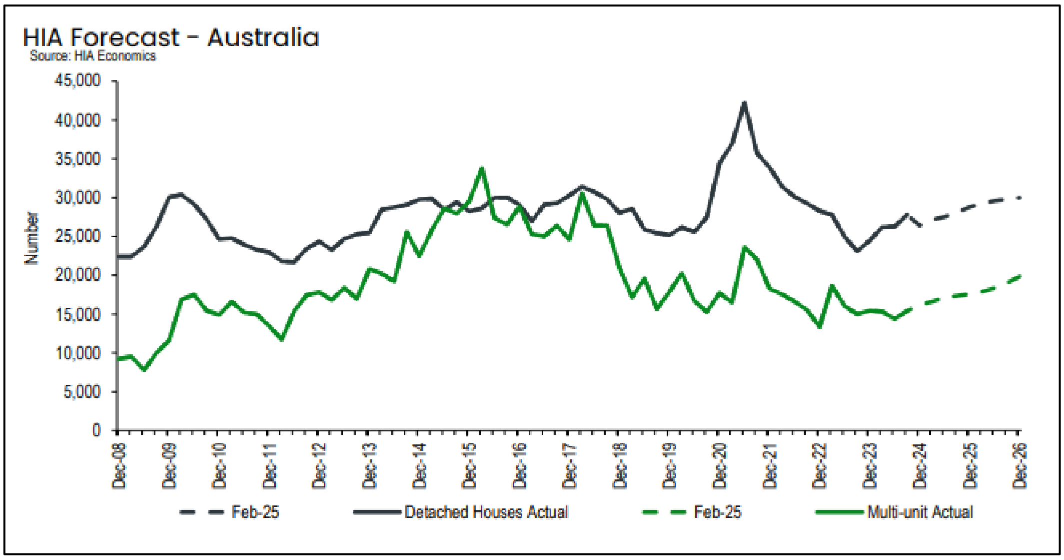
While rising construction and land costs present challenges, they are counterbalanced by strong economic conditions, population growth, low unemployment, and rising prices for existing homes. However, as demand for new homes continues to outstrip supply, financial pressure on households will intensify.

However, the most significant policy-induced roadblock remains the multi-unit sector. Government-imposed taxes and charges have stifled apartment construction, even as migration levels remain at record highs. During the last apartment boom, Australia was commencing over 25,000 units per quarter for five years. In contrast, the current figure sits at around 15,000 per quarter. At a minimum, unit construction needs to double from current levels to meet the Australian government's goal of delivering 1.2 million homes over five years. But this goal cannot be achieved, even with lower interest rates, while state governments continue to increase taxes on homes, notably, NSW, Victoria and Queensland.

Despite growing demand for apartments, the reality is that multi-unit starts are languishing at their lowest levels in over a decade—and they're unlikely to increase tangibly for at least another year. A perfect storm of higher construction costs, tax hikes on institutional investors, and increased regulatory burdens (thanks, NCC 2022) has strangled apartment supply. Adding insult to injury, ongoing labour shortages and competition from other construction projects will further suppress apartment commencements until at least mid-2026.

This grim outlook has forced a downward revision of forecasts for multi-unit housing starts. A recovery had been expected, driven by migration and anticipated government policy shifts, but policymakers have so far remained unresponsive to the growing demand for homes.

This prolonged downturn in apartment construction means an equally sluggish pace of completions, exacerbating Australia's housing undersupply. As long as unemployment remains low, demand for housing will continue to outstrip supply, driving even more buyers toward detached homes that can be delivered in a shorter timeframe. This will see the volume of detached home starts slowly grow from the post pandemic trough in 2024, for several years.



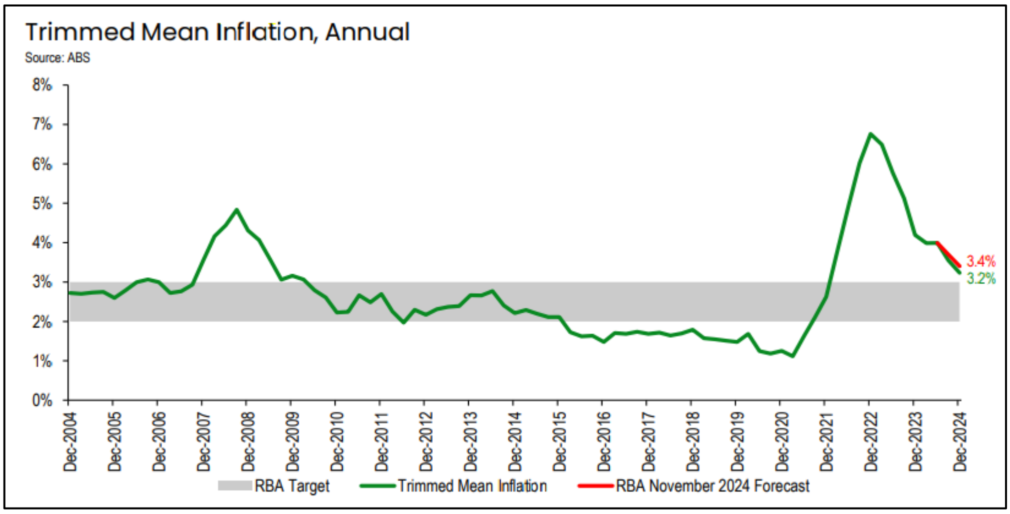
Wages and inflation

Inflation appears to be returning to the RBA target band of 2-3 per cent. The headline figure was at 2.4 per cent in the year to December 2024, while underlying, trimmed mean inflation (which abstracts the effects of recent government subsidies) was at 3.2 per cent.

The housing component of inflation grew at its slowest rate in three years, at just 1.0 per cent in the year to December 2024. This reflects the easing in recent supply chain disruptions, resulting in slower growth in the prices of home building materials.

The wage price index across all industries and sectors grew by 0.7 per cent in the December quarter 2024, to be 3.2 per cent higher than at the same time in the previous year.

Costs may have slowed down, but they have done so at an evidently higher level than five years ago. Easing inflation does not mean that prices or the cost of inputs are falling. Prices are unlikely to fall, especially as the economy continues to grow and home building activity is set to pick-up.



Workforce participation & apprenticeships

The residential building industry currently does not have the workforce capacity to deliver the number of homes Australia needs.

It is estimated that there are around 277,827 skilled construction trades workers in the residential building industry spread across the industry's twelve key trade occupations.

This workforce completed around 173,000 homes in 2023, during which time industry surveys continually revealed shortages of skilled construction trades workers.

Competition for labour has kept skilled trades scarce. This is despite home building pipelines shrinking across the country. Australia commenced construction on just 165,000 new homes in the 12 months to September 2024, a 12-year low. Despite this, a $155 billion pipeline of public sector construction across the country is absorbing available labour.

This is sustaining a more acute shortage of tradespeople than a decade ago when Australia was commencing construction on more than 230,000 new homes per year but undertaking less than a $50 billion public sector construction pipeline.

A common entry point and training ground for the industry is apprenticeships. Businesses can employ and enhance the skills of entrants looking to participate in the construction workforce.

As of 30 September 2024, there were 333 765 active (in-training) apprentice and trainee contracts nationally, with over two-thirds in trade occupations. The total number of in-training contracts has concerningly decreased by 7.8 per cent compared with 30 September 2023. Trade contracts specifically decreased by 1.9 per cent, to 232 610. Compared with the September quarter 2023 commencements decreased by 17.4 per cent overall. The largest decreases were among Construction Trade Workers, down 865 (or 18.6 per cent) to 3785.[2] Concerningly the data points to the number of training contracts are not being sustained year on year.

[2] NCVER, Statistical Report, Apprentices and trainees 2024: September quarter, March 2025

Small businesses employ the largest portion of the apprentices in Australia's workforce, with 42 per cent of all apprentices and trainees in-training being employed by small business, with more than half (54 per cent) in the construction industry.[3] The Annual Wage increase must factor in the additional costs of training that are borne by employers for apprenticeships. Small businesses are particularly vulnerable, and escalating costs including wages, have a cumulative effect and place further risk on the capacity of small business to engage and retain apprentices.

HIA collects data on the cost and availability of skilled trades in its quarterly HIA Trades Report.[4]

Skilled trades were still reported to be in short supply at the end of 2024, easing from very acute levels in recent years. The cost of engaging a skilled trade increased by 3.3 per cent in the December quarter 2024, which is 6.4 per cent higher compared to the same period in the previous year.

Labour costs continue to increase across different skilled trades, with the most recent quarter seeing the largest increases in roofing (+10.8 per cent), electrical (+9.9 per cent) and plumbing (+9.7 per cent) services compared to the previous year. With some of these trades also in demand on other non-residential construction industries, availability is likely to be constrained especially in regions that continue and are set to see a pick-up in building activity.

The target to build 1.2 million homes over the next five years will require 83,000 more skilled trades across twelve key occupations in the residential construction industry, which HIA has identified in a recent report, All Hands on Deck.[5] This report highlights some of the recommendations around promoting apprenticeships, combatting an ageing trades workforce and making better use of the skilled migration system.

	Current number of workers	Additional workers required
Carpenter	73,399	22,020
Electrician	57,723	17,317
Plumber	39,663	11,899
Painter	26,774	8,032
Bricklayer	15,059	4,518
Cabinetmaker	14,693	4,408
Plasterer	11,826	3,548
Tiler	11,405	3,421
Concreter	10,421	3,126
Roof Tiler	6,384	1,915
Floor Finisher	6,016	1,805
Glazier	4,465	1,339
Total	**277,827**	**83,348**

Source: HIA

An increase in the minimum wage must be in line with productivity and economic growth. Otherwise, it risks eroding the progress made with getting inflation down and inevitably watering down any real increases in wages and living standards for workers. The risk of a wage-spiral similar to the 1970s and 1980s cannot be dismissed, especially amid more uncertain and turbulent global economic conditions.

[3] Australian Small Business and Family Enterprise Ombudsman, Apprentices and Trainees Employed by Small Business, September 2024
[4] Housing Industry Association Ltd, HIA Trades Report, December 2024
[5] Housing Industry Association Ltd, All Hands on Deck, October 2024

The cost to business of having to foot the bill for wage increases without commensurate growth in output will only erode overall activity. There remain concerns with slowing productivity in Australia, which risks keeping inflation and, consequently, interest rates higher for longer and eroding living standards.

Impact on small business

Micro and small businesses have been hit the hardest by the changing economic conditions and rely heavily on award rates of pay and terms and conditions. They operate in a very competitive market where costs are tightly controlled, and profit margins are low. These employers are highly sensitive to economic conditions affecting them, including the effects of employment regulation and wage increases.

The construction industry's total Income, Expenses and Earnings before income, taxes, depreciation and amortisation over the past few years has concerningly experienced a decline with micro and small businesses in Construction generating $298.266 billion in income in the 2022/23 financial year, which is 52 per cent of total Construction industry income ($568.182). This share has marginally fallen in the last five years, from 56 per cent in 2018/19 to 52 per cent in 2022/23.

Despite this reduction in income, small business owners are working harder than ever, with 45 per cent of small business owners working 39 hours or more per week.[6] In the limited hours of a business day, a small business owner 'wears many hats', navigating a complex web of regulation and compliance, often without the dedicated expertise or resources of larger business.

Australia's construction industry has long been sensitive to the impacts of insolvency and broader cash-flow issues. The COVID-19 pandemic exacerbated pre-existing contributors to insolvency in the residential building industry. Industry slowdowns, shutdowns, the imposition of various and changing work restrictions on top of staff absenteeism, jeopardised the livelihood of all businesses, particularly small businesses in the sector. The flow on effects of price increases and labour and material shortages have meant that many businesses in the industry are still on the journey to a full recovery.

Increases in wages inherently place added cost pressures on businesses making them less likely to grow, invest or take on additional employees. This can also create demand side implications including tightening the supply of existing skilled trades and reducing the entry of new apprentices to the industry placing further pressure on existing businesses to meet demand.

[6] ABS TableBuilder, Census 2021.