THE AUSTRALIAN ECONOMY AND THE CIVIL CONSTRUCTION SECTOR IN 2027

PRESENTATION TO THE CIVIL CONTRACTORS FEDERATION NATIONAL INFRASTRUCTURE SUMMIT

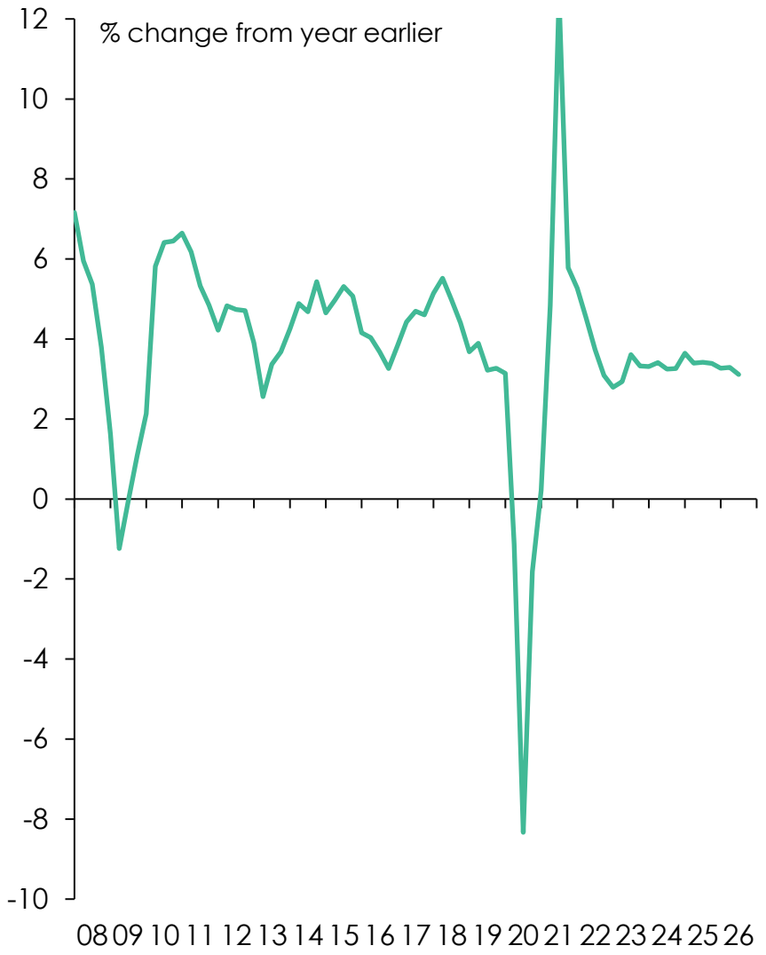
PARLIAMENT HOUSE, CANBERRA
27TH NOVEMBER 2026

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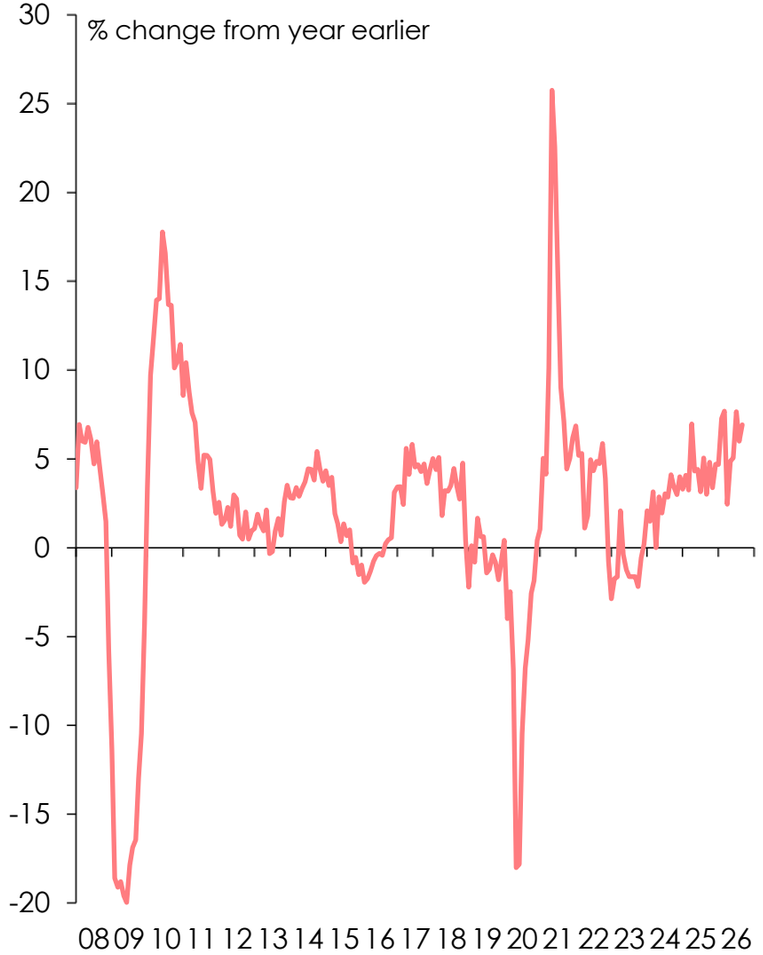
The world economy

World economic growth remained resilient through 2026 despite a seemingly growing list of 'headwinds'

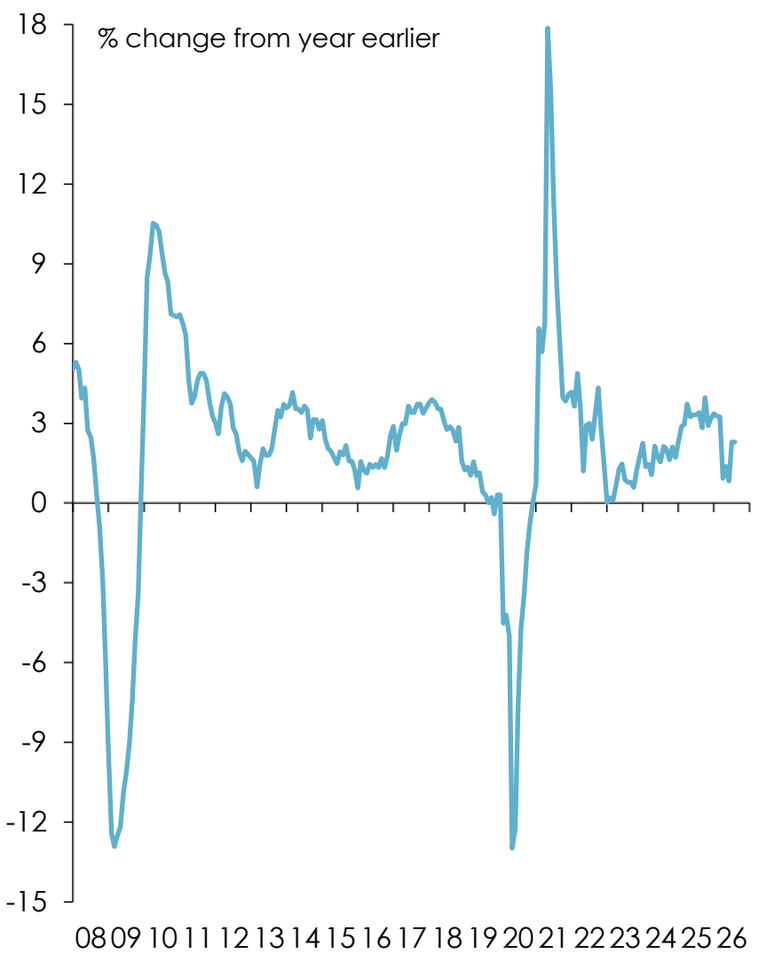
World GDP



World industrial production



World trade volume

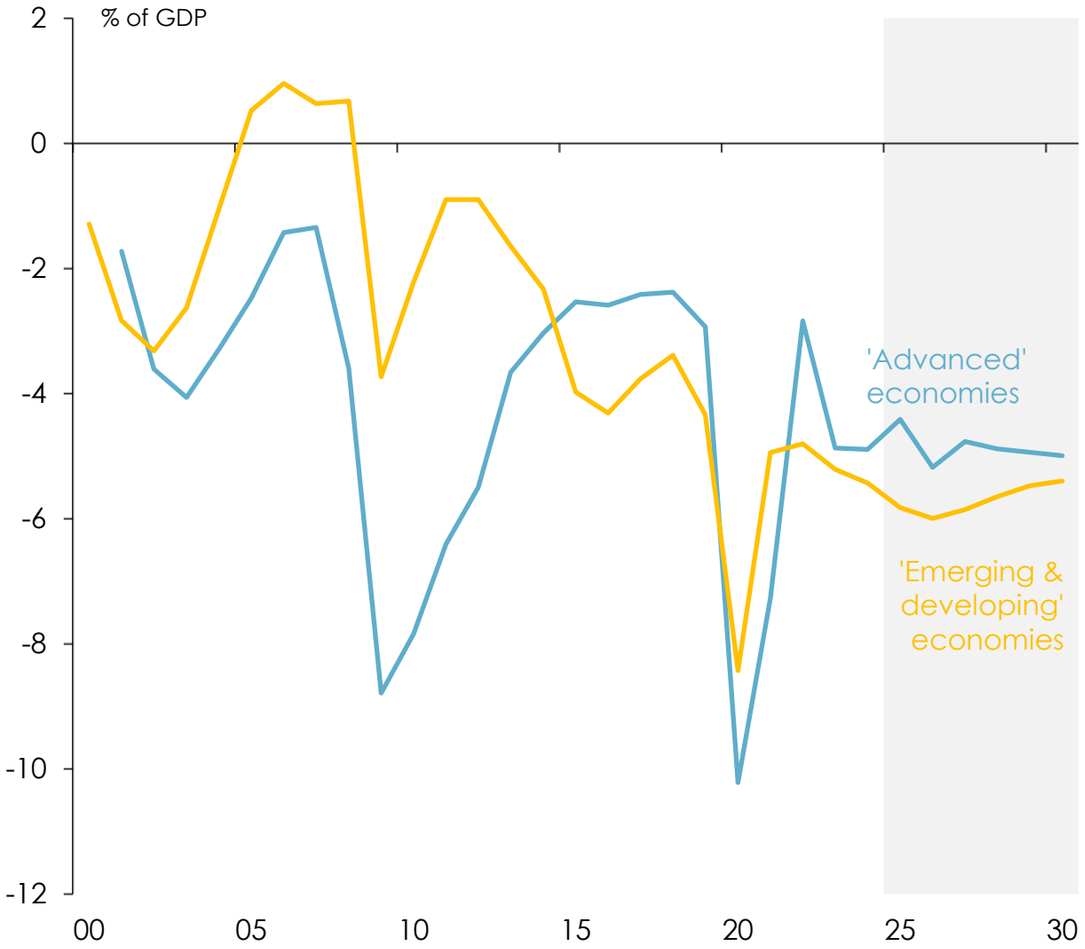


Sources: national statistical agencies and Corinna (based on GDP estimates for 99 economies); CPB, *World Trade Monitor*, August 2026.

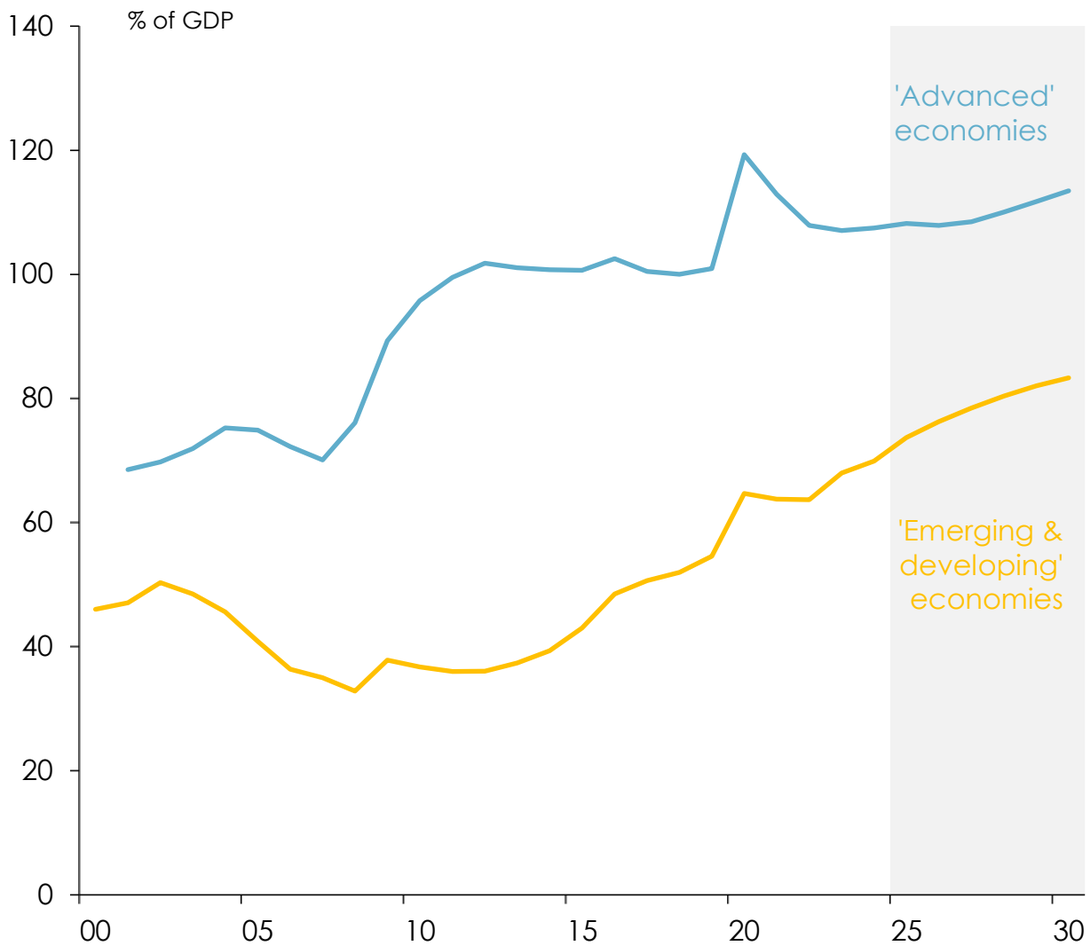
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That's partly because governments around the world have continued to run very expansionary fiscal policies …

Government net lending (+) / borrowing (-)



Government gross debt

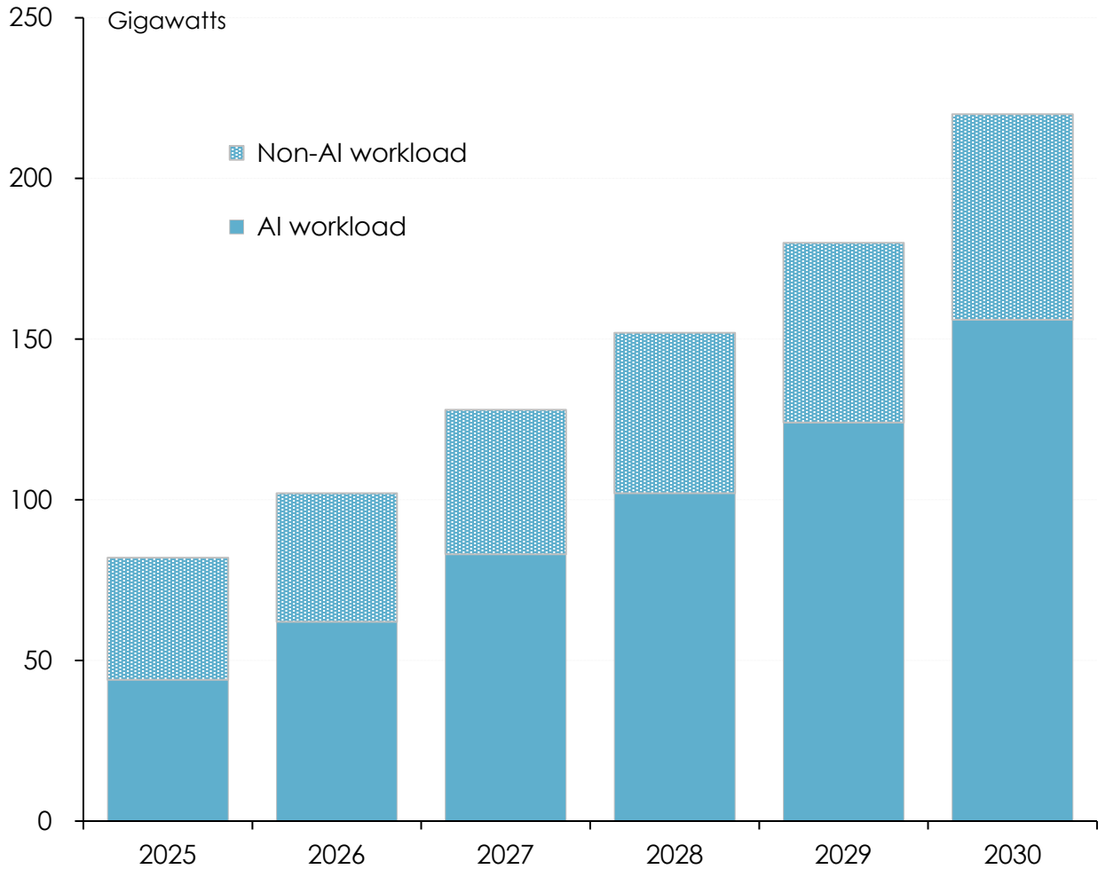


Source: International Monetary Fund, *World Economic Outlook database*, October 2026.

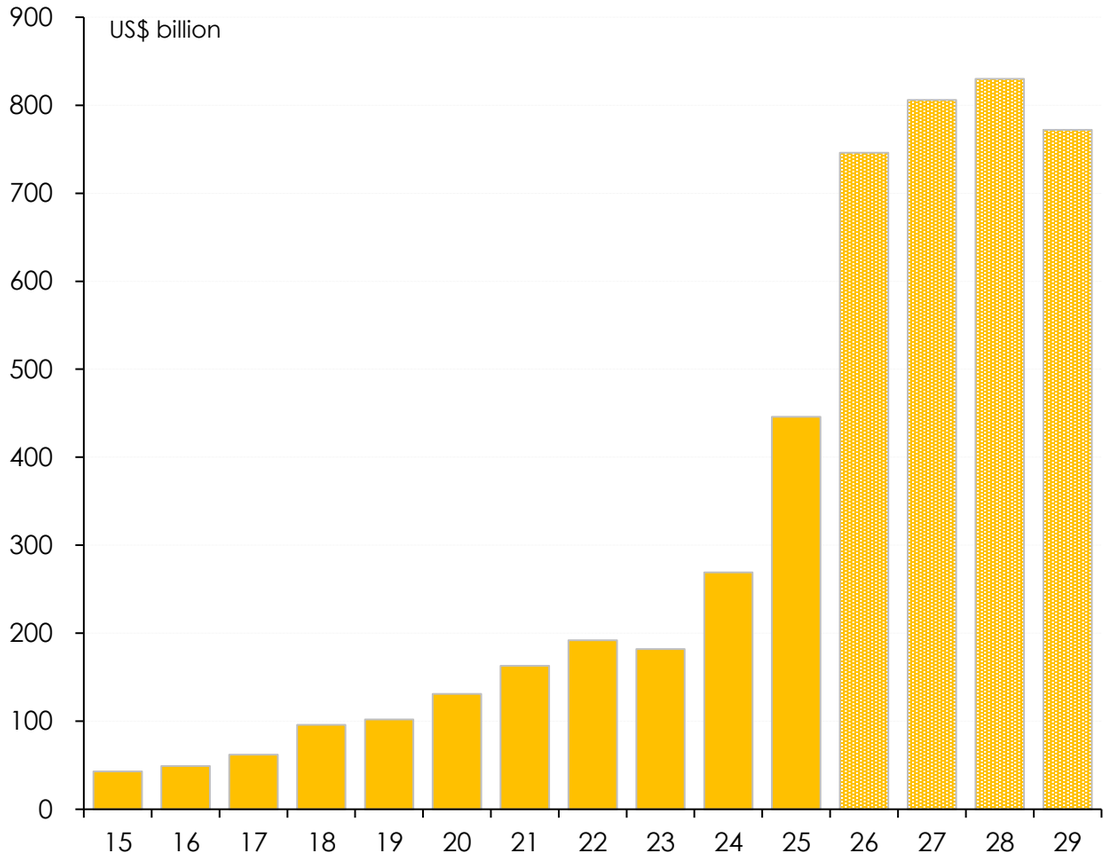
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… and partly because of the 'AI investment boom'

Global data centre capacity demand



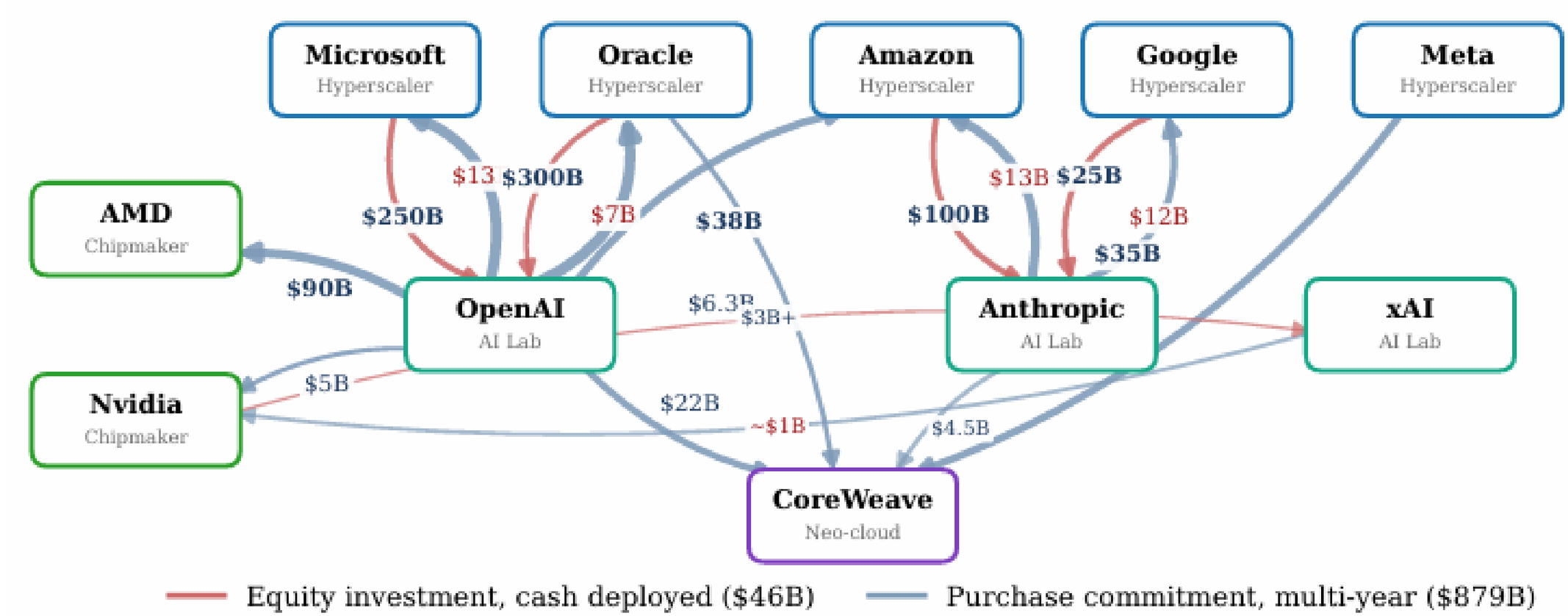
Capital expenditure of largest publicly owned data centre operators



Sources: Jesse Noffsinger, Mark Patel and Panaj Sachdeva, *The cost of compute: A $7 trillion dollar race to scale data centers*, McKinsey Quarterly, April 2025; Bloomberg NEF, *Data Center Market Indicators 1H 2026*, 18th March 2026.

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A growing proportion of this is now being financed by debt – including ‘circular financing’

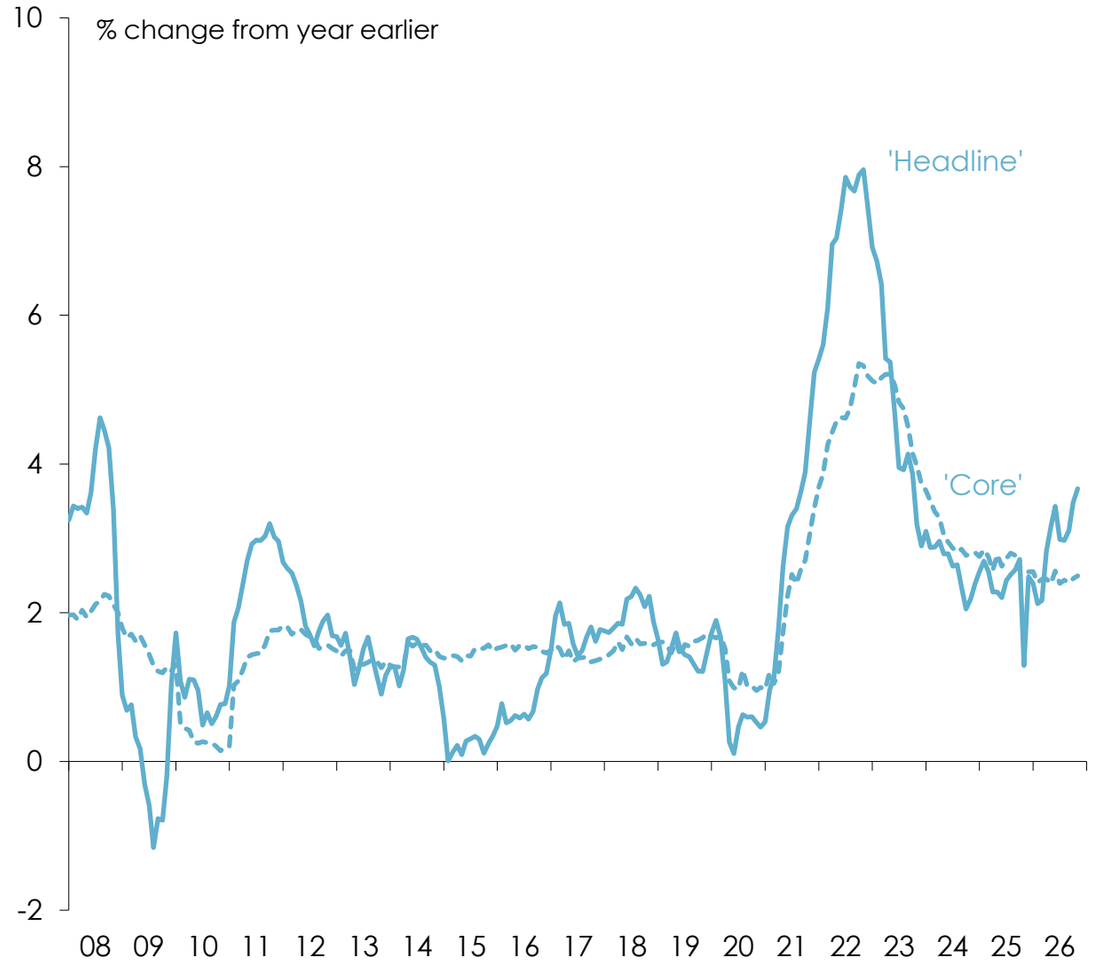


Source: Phurichai Rungcharoenkitkul, *The AI Investment Race*, BIS Working Paper No. 1367, Bank for International Settlements, 14th July 2026.

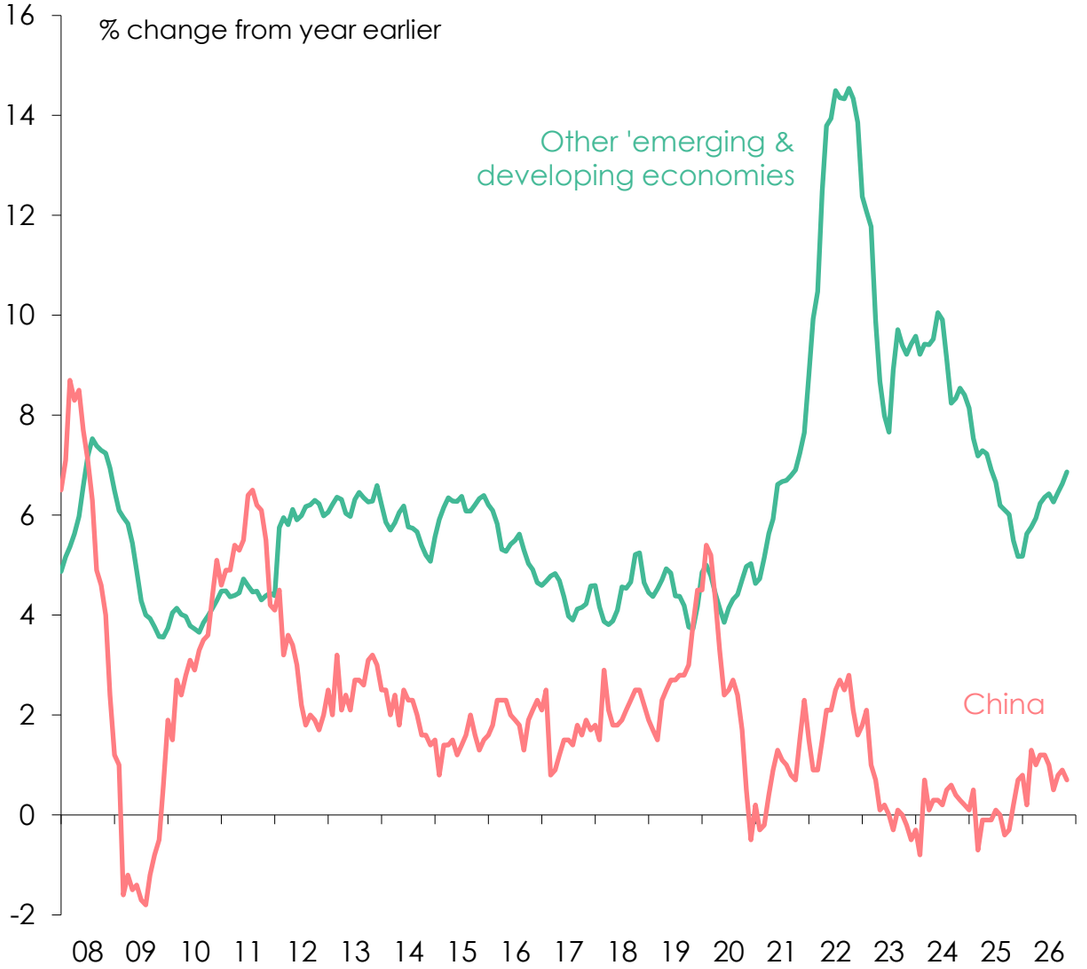
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‘Headline’ inflation has started rising again, and ‘core inflation’ remains above target in most ‘advanced’ economies

‘Advanced’ economies



‘Emerging & developing’ economies

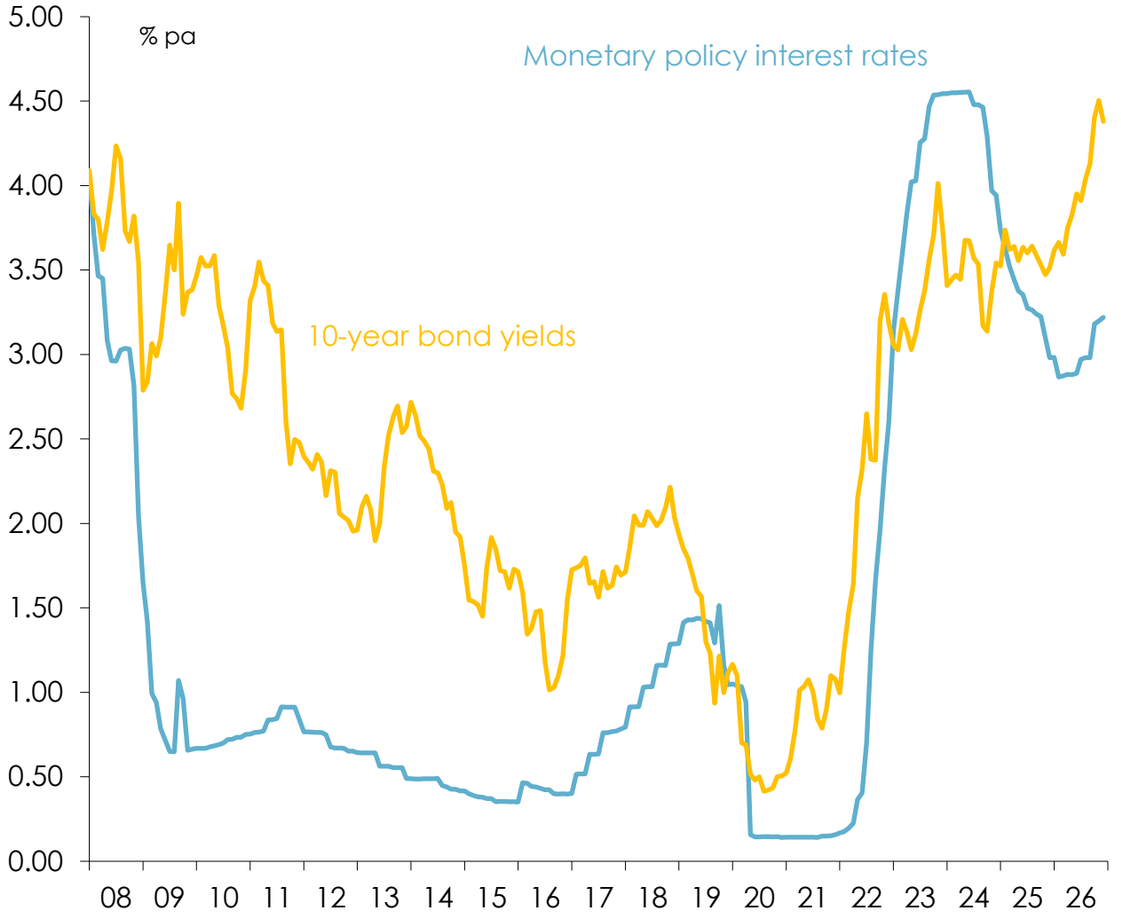


Sources: national statistical agencies and central banks; LSEG Datastream; Corinna.

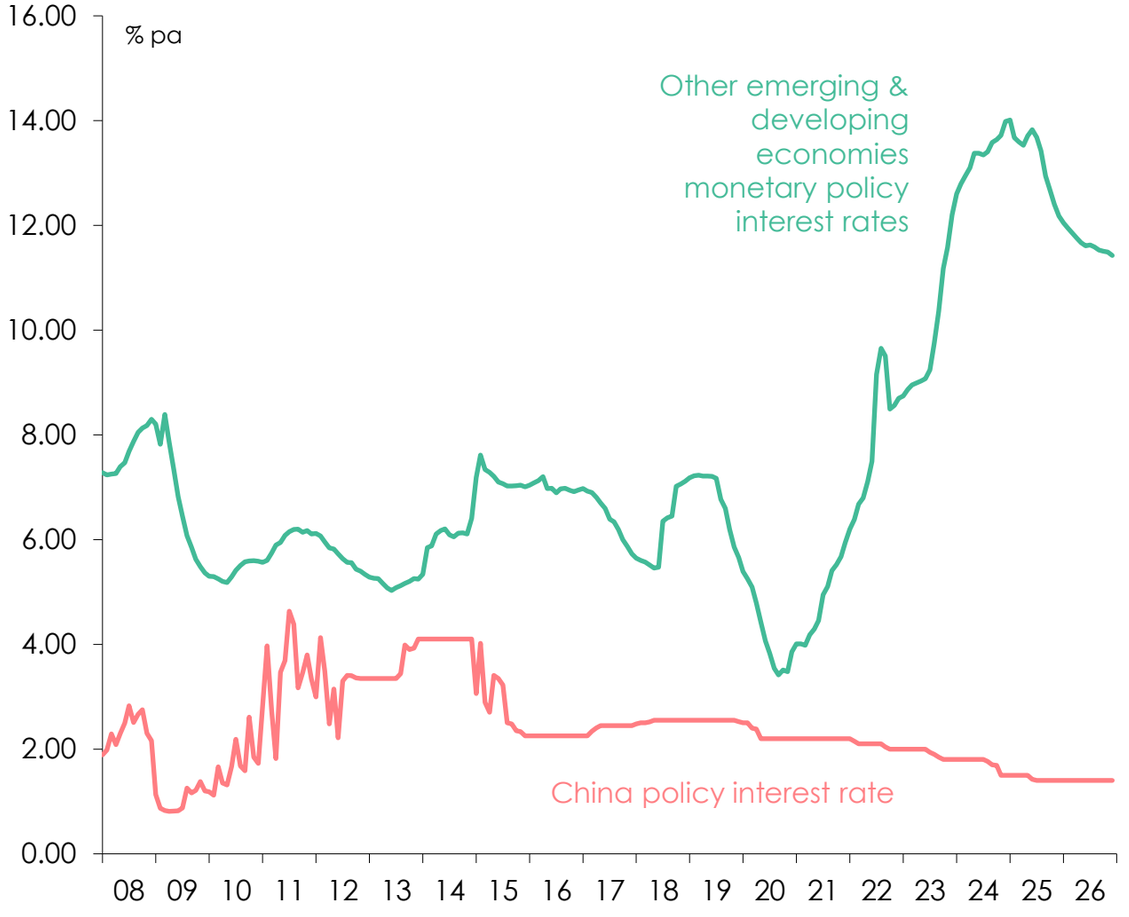
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‘Advanced’ economy central banks have begun tightening monetary policy again – and bond yields have been rising sharply

‘Advanced’ economies interest rates



‘Emerging & developing’ economies interest rates

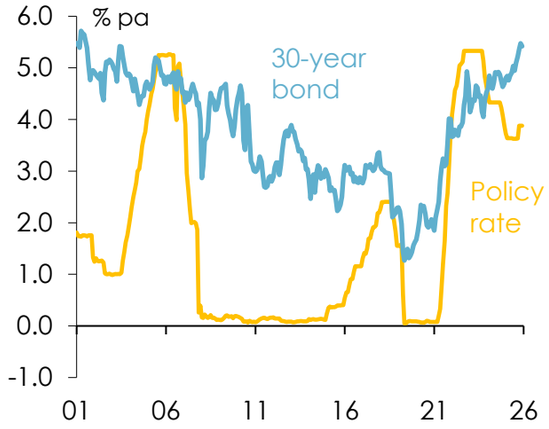


Sources: Central banks, LSEFG Datastream and Corinna. Averages are interest rates for individual economies weighted by 2023 GDP in US$.

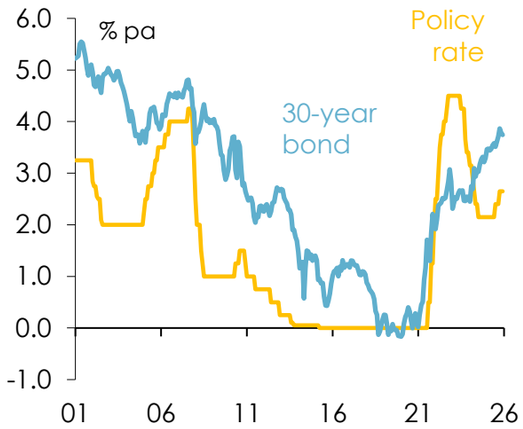
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No wonder long-term bond yields are at multi-decade highs in most economies

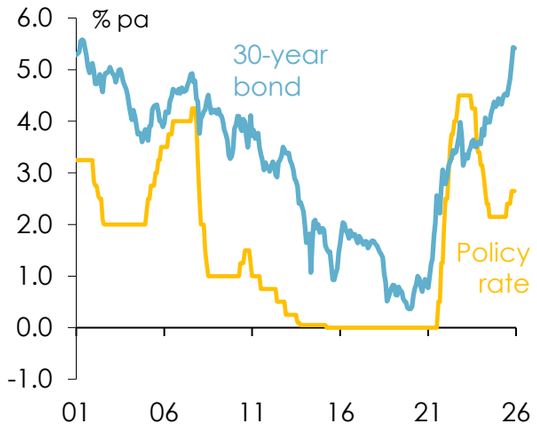
United States



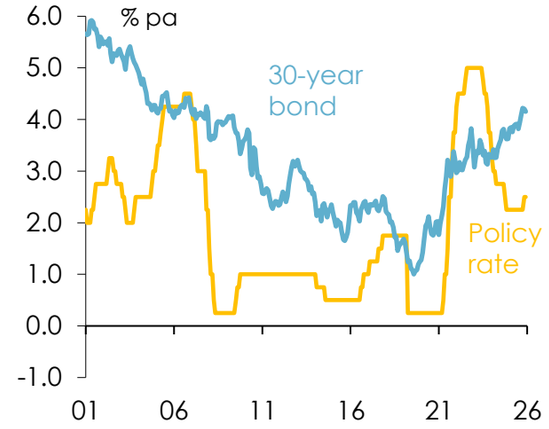
Germany



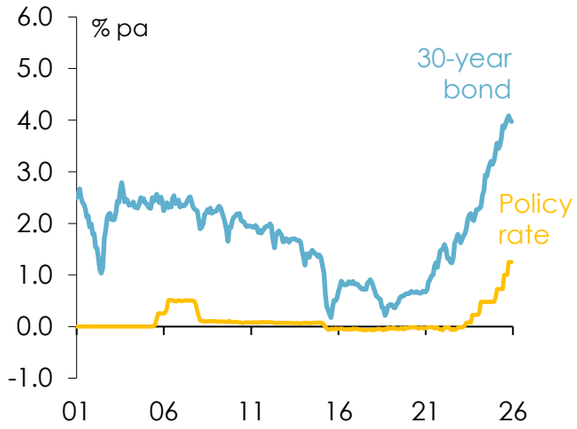
France



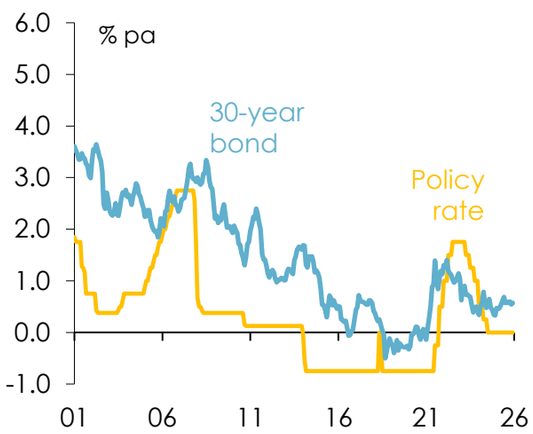
Canada



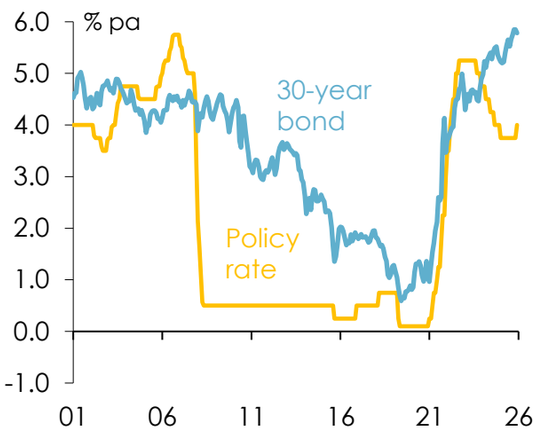
Japan



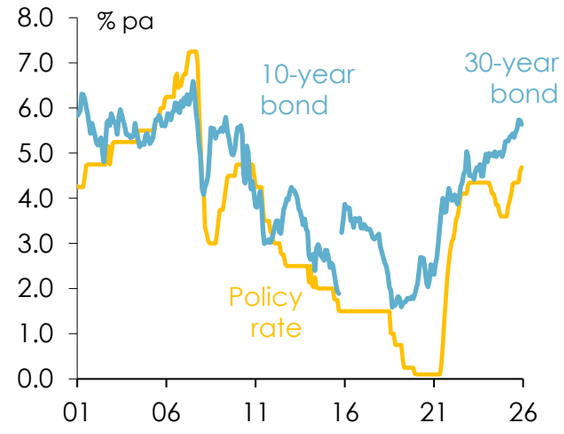
Switzerland



United Kingdom



Australia



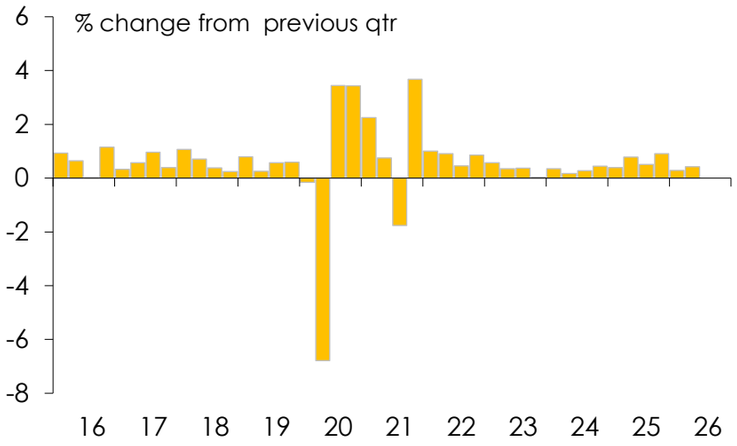
Note: Data are monthly averages of daily rates up to 20th November. Australia did not begin issuing 30-year bonds until October 2016. *Source*: LSEG Datastream.

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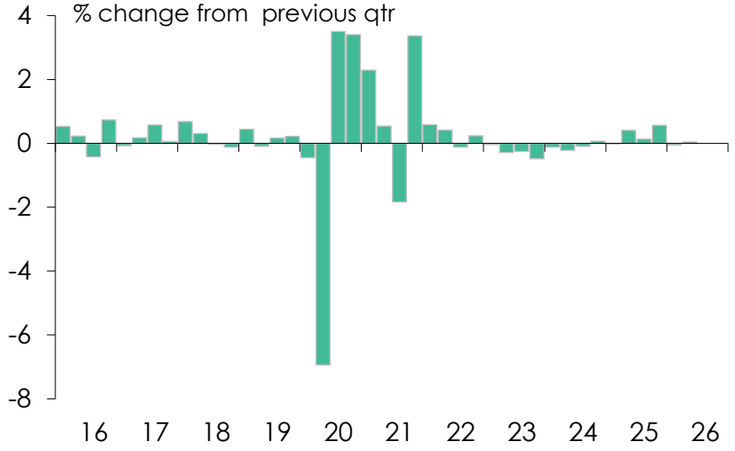
The Australian economy

After picking up through 2025, growth in Australia's economy has slowed in 2026

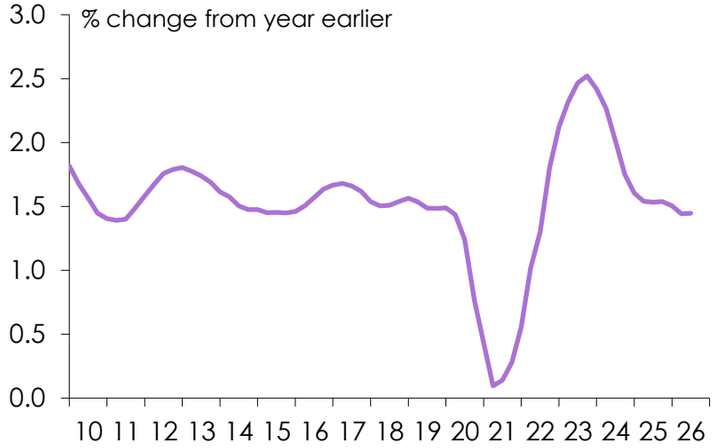
Real GDP - quarterly



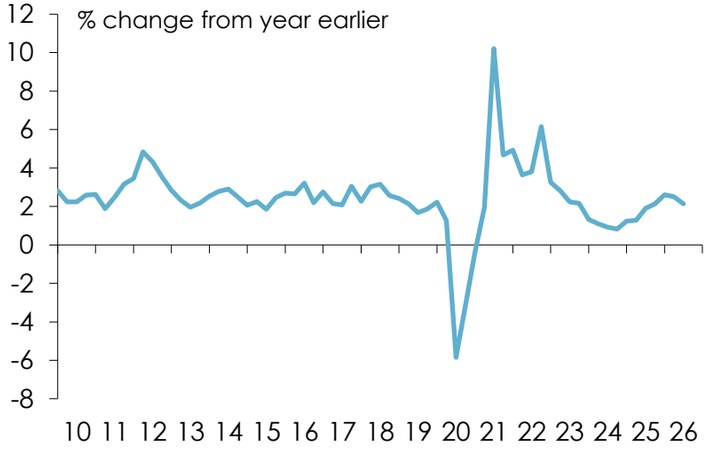
Real per capita GDP - quarterly



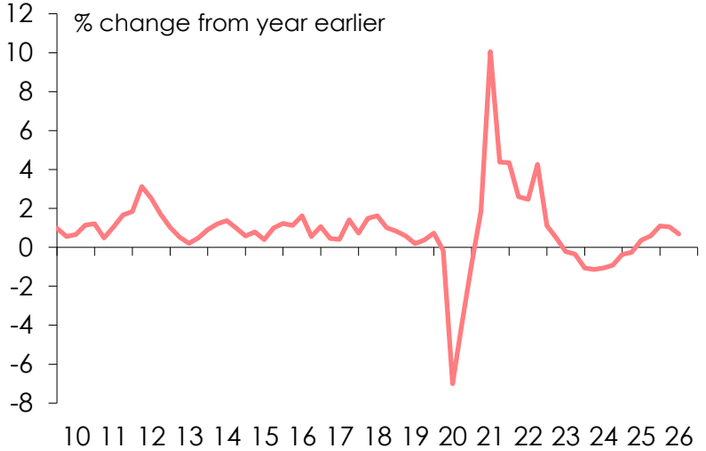
Population



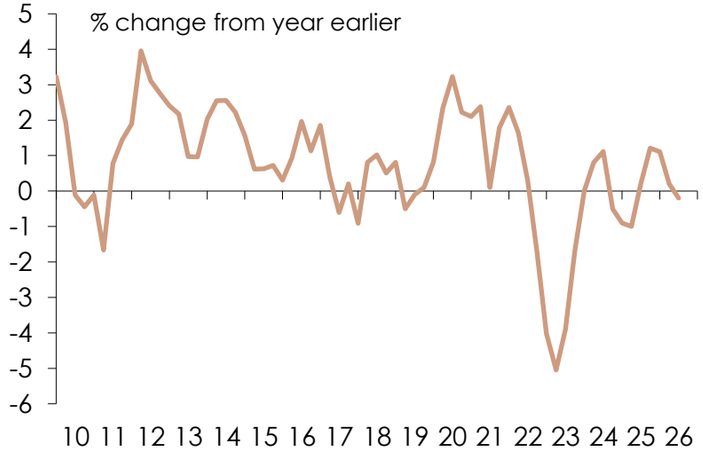
Real GDP - annual



Real per capita GDP - annual



Labour productivity

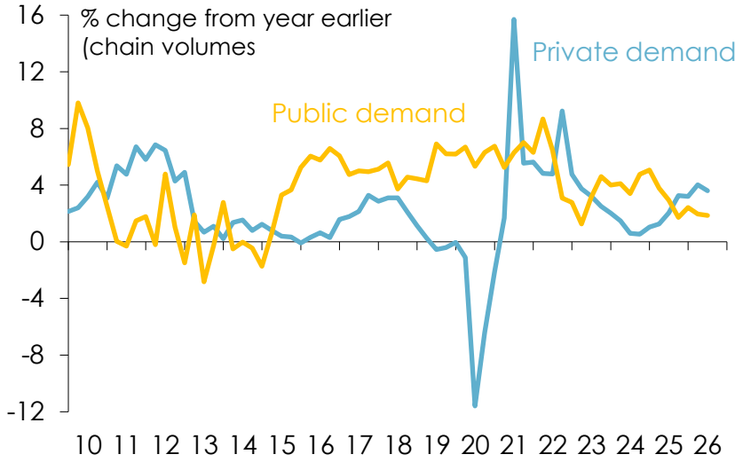


Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026.

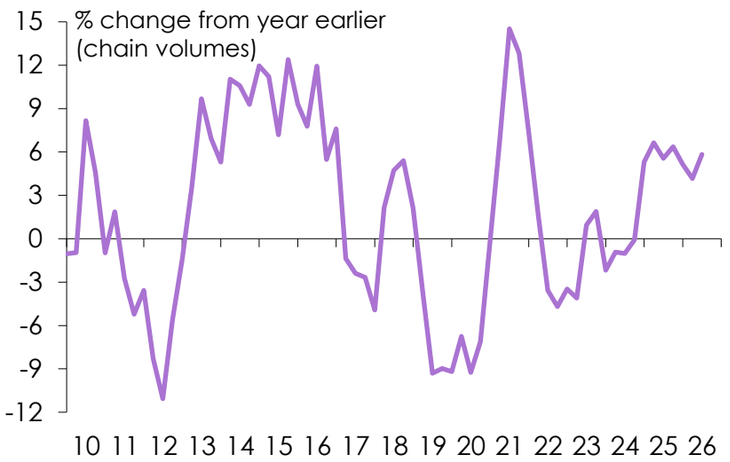
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Growth in government spending has slowed, as has consumer spending, but private investment has picked up

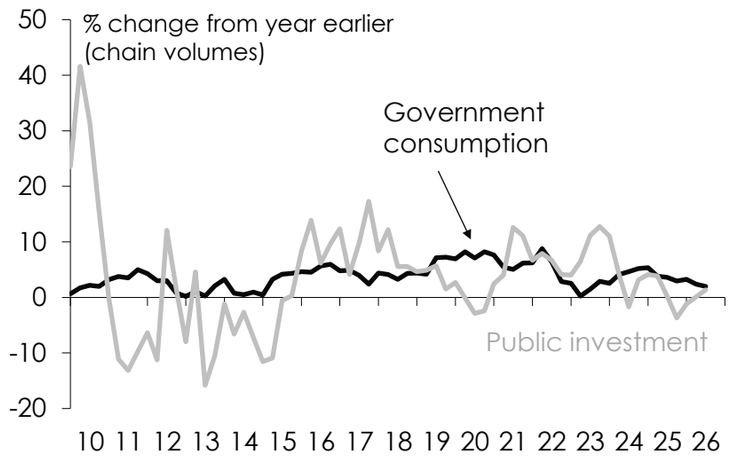
Private vs public sector spending



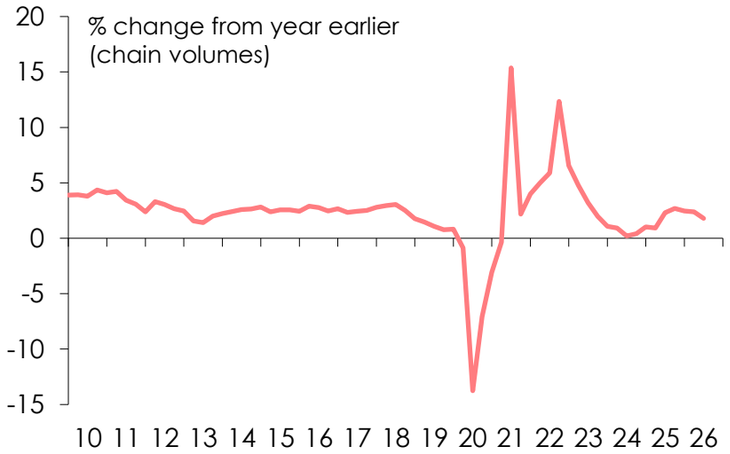
Dwelling investment



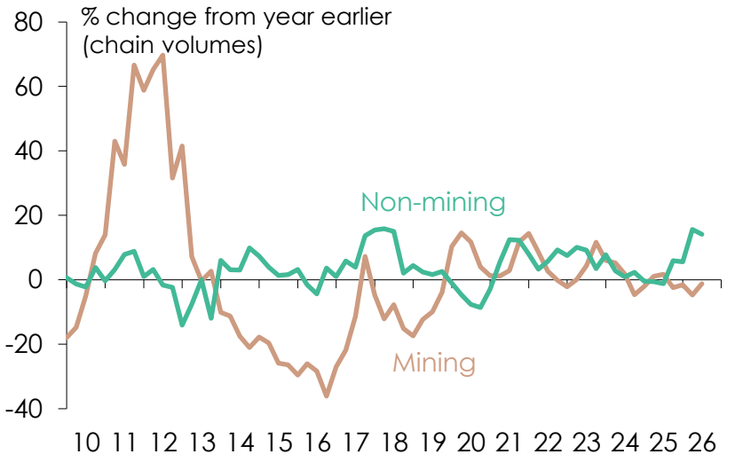
Public spending by type



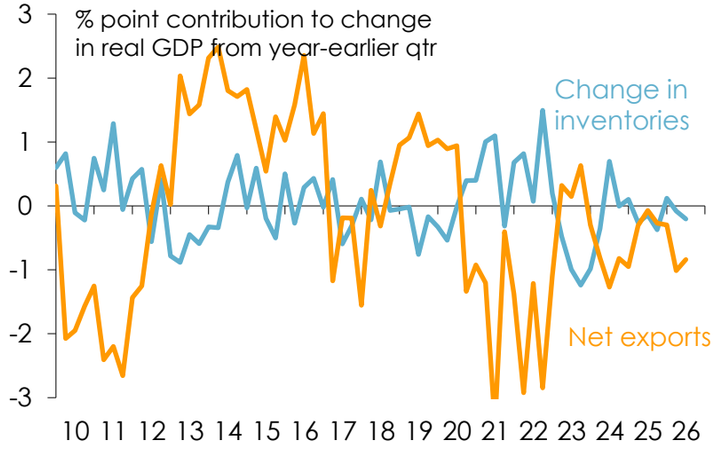
Household consumption



Business investment



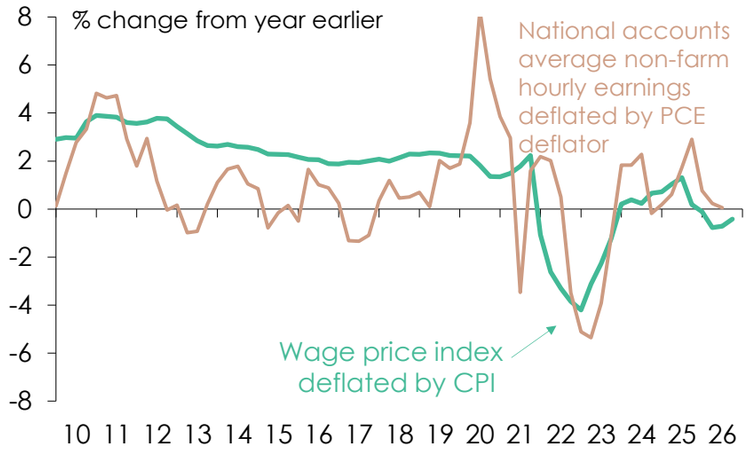
Net exports and changes in stocks



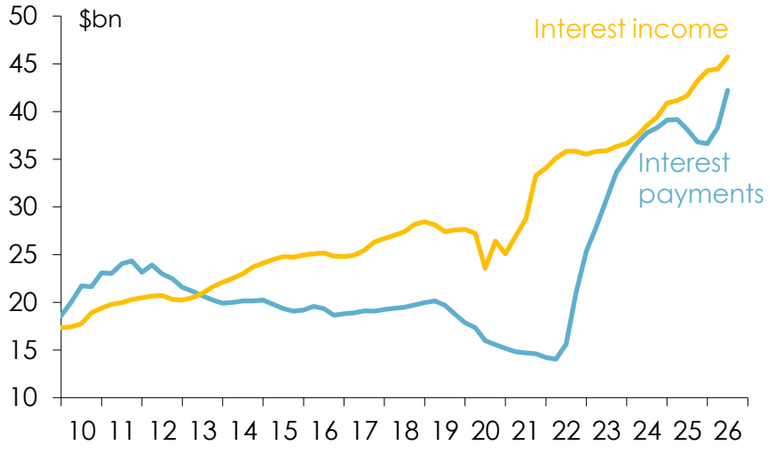
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026.

The post-Covid squeeze on household finances started to ease from mid-2024 on, but has resumed with rates rising again and higher fuel prices

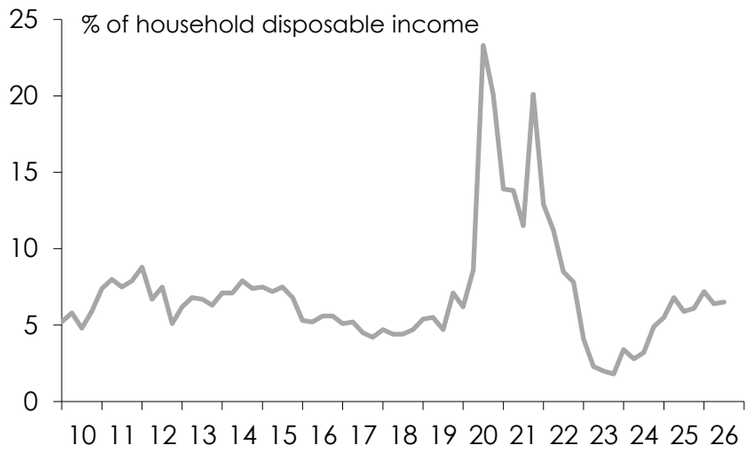
Real wages



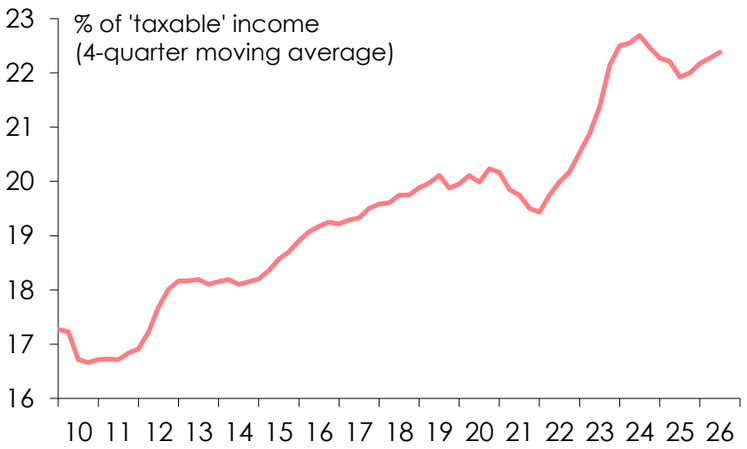
Interest income and payments



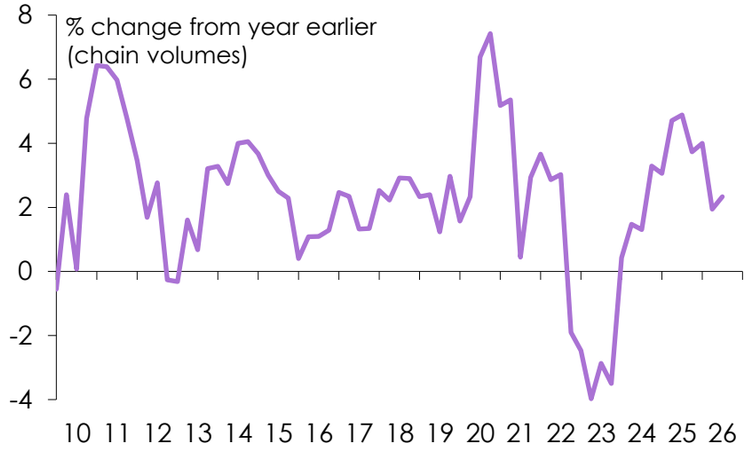
Household saving



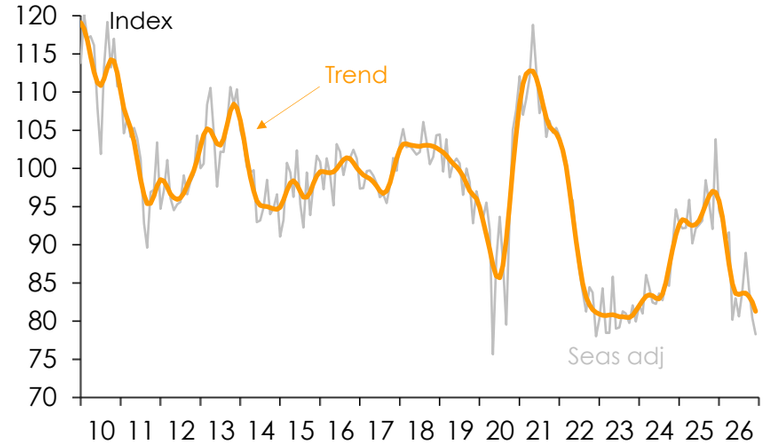
Personal income tax payments



Real household disposable income



Consumer confidence

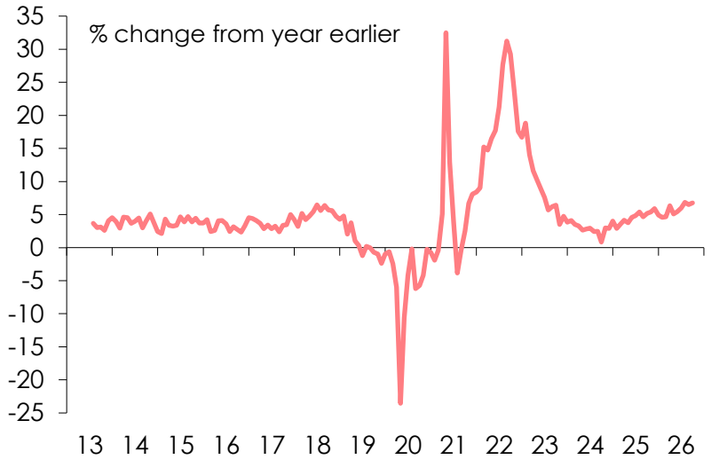


Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026; *Wage Price Index*, September quarter 2026; *Consumer Price Index*, September 2026; and Westpac, *Westpac-MI Consumer Sentiment*, November 2026.

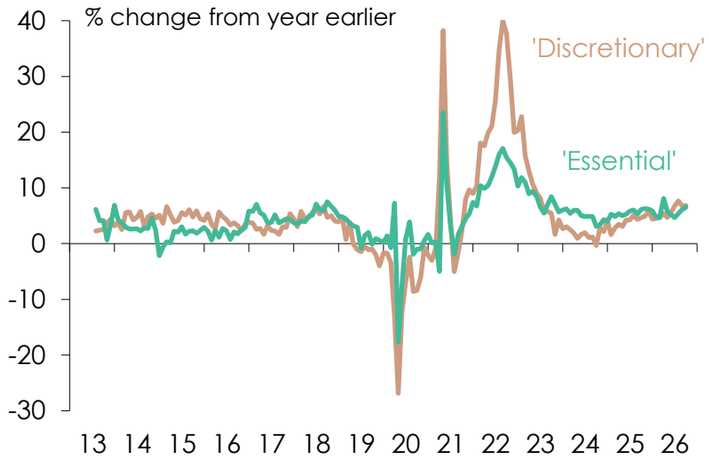
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Household spending held up quite strongly in the first half of this year, but there are signs of a slowing in the September quarter

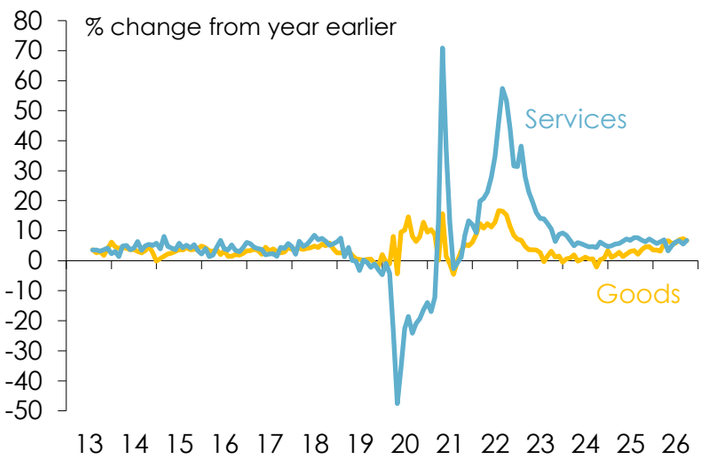
Household spending



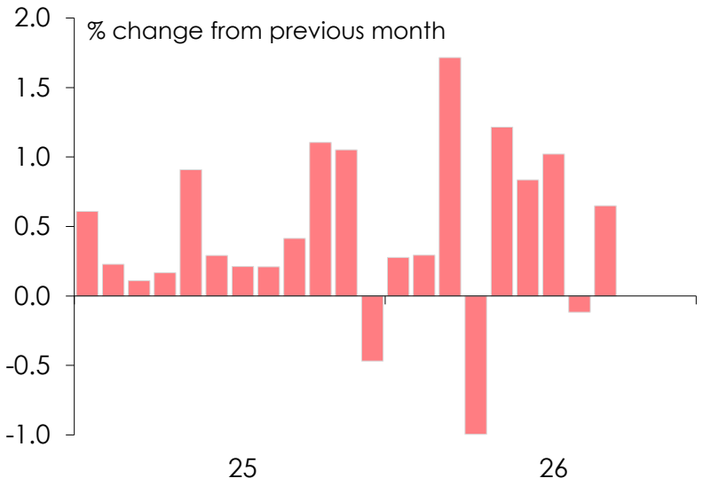
'Discretionary' vs 'essential' items



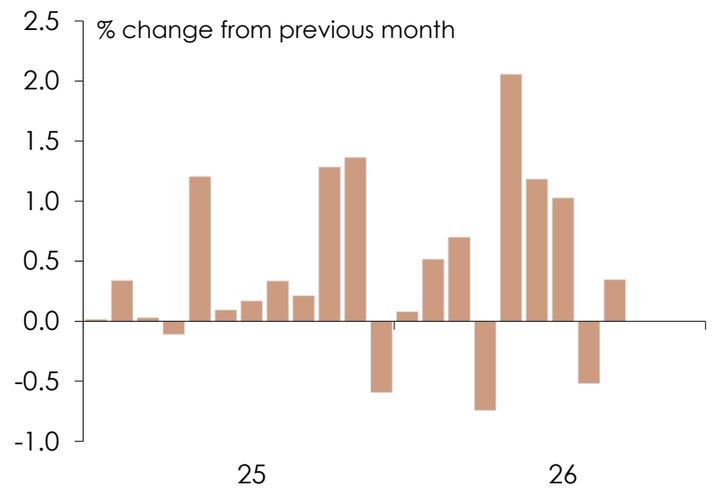
Goods vs services



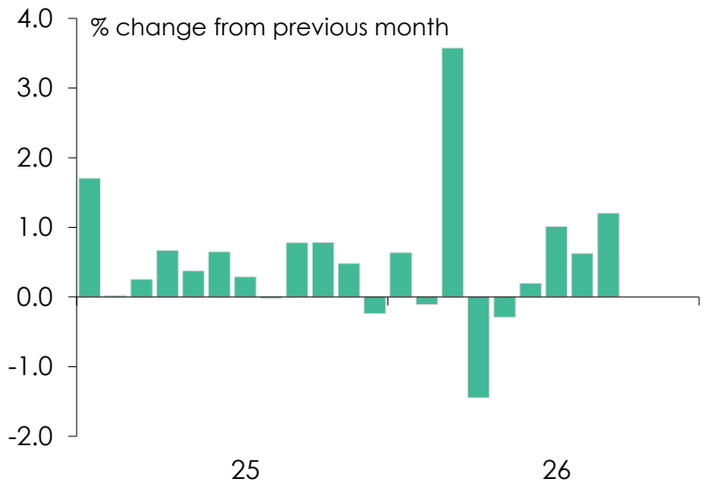
Monthly change in total spending



Monthly change in 'discretionary'



Monthly change in 'essentials'

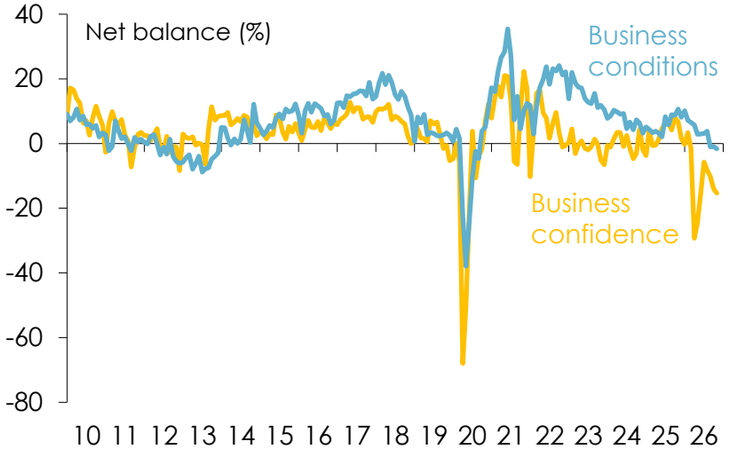


Note: 'Essentials' are food, health, motoring goods (including fuel), motor vehicle repairs & maintenance, and road & rail transport. 'Household spending' excludes rent, electricity & gas, communications services, education services, insurance and other financial services. *Source:* ABS, *Monthly Household Spending Indicator*, September 2026.

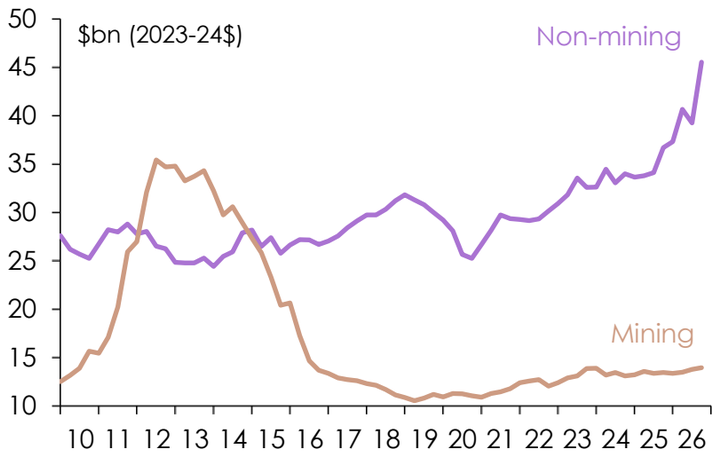
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Business sentiment has deteriorated in recent months, although capital expenditure intentions (outside of mining) remain strong

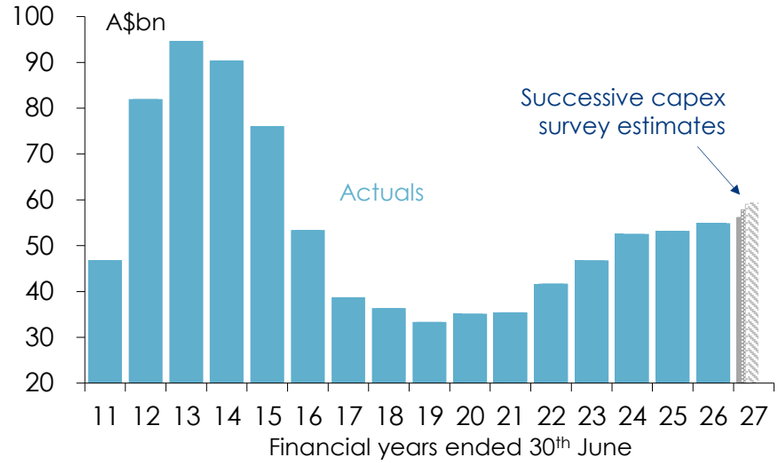
Business conditions & confidence



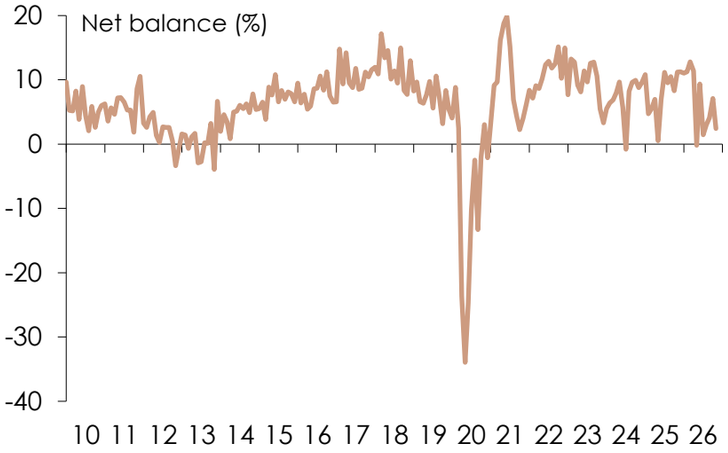
Capital expenditure by sector



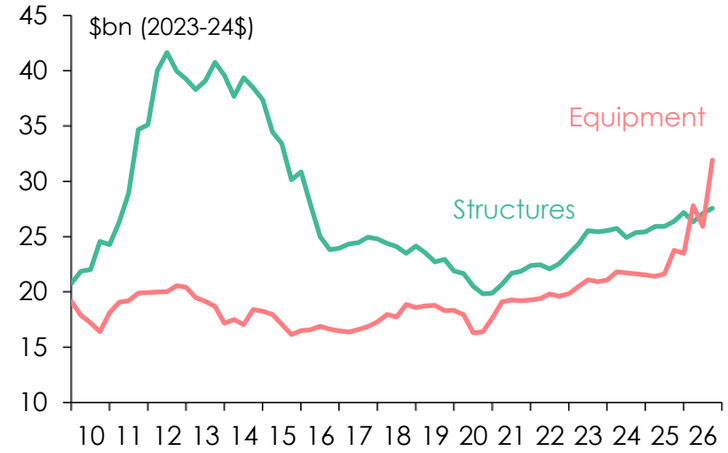
ABS capex intentions - mining



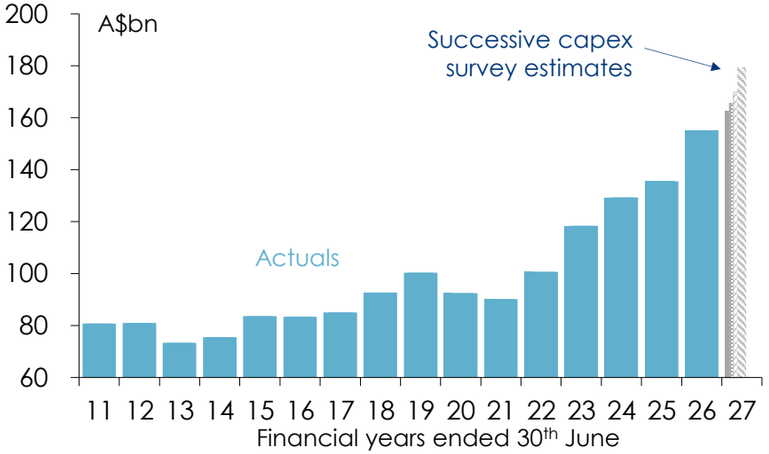
NAB Survey capex intentions



Capital expenditure by asset



ABS capex intentions – non-mining

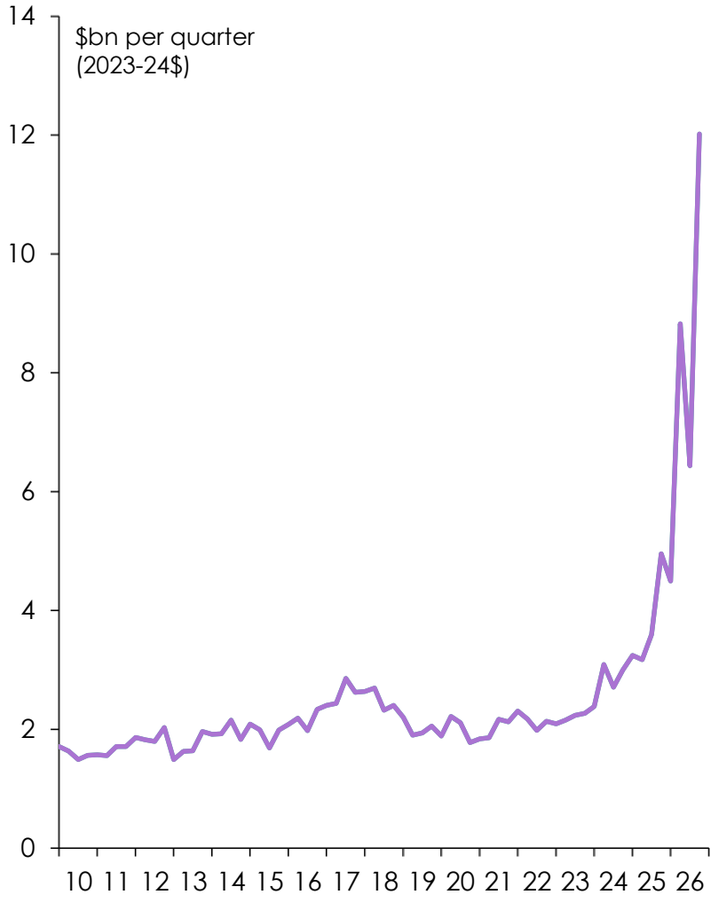


Sources: NAB, *Monthly Business Survey*, October 2026; ABS, *Private New Capital Expenditure and Expected Expenditure*, September quarter 2026. *Note:* estimates of capex in 2026-27 assume that successive expectations are realized to the same extent as they have been on average over the five years to 2025-26.

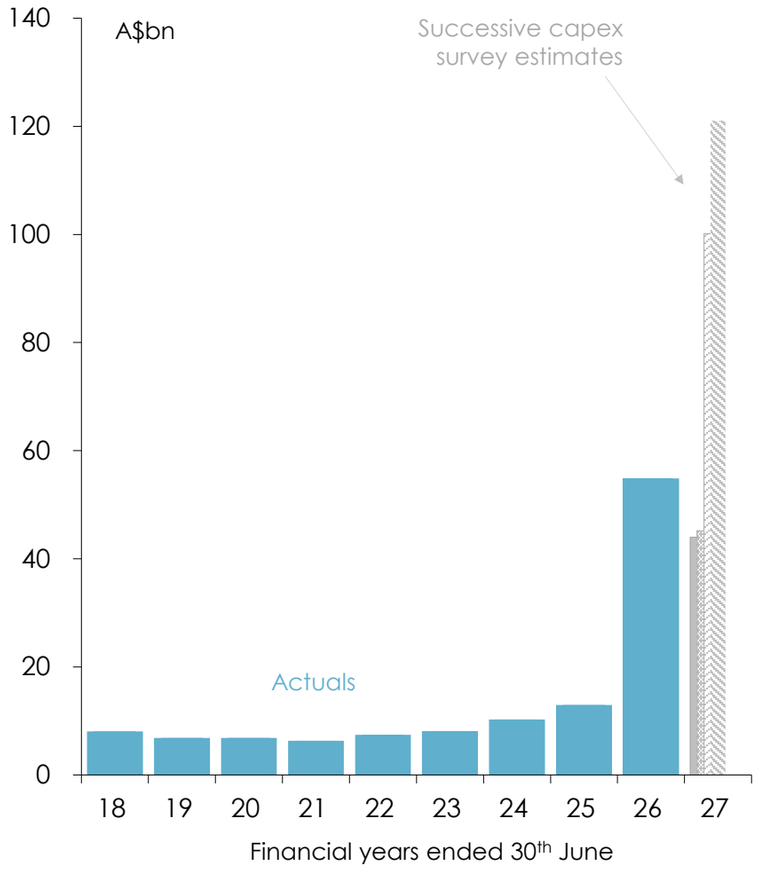
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Australia is experiencing a boom in investment in data centres, although much of it is on imported equipment

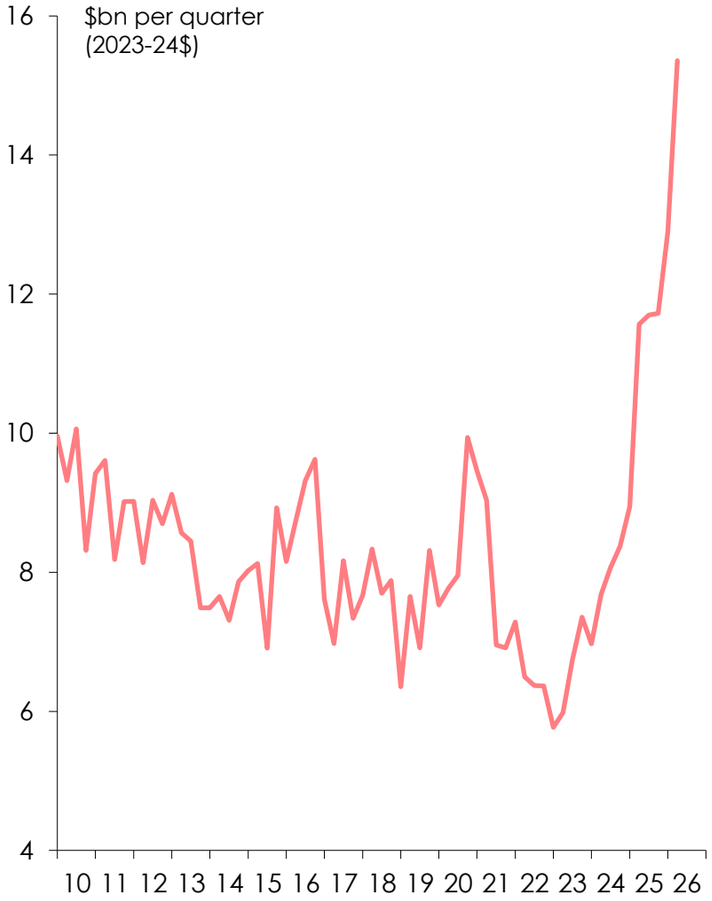
Information, media & telecoms capital expenditure



Information, media & telecoms capital expenditure intentions



Imports of advanced data processing equipment & parts

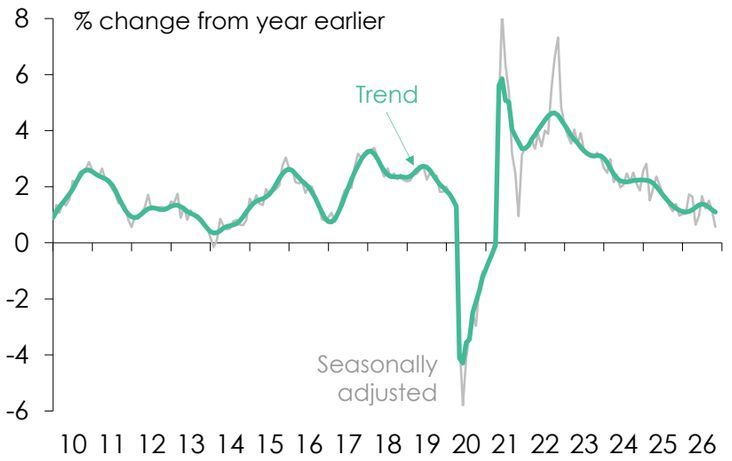


Sources: ABS, *Private New Capital Expenditure and Expected Expenditure*, September quarter 2026 (*Note:* estimates of capex in 2026-27 assume that successive expectations are realized to the same extent as they have been on average over the five years to 2025-26); and *Balance of Payments and International Investment Position*, March quarter 2026.

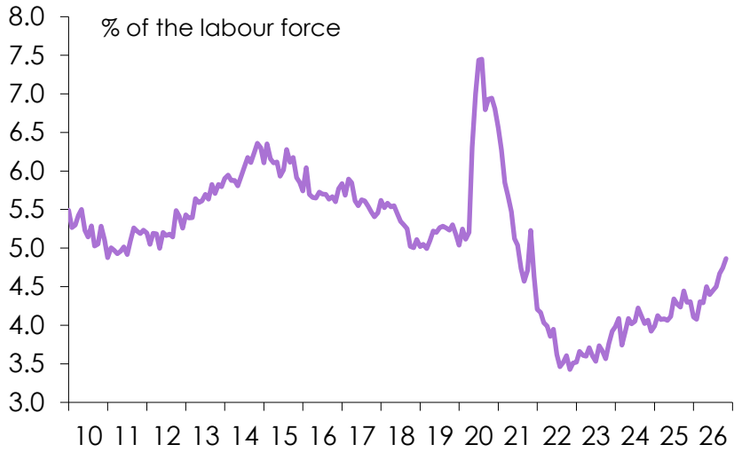
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Employment growth has slowed, unemployment is rising and job vacancies are declining

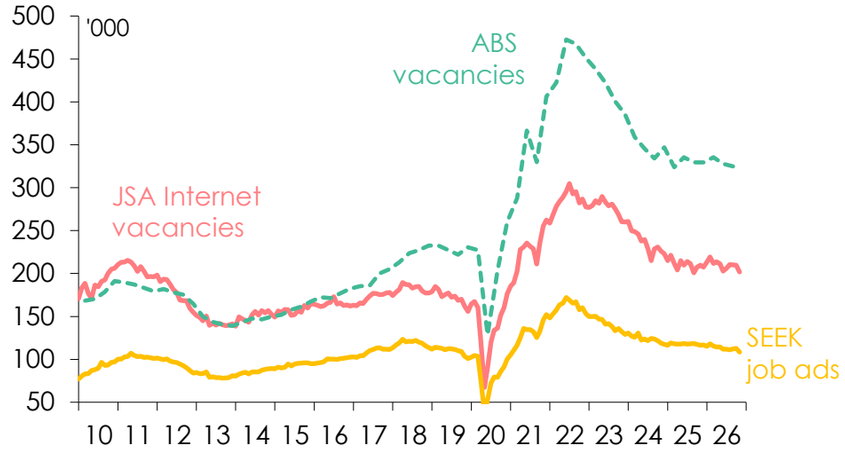
Employment growth



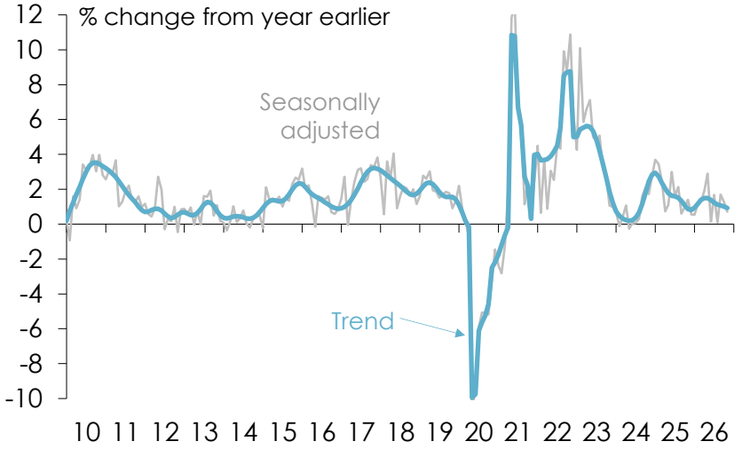
Unemployment rate



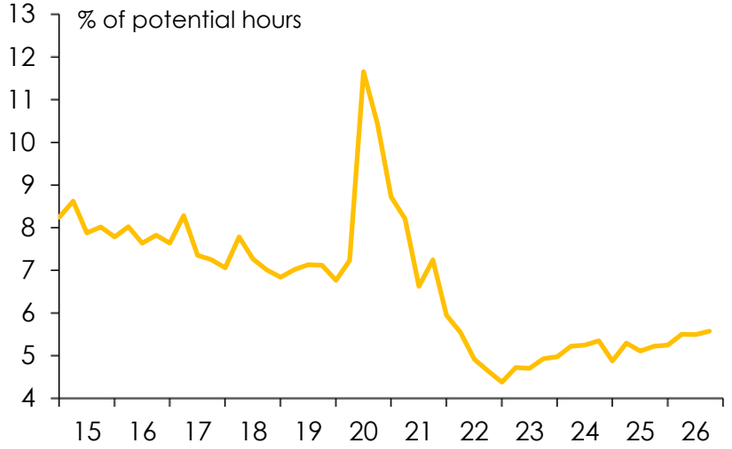
Job vacancies



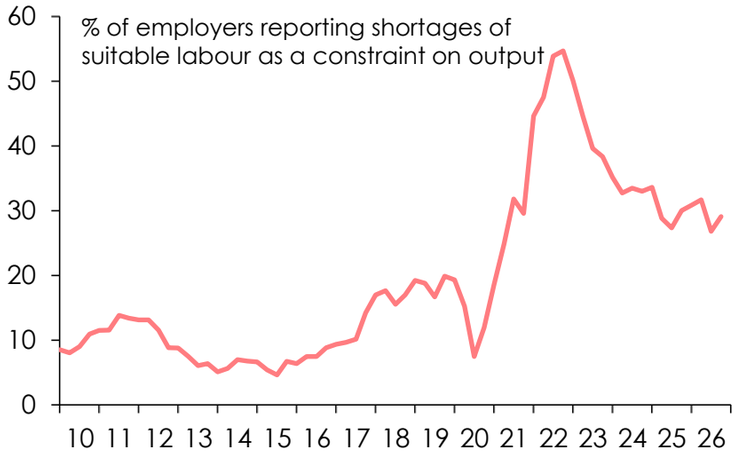
Hours worked



Labour force under-utilization



Labour shortages

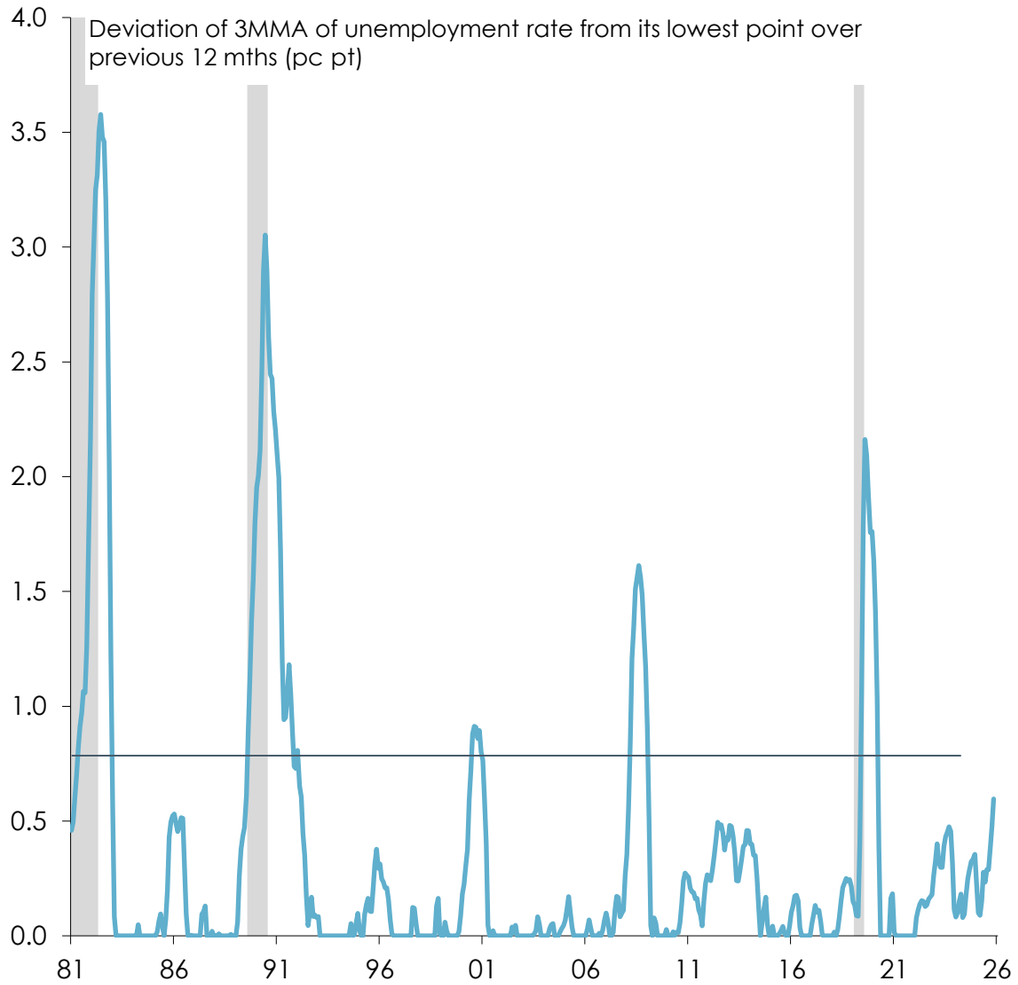


Note: 'labour force under-utilization' is a 'volume measure' of the hours which would have been worked by unemployed and under-employed people had those hours been offered. *Sources:* ABS, *Labour Force*, October 2026, *Job Vacancies*, August 2026 and *Labour Account, Australia*, June quarter 2026; National Australia Bank, *Quarterly Business Survey*, September quarter 2026; Jobs and Skills Australia, *Internet Vacancy Index*, October 2026; SEEK, *Employment & Salary data*, October 2026.

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The Australian variant of the 'Sahm Rule' for identifying the onset of a recession could be triggered early next year

Australian variant of the 'Sahm Rule'

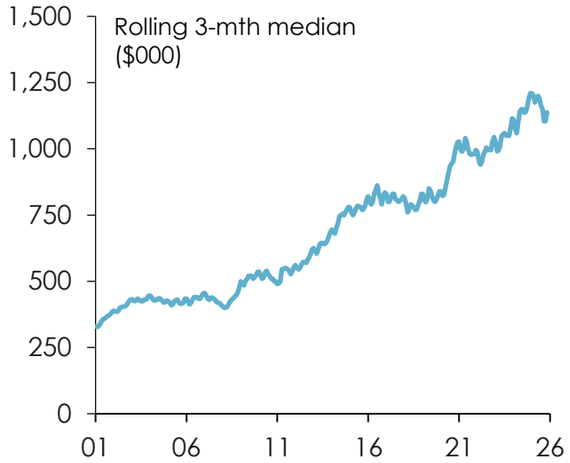


- The 'Sahm Rule', originally proposed by US Federal Reserve economist Claudia Sahm in 2019, holds that when the three-month moving average of the unemployment rate exceeds its lowest level over the preceding 12 months by 0.5 of a percentage point or more, the [US] economy is in the early stages of a recession
  - Sahm herself has been at pains to emphasize that her rule is "an empirical regularity … [and] not a law of nature"
- In 2024, two RBA researchers (Luke Hartigan and Tom Rosewall) proposed that, because Australian monthly employment data is more volatile than its US counterpart, a more appropriate version of the 'Sahm Rule' in the Australian context was for the three-month moving average of the unemployment rate to exceed its lowest level over the preceding 12 months by 0.75 of a percentage point
- As of October 2026, the three-month moving average of the unemployment rate was 0.6 of a pc point above its lowest level in the preceding 12 months
- On the RBA's most recent forecasts – which have the unemployment rate reaching 5% by the June quarter of 2028 and 5.1% by the December quarter – the 'Sahm Rule' would not be triggered
- But if the unemployment rate continues to drift up at the same rate at which it has, on average, over the past six months (0.06 pc pt per month) then the 'Sahm Rule' would be triggered in January 2027

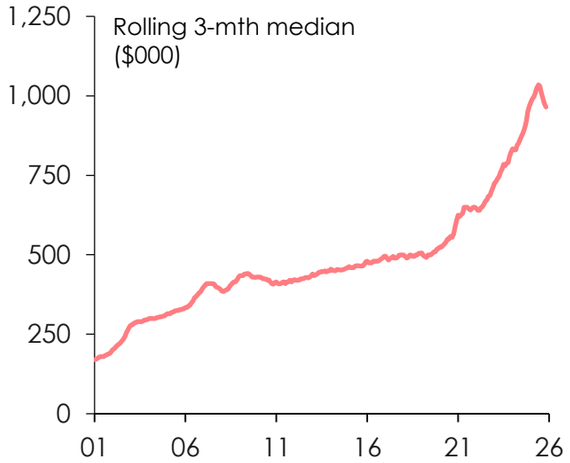
Source: ABS, *Labour Force*, October 2026.

Residential property prices are now falling in most cities – although not sharply (because turnover is also dropping)

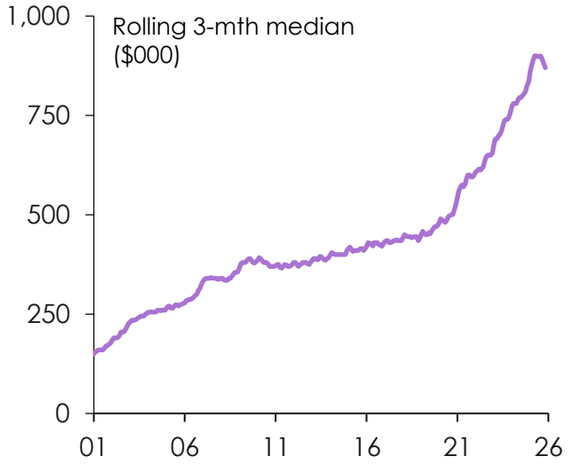
Sydney



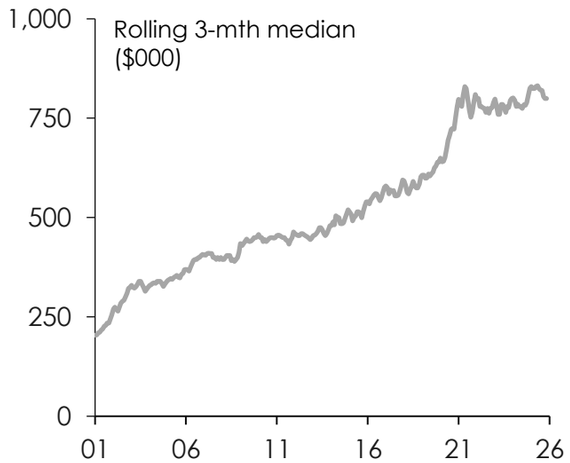
Brisbane



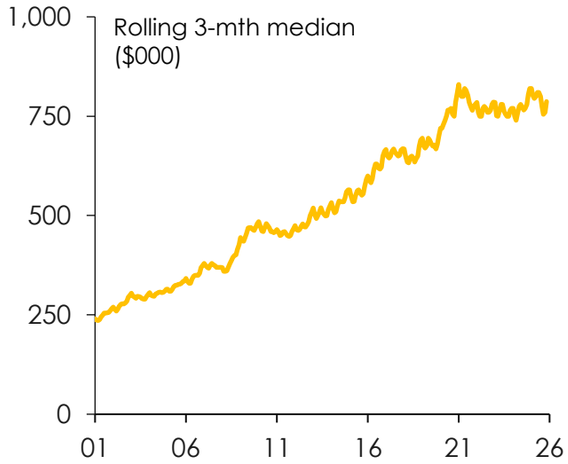
Adelaide



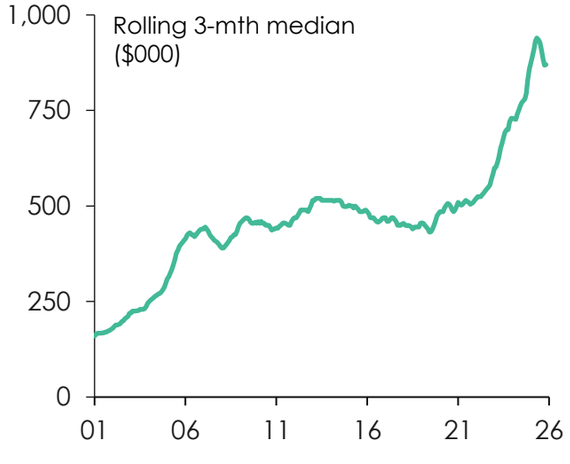
Canberra



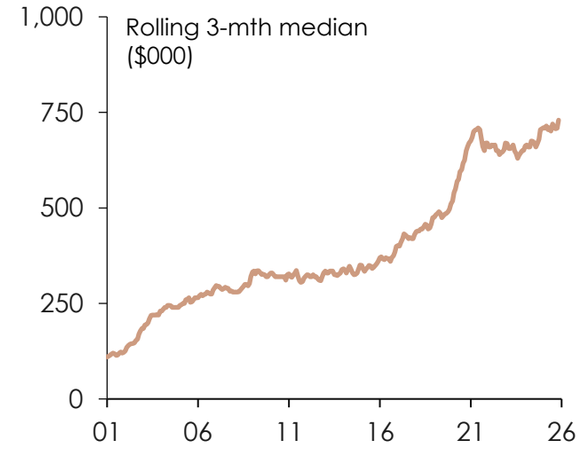
Melbourne



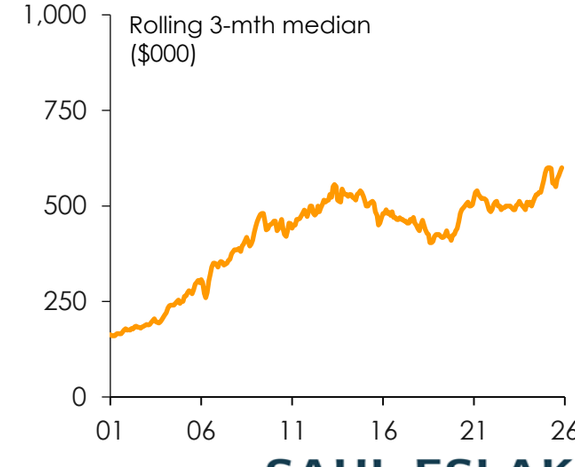
Perth



Hobart



Darwin

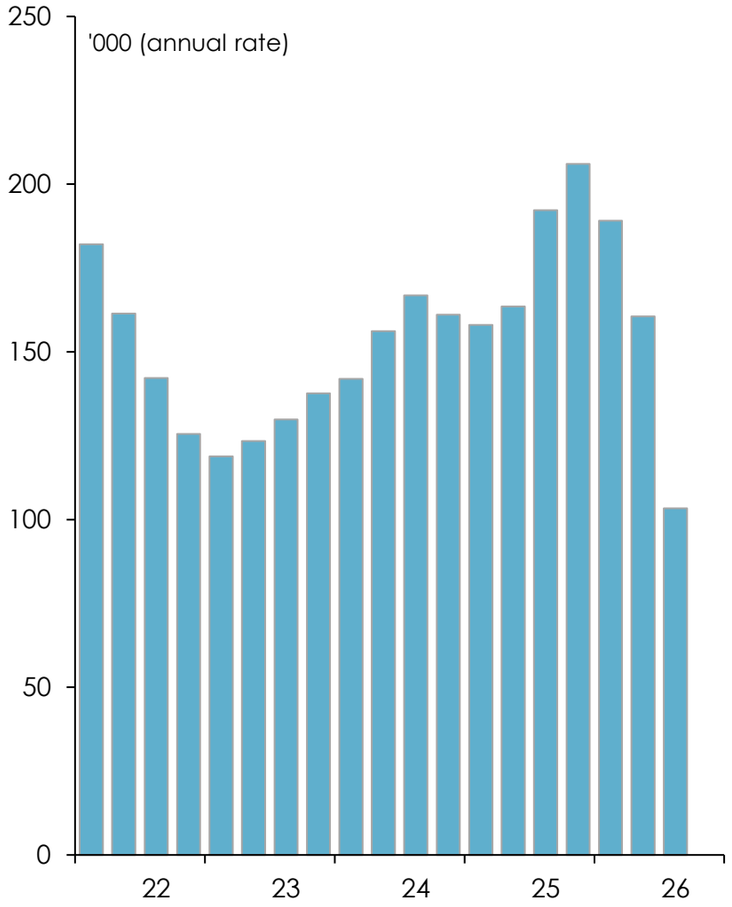


Note: Prices are of 'dwellings', ie weighted average of houses and units. *Source:* Cotality, CoreLogic indices, October 2026.

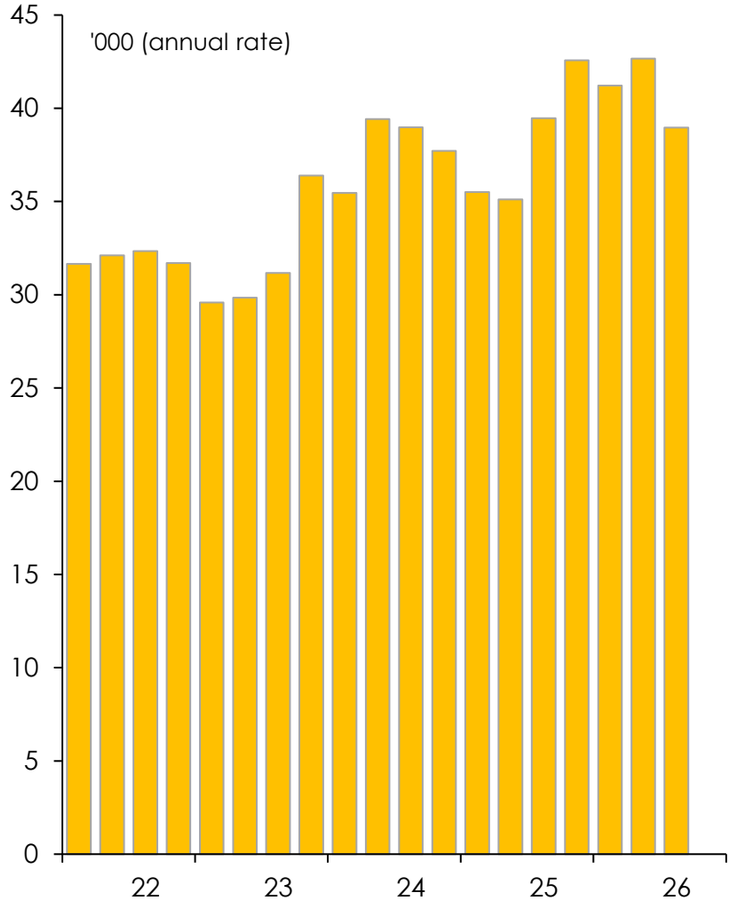
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Higher interest rates and budget tax changes are clearly having an impact on the demand for housing finance

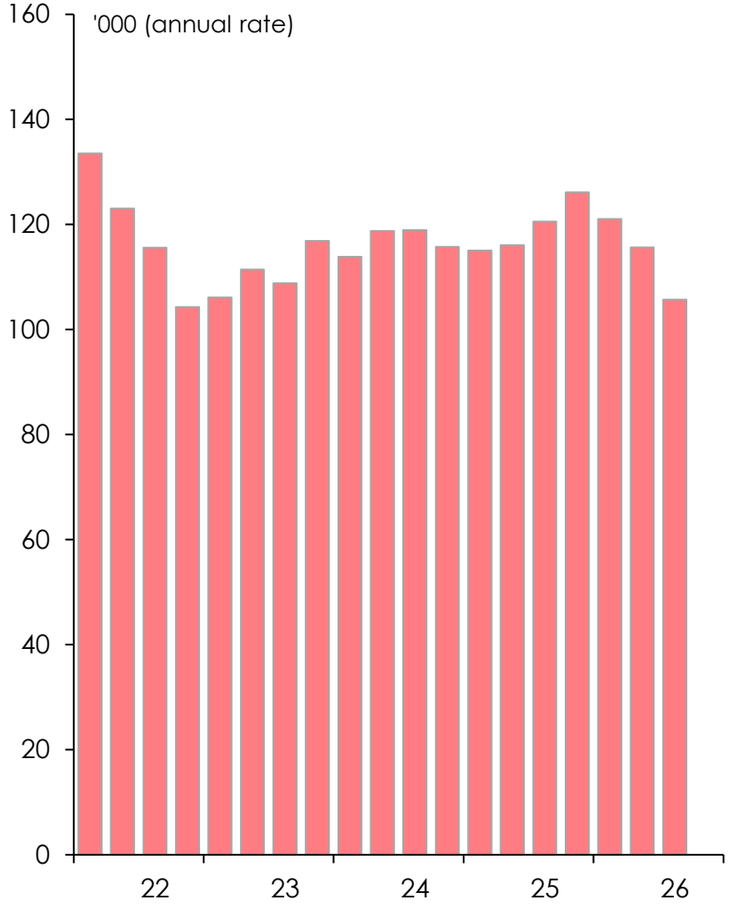
Finance commitments to investors for existing housing



Finance commitments to investors for new housing



Finance commitments to first home buyers

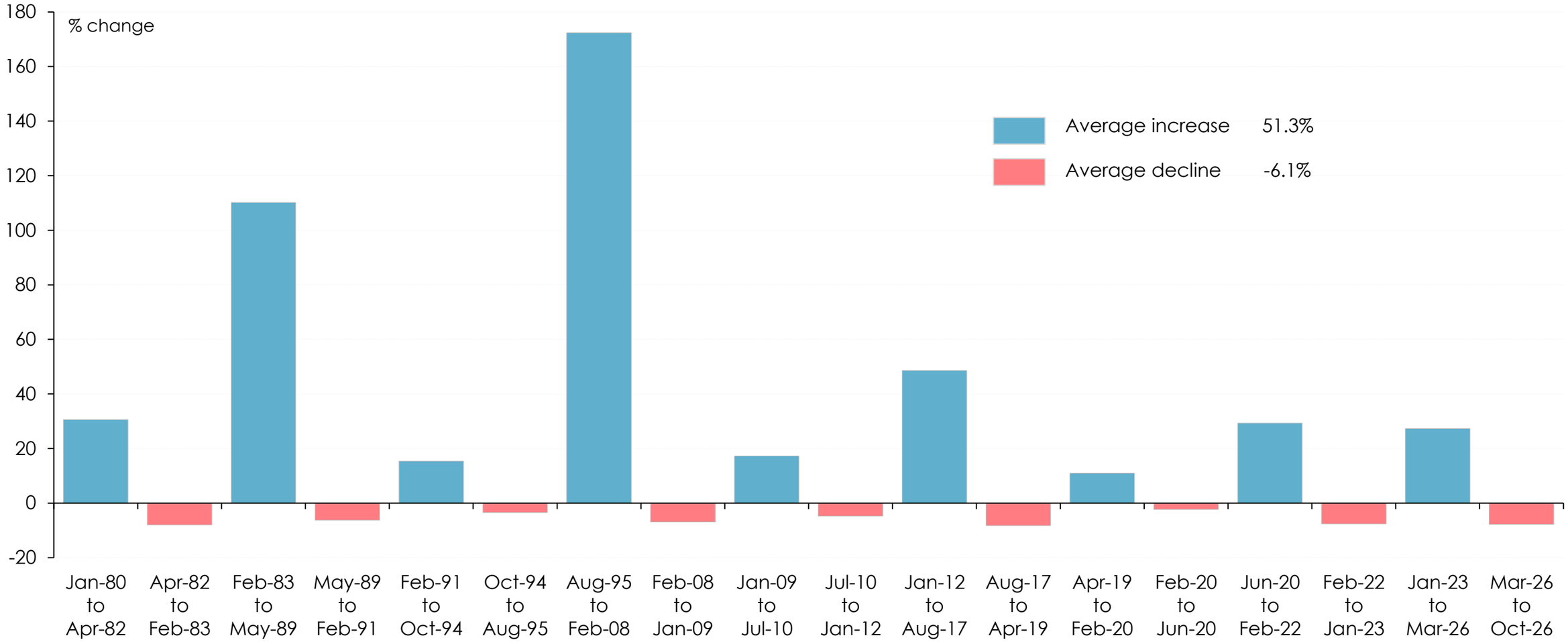


Source: ABS, *Lending indicators*, September quarter 2026. Data are for the number of finance commitments (not the value of them).

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The current housing price decline is on track to be the largest in 50 years – but pales in comparison with periods of price gains

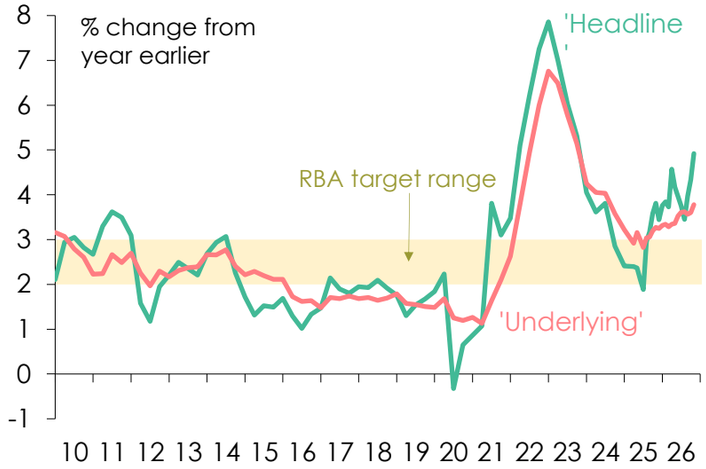
Residential property price cycles, 1980-2026



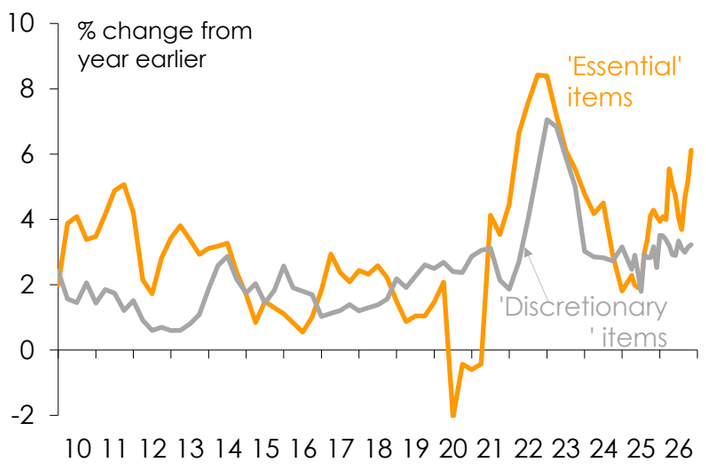
Source: Cotality (formerly CoreLogic), *Monthly Housing Chart Pack*, October 2026.

Inflation rebounded in the second half of 2025, and has continued rising through 2026, with price increases seemingly fairly broadly based

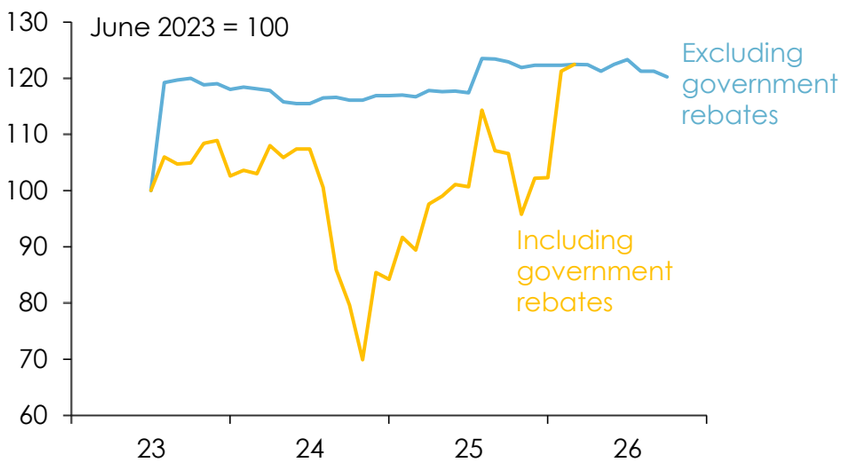
Consumer prices



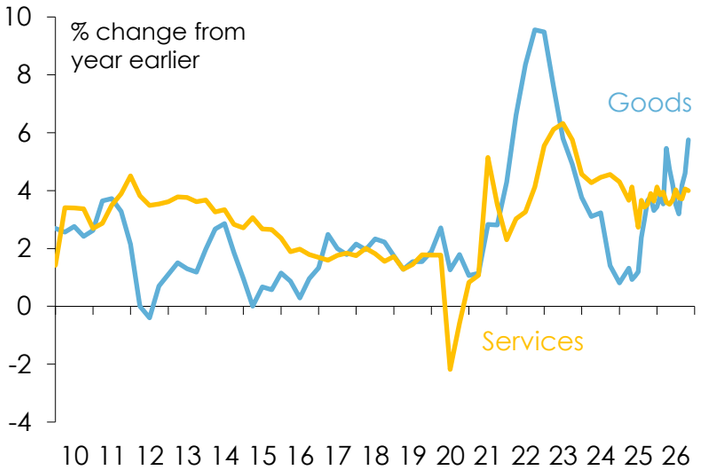
'Discretionary' vs 'essential' items



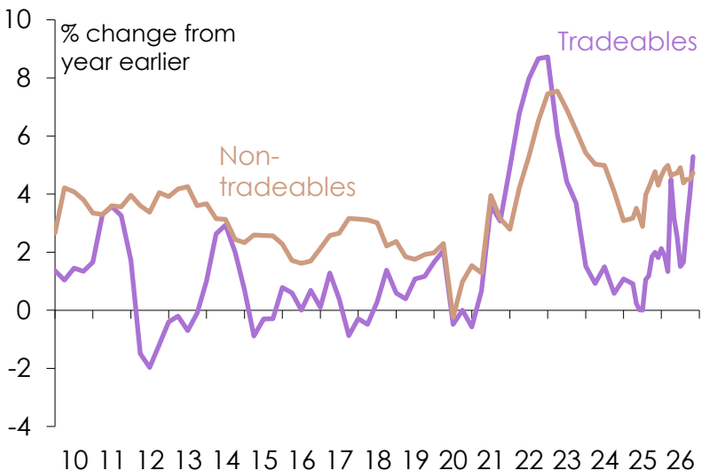
Electricity prices



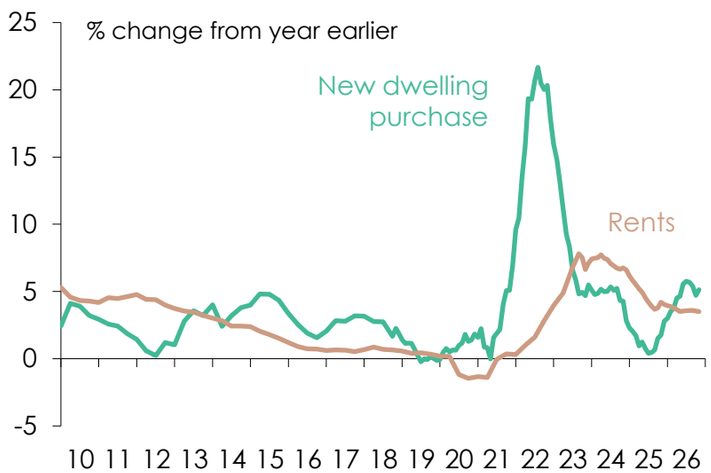
Goods and services prices



'Tradable' vs 'non-tradable' items



Housing costs



Note: 'Underlying' inflation is the 'trimmed mean' (derived from the middle 70% of price increases). 'Essential' items are housing, food, fuel & power, medical & health care, ground transport, communications and education services. Data are quarterly up to March 2025 and monthly thereafter. *Source:* ABS, *Consumer Price Index*, October 2026.

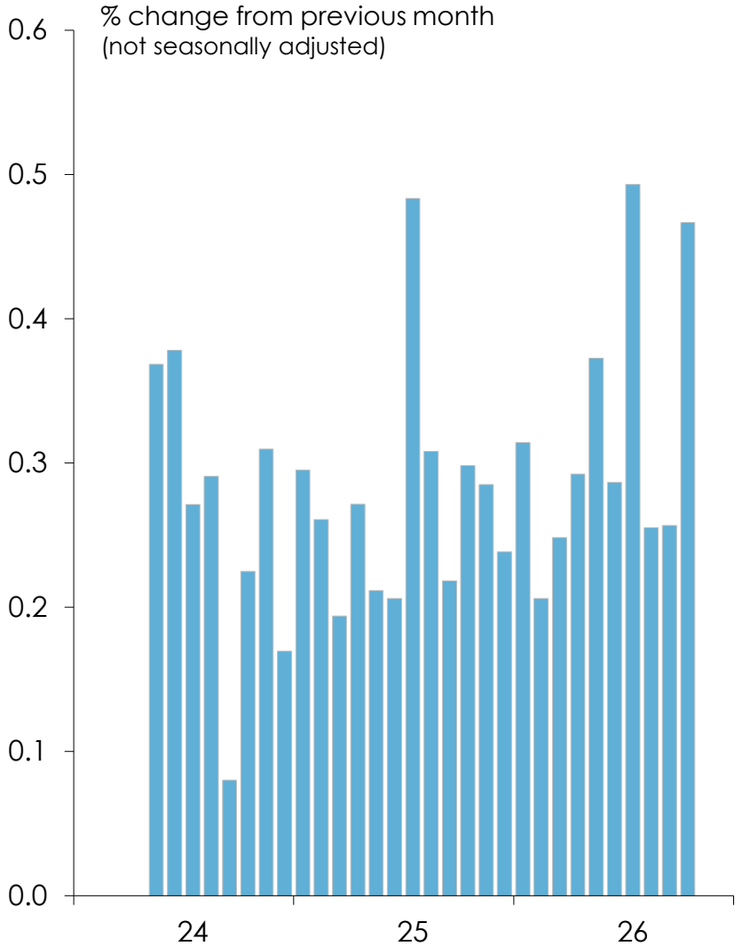
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Higher energy prices have contributed to the rise in inflation in 2026, but there has also been a significant rise in 'underlying' inflation

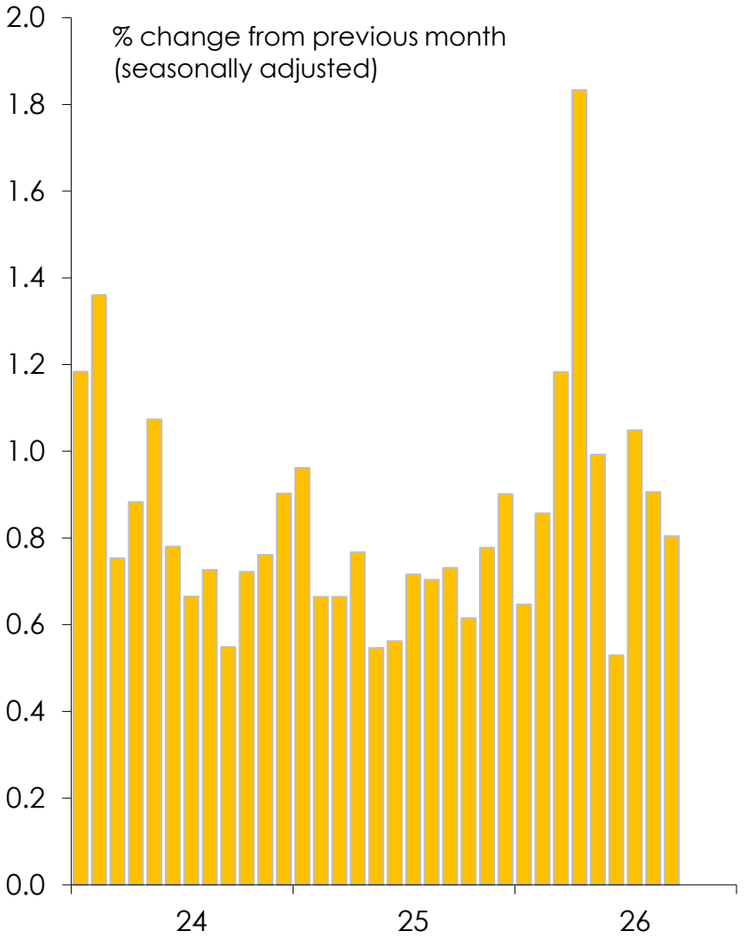
Monthly changes in the 'headline' CPI



Monthly changes in the 'trimmed mean' CPI



NAB monthly survey measure of changes in selling prices

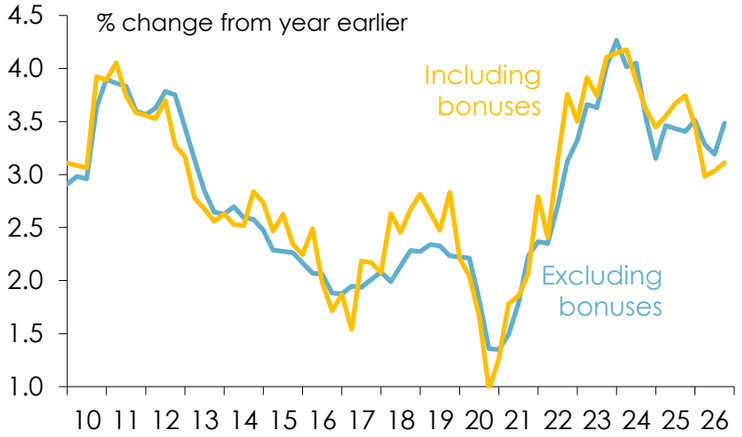


Sources: ABS, *Consumer Price Index*, September 2026; National Australia Bank, *Monthly Business Survey*, October 2026.

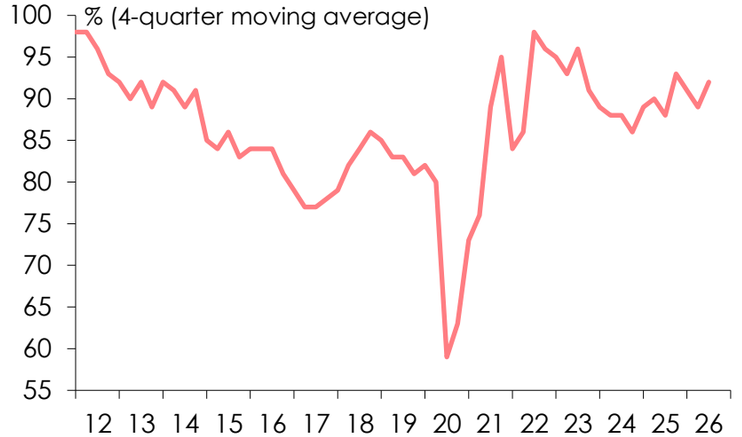
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Wages growth has slowed from its 2023-24 peak – but because productivity growth has been abysmal, unit labour cost growth remains 'too high'

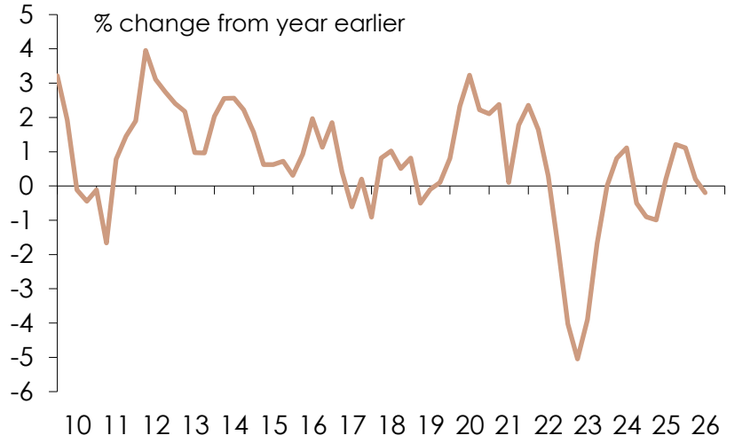
Wages growth



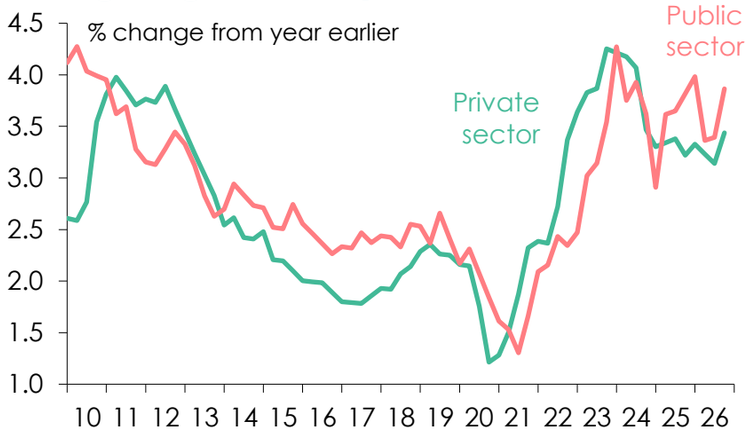
Pc of workers receiving pay rises



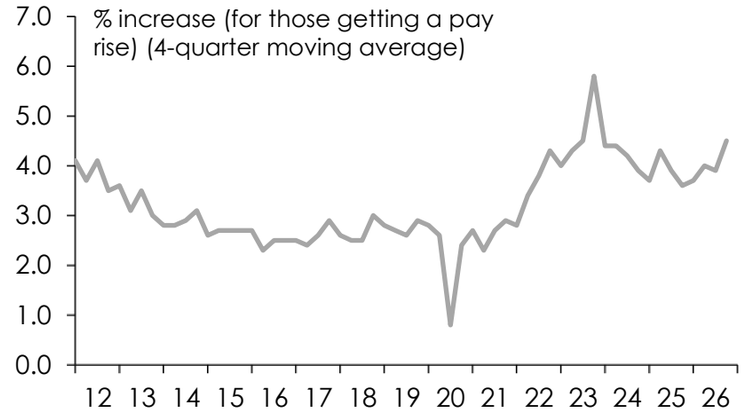
Labour productivity



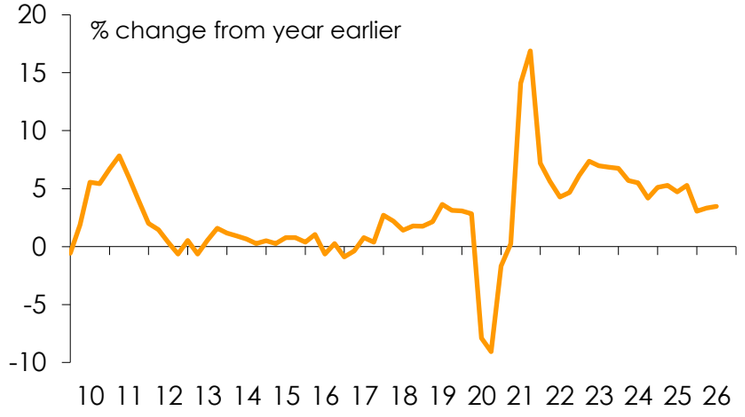
Wages growth by sector



Average pay increase



Unit labour costs

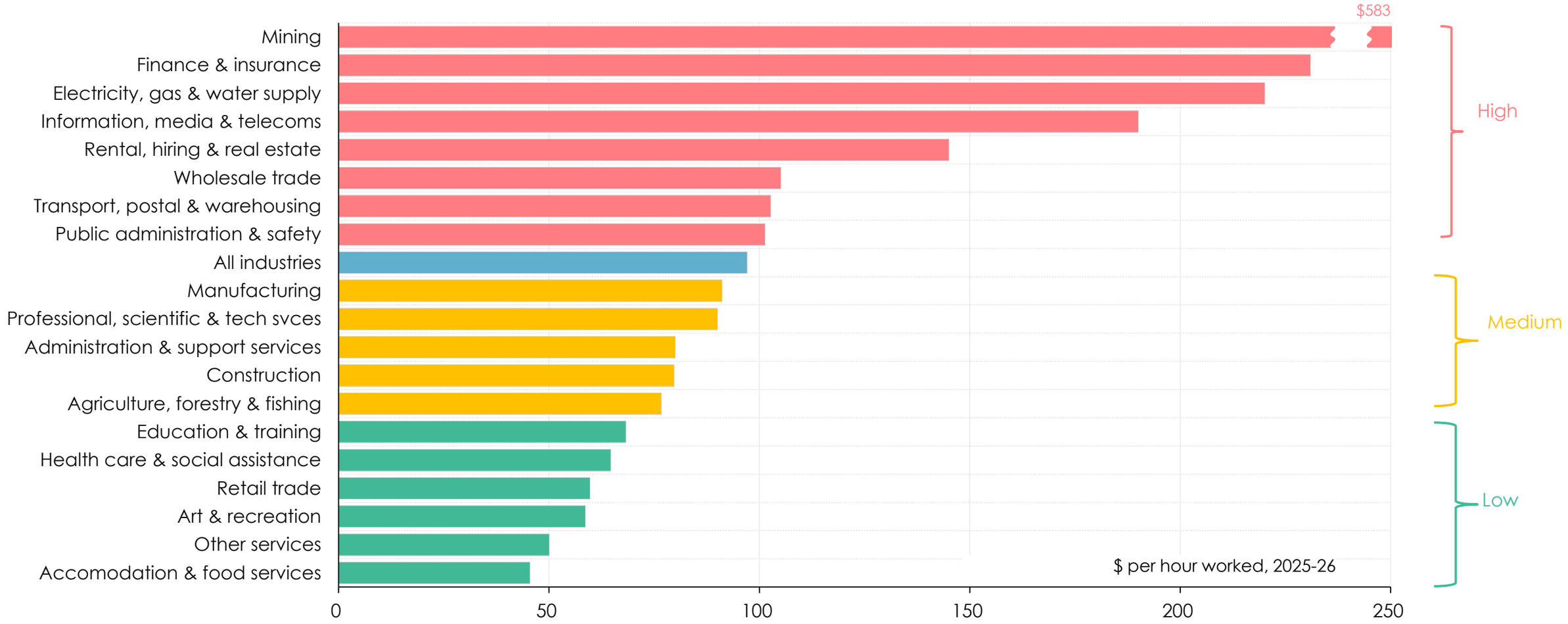


Note: Unit labour costs are for the non-farm market sector.
Sources: ABS, *Wage Price Index*, September quarter 2026; *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026.

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Some industries have much higher labour productivity than others …

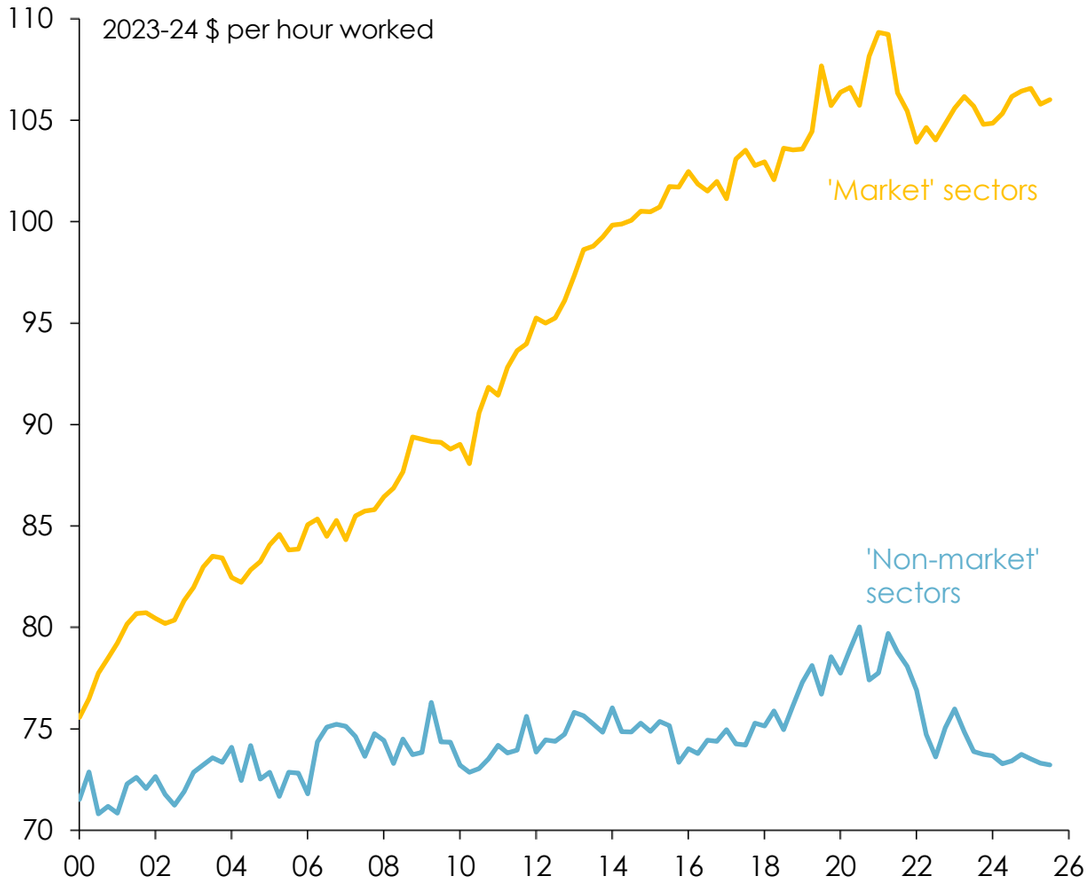
Australian labour productivity (gross value added per hour worked) by industry, 2025-26



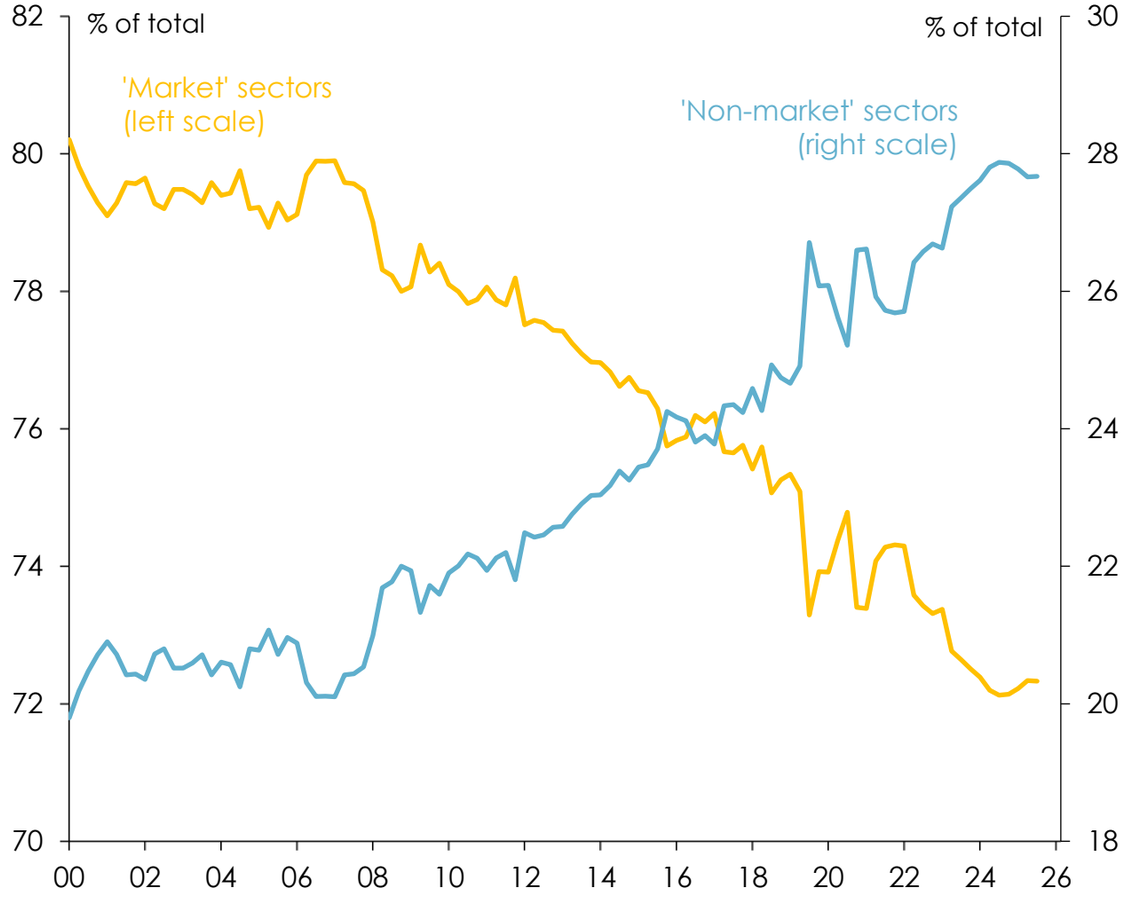
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026, and *Labour Account, Australia*, June quarter 2026

The ‘non-market’ sectors – in which [measured] productivity is much lower – have grown more rapidly than the ‘market’ sectors in recent years

Labour productivity in ‘market’ and ‘non-market’ sectors



Hours worked in ‘market’ and ‘non-market’ sectors

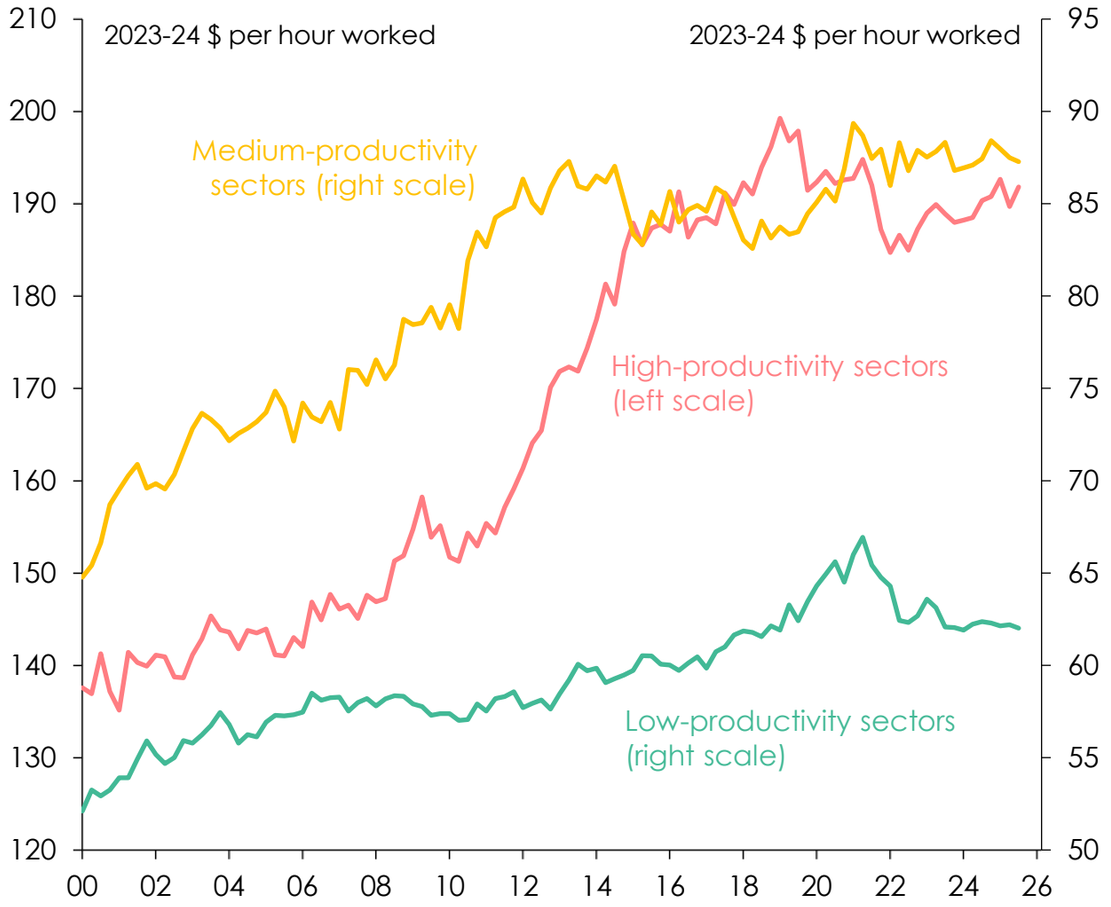


Note: ‘Non-market sectors’ are public administration & safety, education & training, and health care & social assistance. *Sources:* ABS, Australian National Accounts: National Income, Expenditure and Product, June quarter 2026 and Labour Account, Australia, June quarter 2026

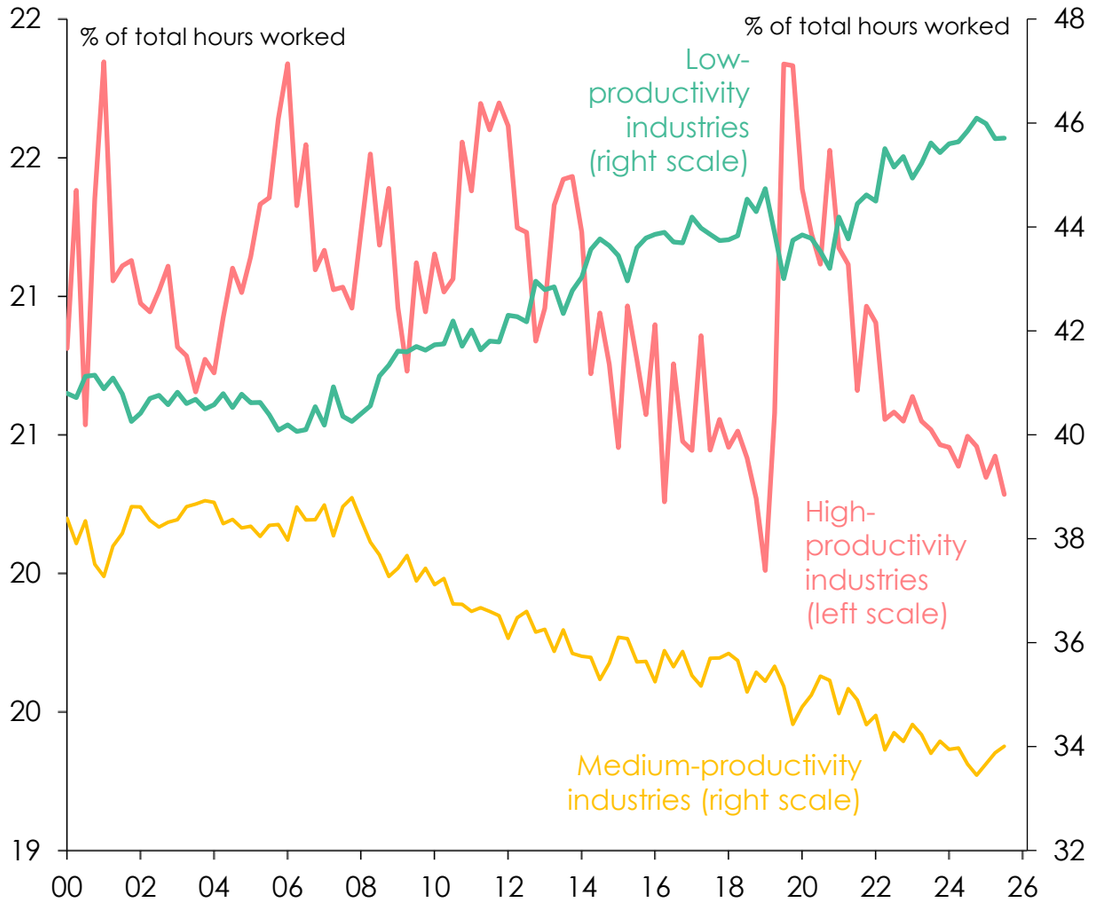
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The great productivity growth slow-down isn't simply a matter of 'market' vs 'non-market'

Labour productivity in high-, medium- and low-productivity sectors



Hours worked in high-, medium- and low-productivity sectors

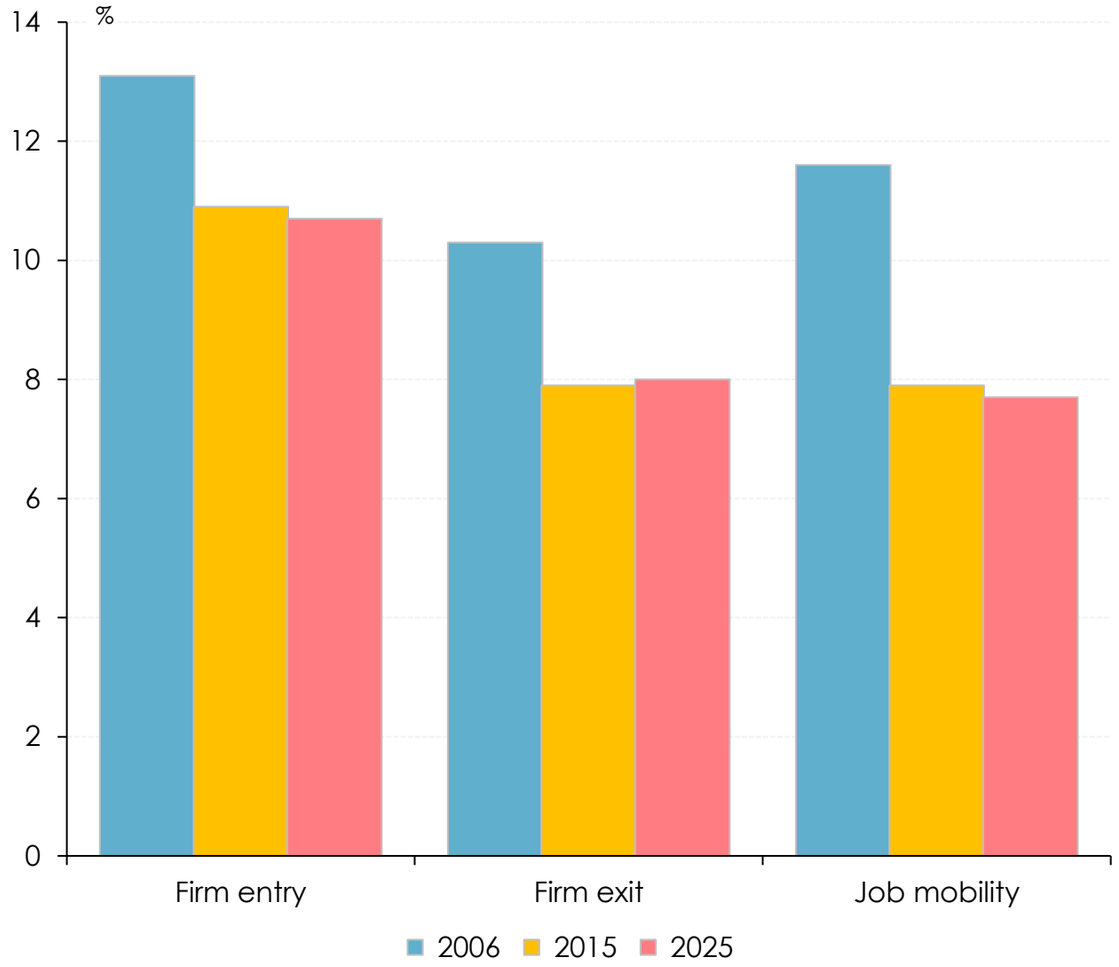


Note: High-, medium- and low-productivity industries are as defined in the previous slide. *Sources:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026 and *Labour Account, Australia*, June quarter 2026

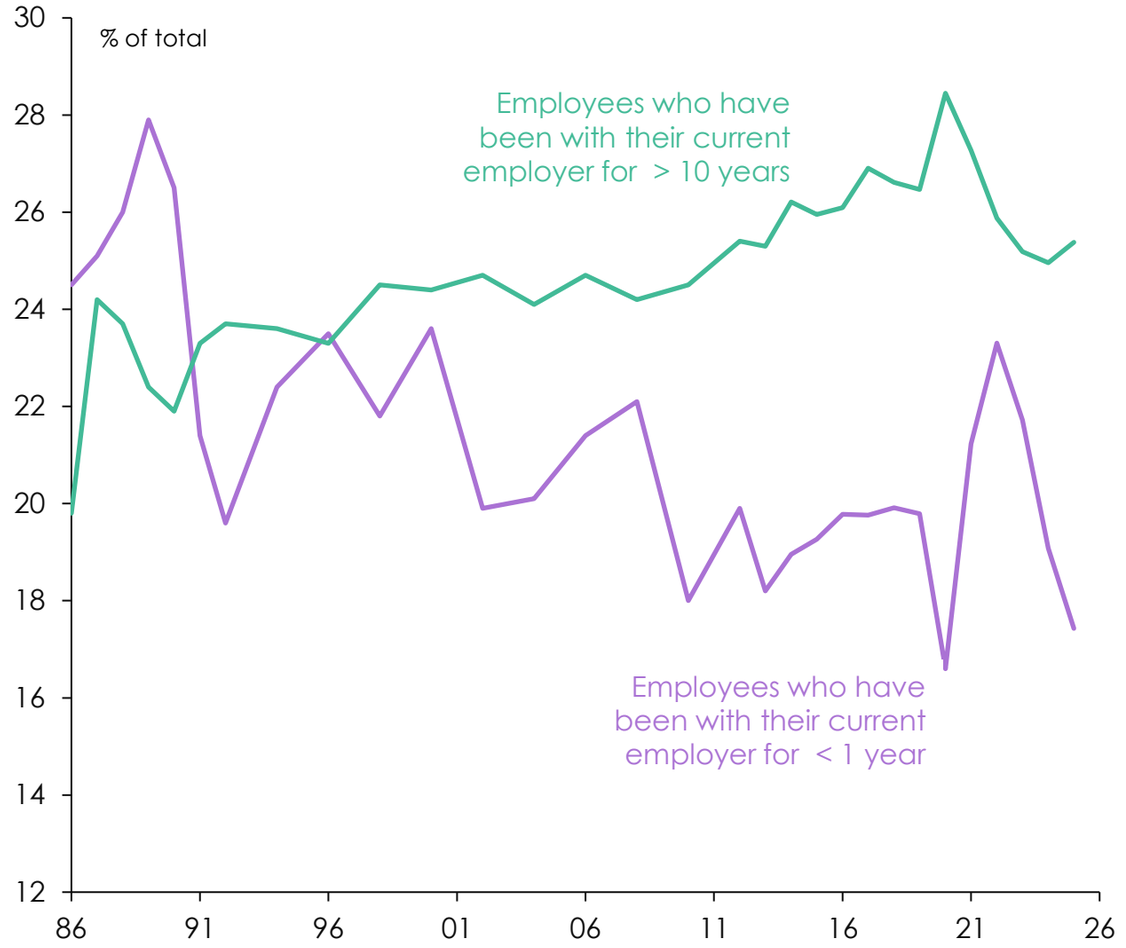
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The Australian economy has become less ‘dynamic’ (that is, ‘factors of production’ have become less mobile) over the past two decades

Measures of ‘business dynamism’



Employee tenure

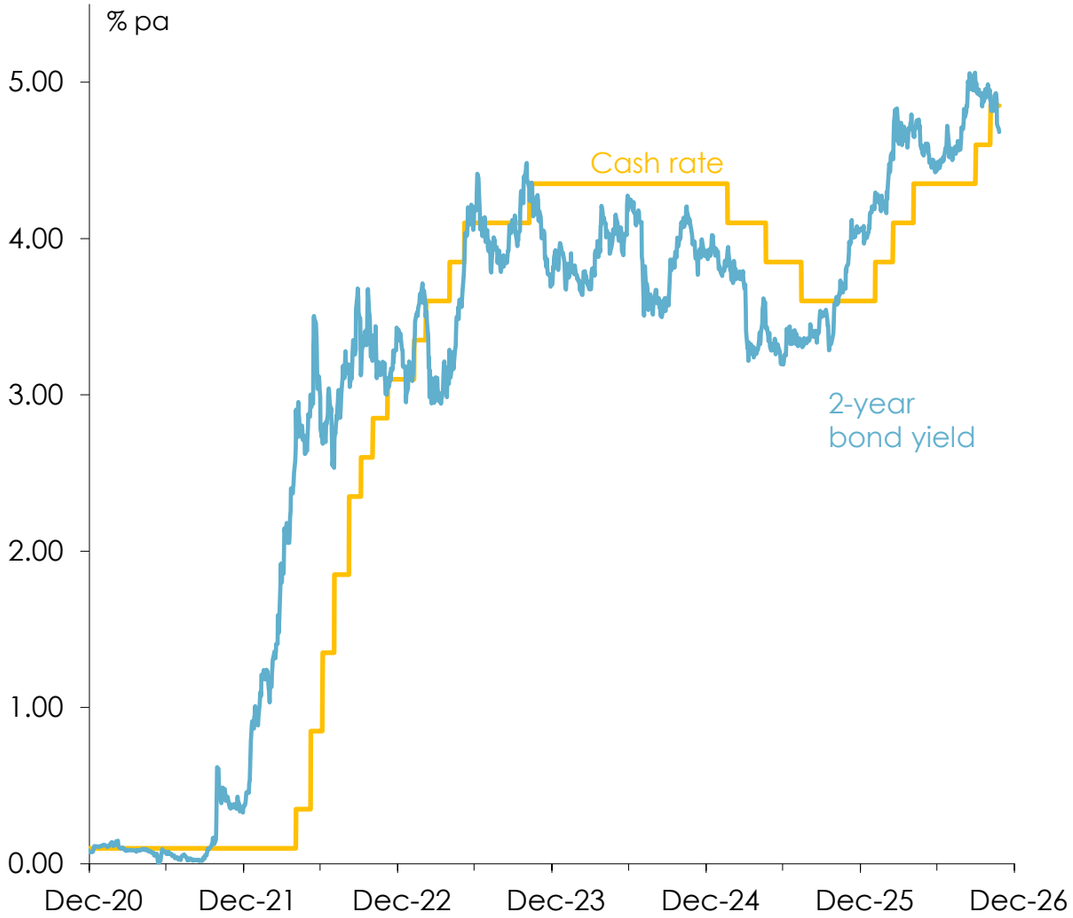


Sources: OECD, *OECD Economic Surveys: Australia 2026*, and *Labour Force, Australia, Detailed*, April 2026

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The RBA raised its cash rate another 25 bp at its November meeting, to 4.85%, the fifth increase this year, and the highest level in 18 years

Two-year government bond yield vs RBA official cash rate



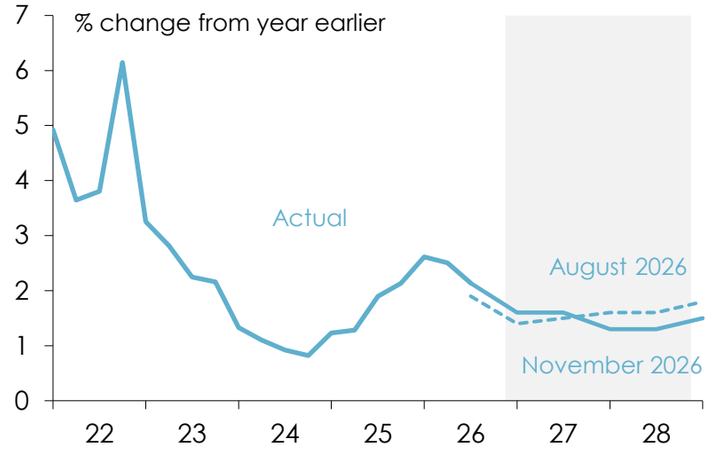
- The Reserve Bank's Monetary Policy Board raised its cash rate by another 25 basis points, to 4.85%, at its meeting on 2nd-3rd November
  - that's the fifth increase this year, and takes the cash rate to its highest level since November 2008 (when rates were coming down as the global financial crisis was unfolding)
- The decision followed the higher-than-expected inflation outcomes for September and the September quarter, and clear signals from senior RBA officials that another increase was likely
  - however unlike the September rate hike, which was a unanimous decision of the Board, this increase was a 6-3 vote
- The Board's post-meeting statement noted that "underlying inflation remains broadly based", "capacity pressures appear a little tighter than previously estimated", and "there is an increasing risk that higher inflation expectations will become embedded"
- Although the statement re-iterated that the Board would "do what it considers necessary to bring inflation sustainably back to target", it didn't go on to say (as it did in September) "including increasing the cash rate further"
  - which (rightly or wrongly) financial markets have interpreted as downplaying the likelihood of further increases
- Market expectations have receded further after the October labour force data

Source: LSEG Datastream; daily data up to 24th November 2026.

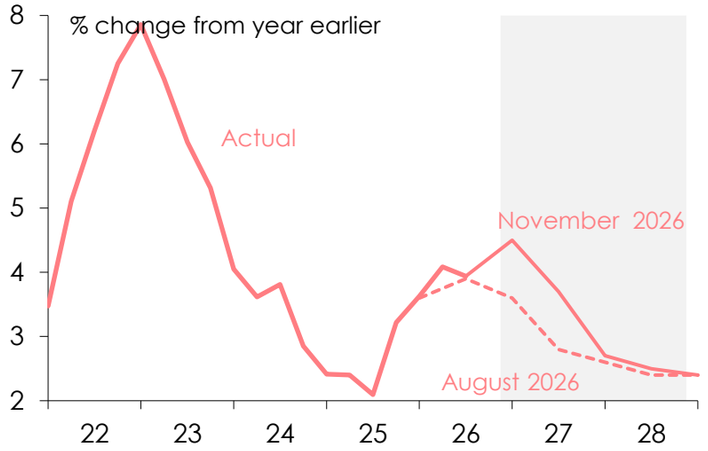
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The Reserve Bank staff have 'materially' raised their forecasts for inflation, lowered the forecast for GDP growth, and raised that for unemployment

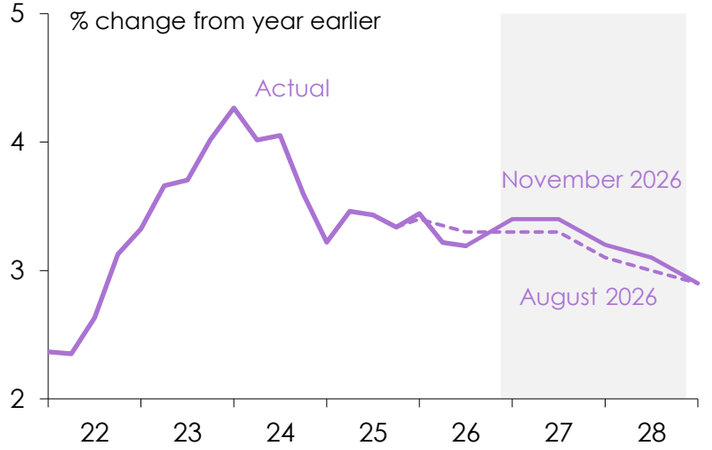
Real GDP growth



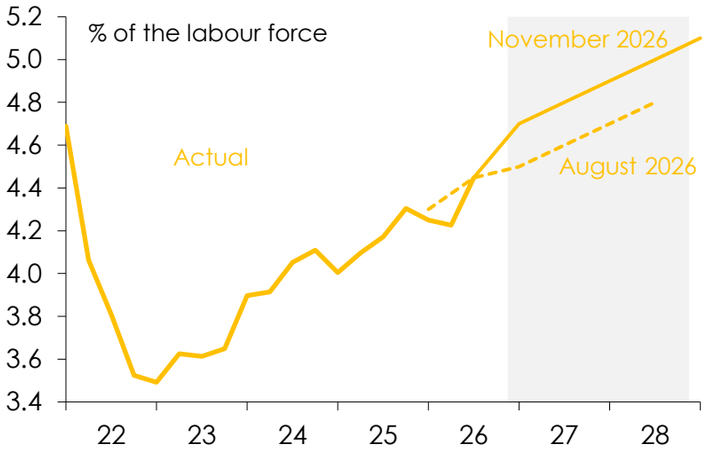
'Headline' inflation



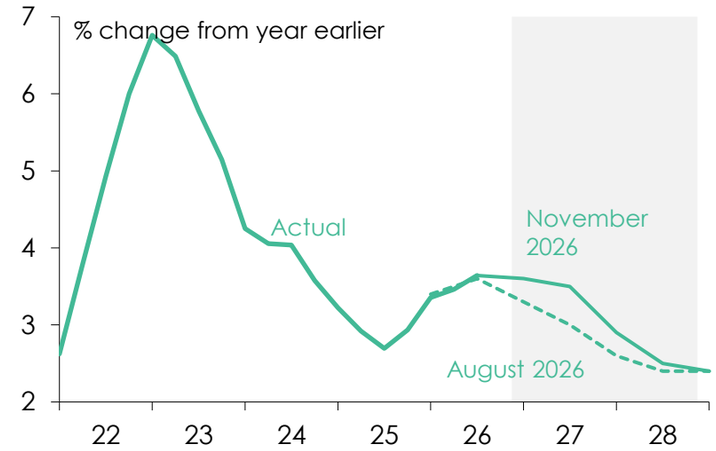
Wage price index



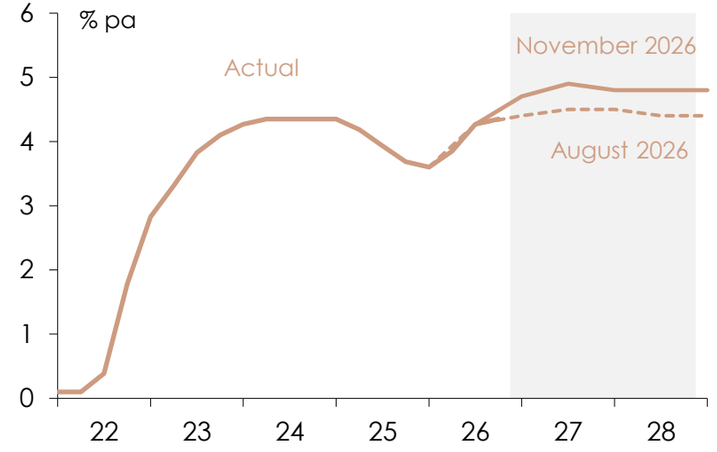
Unemployment rate



'Underlying' inflation



Cash rate ('technical assumption')

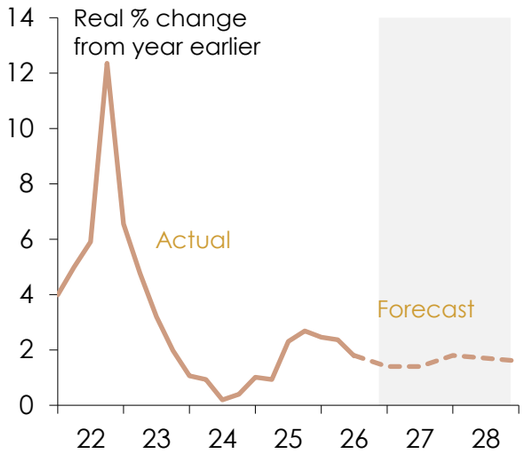


Note: RBA cash rate forecasts are based on a 'technical assumption' that the cash rate follows the path indicated by market pricing. *Sources:* ABS, Australian National Accounts: National Income, Expenditure and Product, June quarter 2026; Labour Force, September 2026; Consumer Price Index, September 2026; Wage Price Index, June quarter 2026; and Reserve Bank of Australia, and Statement on Monetary Policy – August 2026 and Statement on Monetary Policy - November 2026.

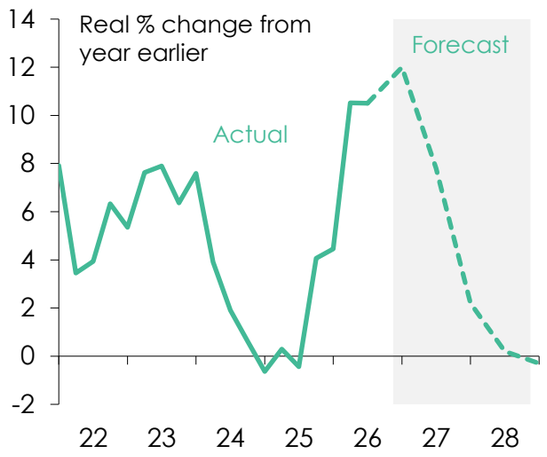
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The RBA expects growth in private sector demand to slow over the next two years as a result of the tighter stance of monetary policy

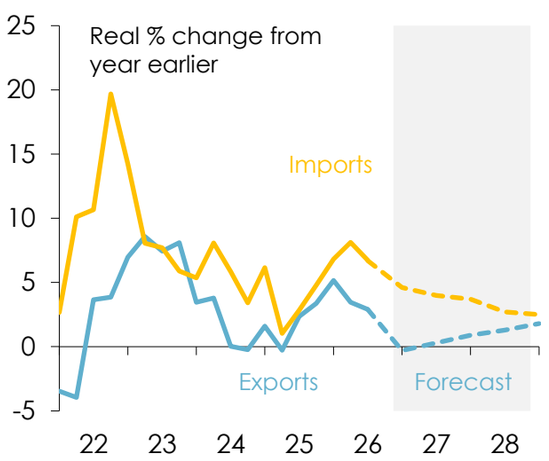
Household consumption



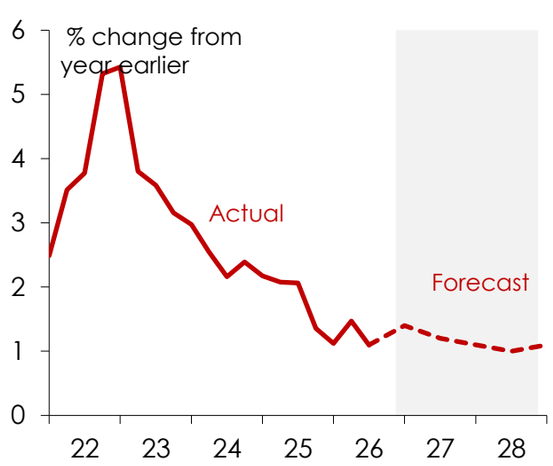
Business investment



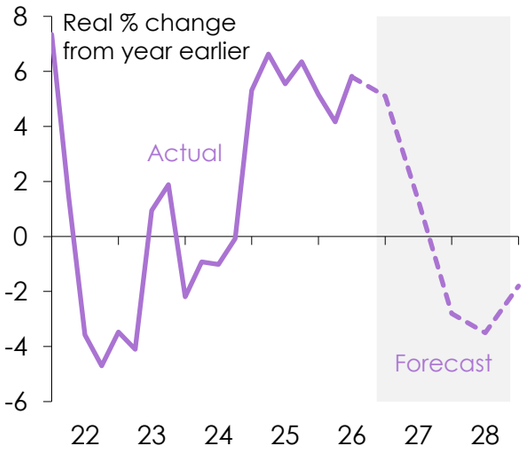
Exports and imports



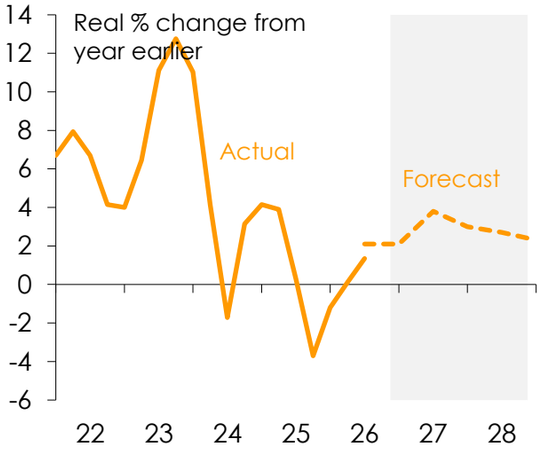
Employment



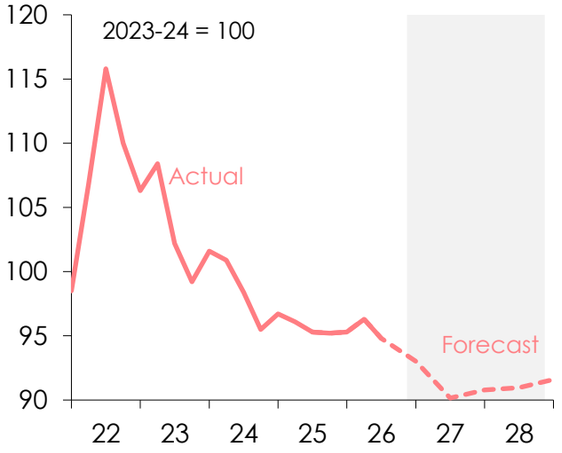
Dwelling investment



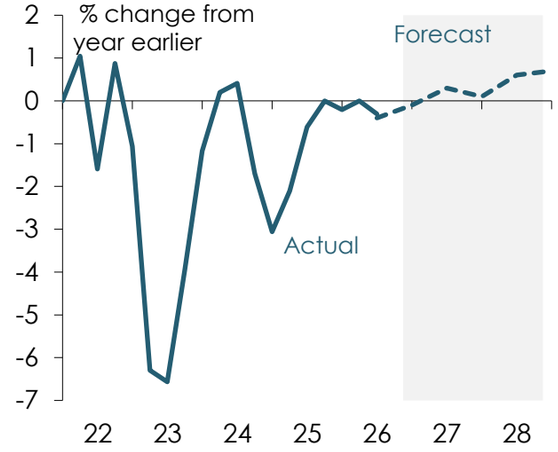
Public spending



Terms of trade



Labour productivity



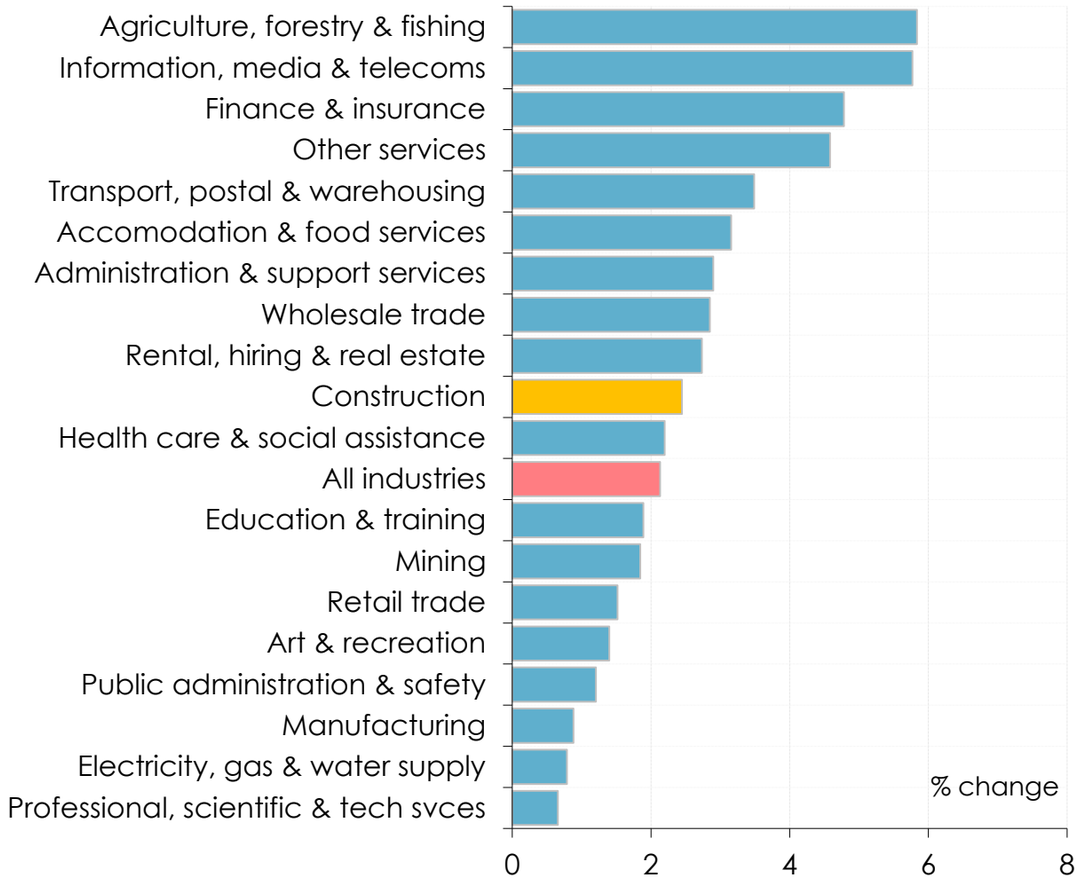
Note: 'Terms of trade' is the ratio of the implicit price deflator of exports of goods & services to the implicit price deflator of imports of goods & services.
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026; and Reserve Bank of Australia, *Statement on Monetary Policy - November 2026*.

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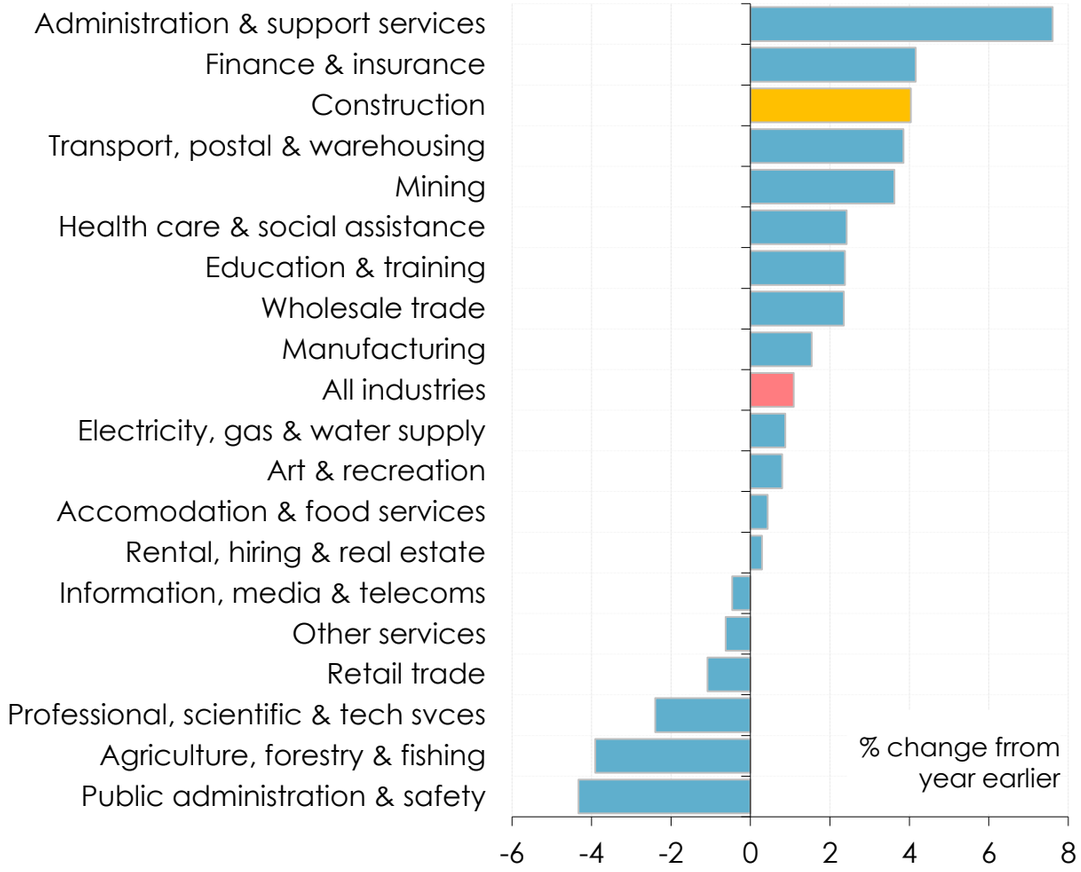
The Australian civil construction industry

Construction ‘value added’ grew more quickly in 2025-26 than the economy as a whole – and employment even more so

Growth in real gross value , added (GVA) by industry, 2025-26 financial year



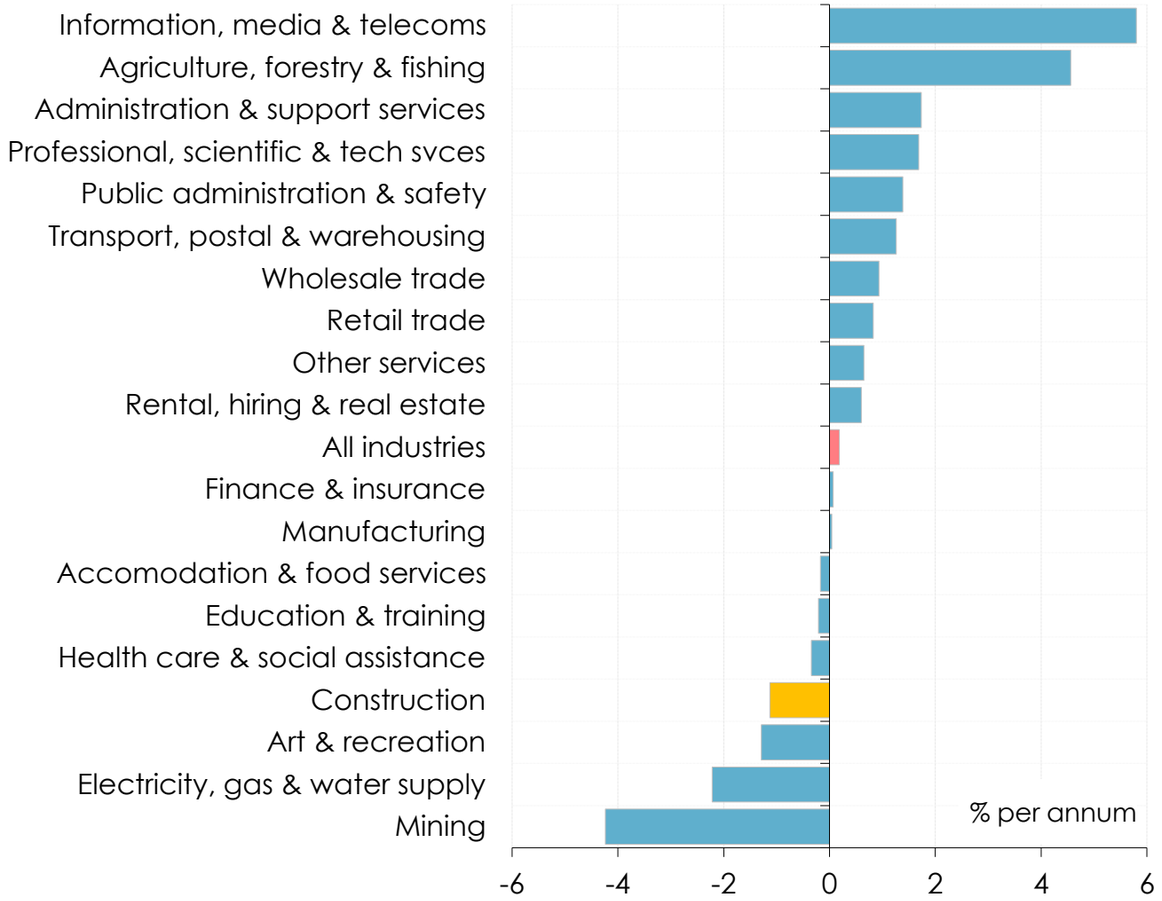
Employment growth, by industry, over the year to August 2026



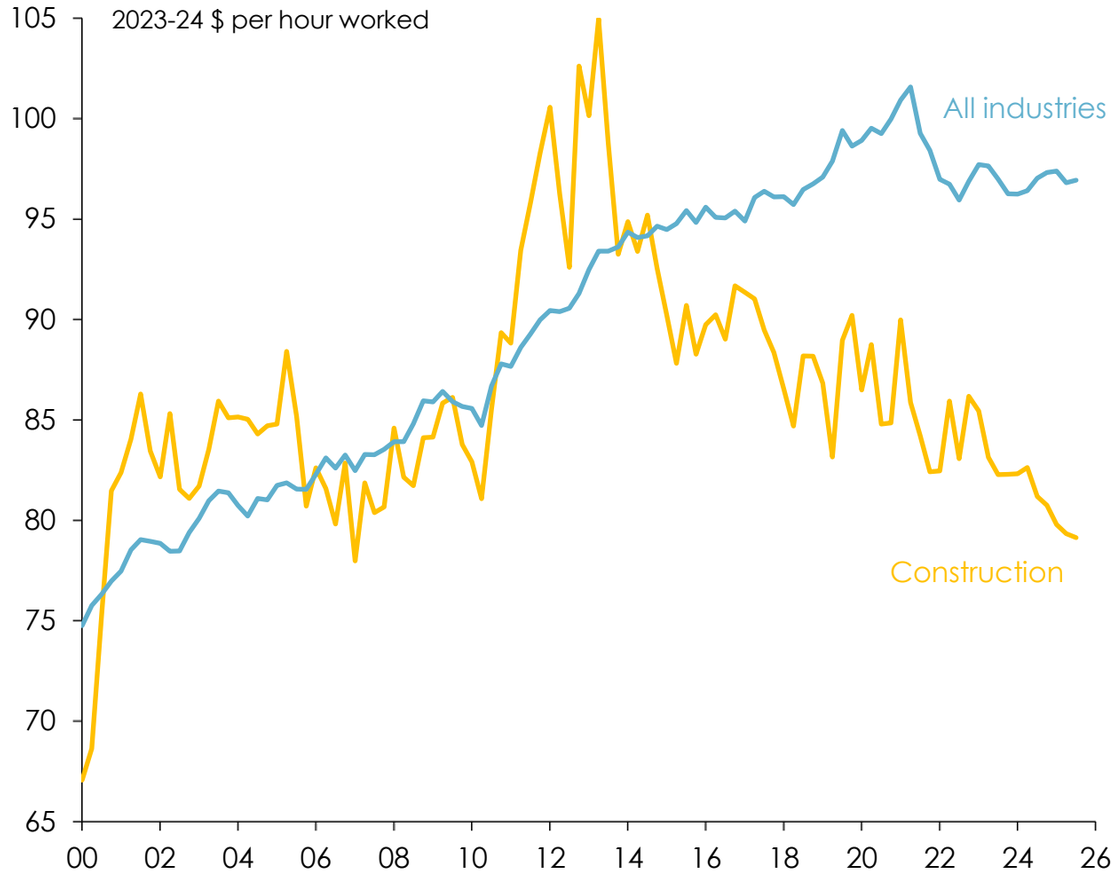
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026 and *Labour Force*, October 2026.

Construction industry productivity has been declining in absolute terms and relative to the all-industry average for the past 15 years …

Average annual growth in labour productivity (GVA per hour worked), 2018-19 to 2025-26



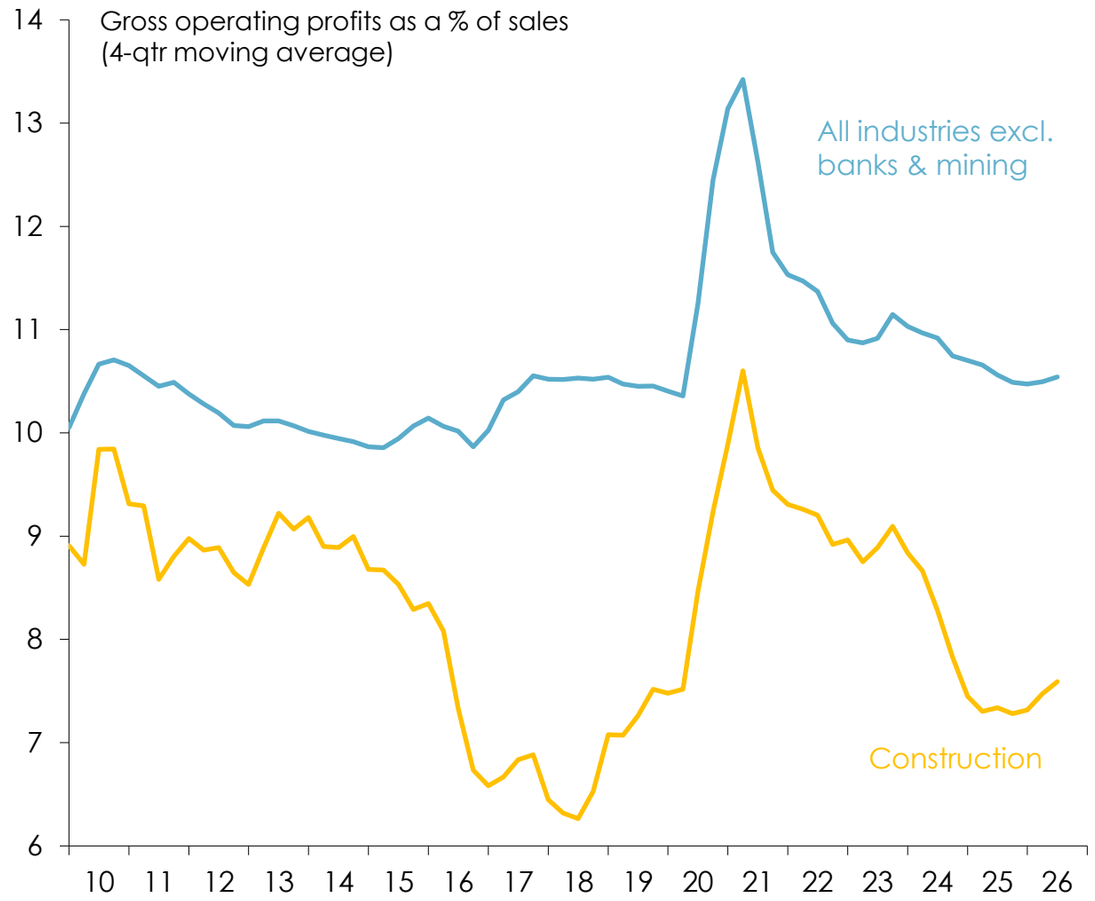
Labour productivity (GVA per hour worked) in construction vs all-industry average, 2000-2026



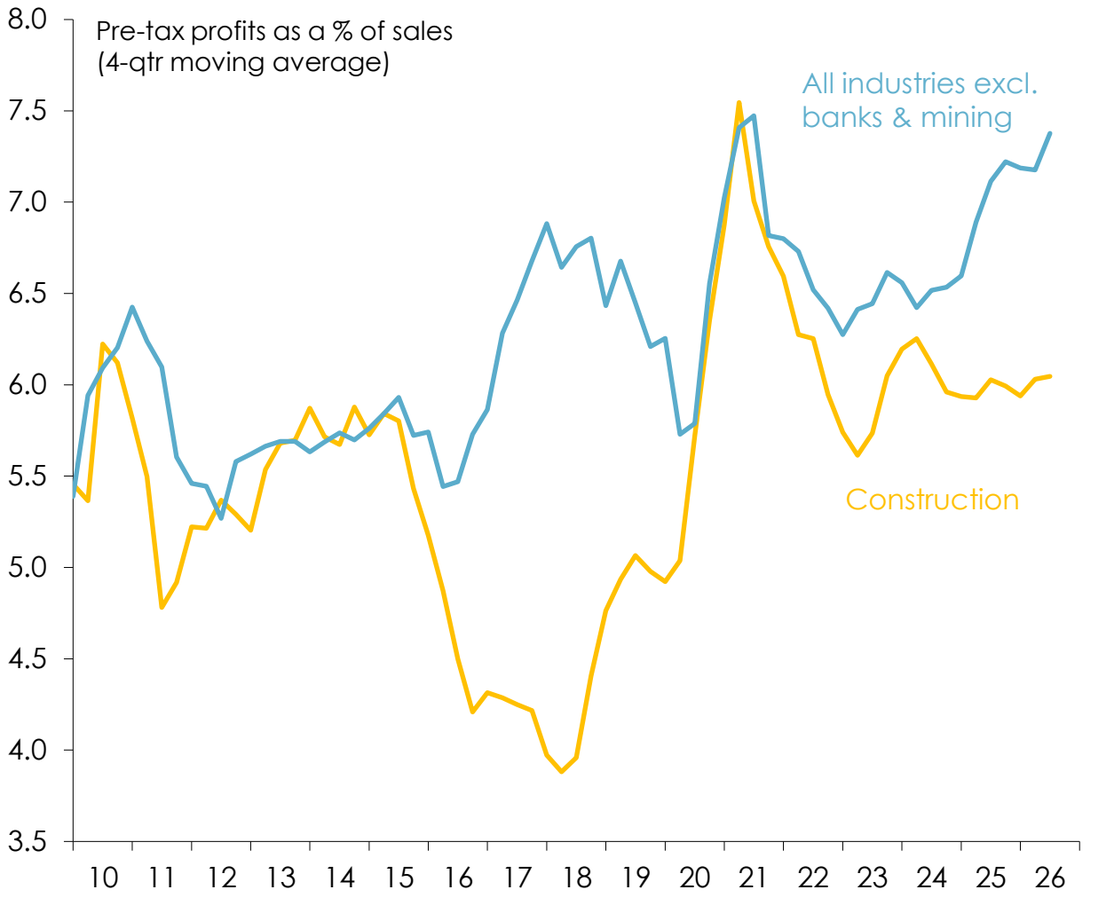
Sources: ABS, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026 and *Labour Force*, October 2026.

… which is one reason why profit margins in construction have been below the all-industry average for over a decade

Gross operating profit margins – construction vs all industries excluding mining and banks



Pre-tax profit margins – construction vs all industries excluding mining and banks

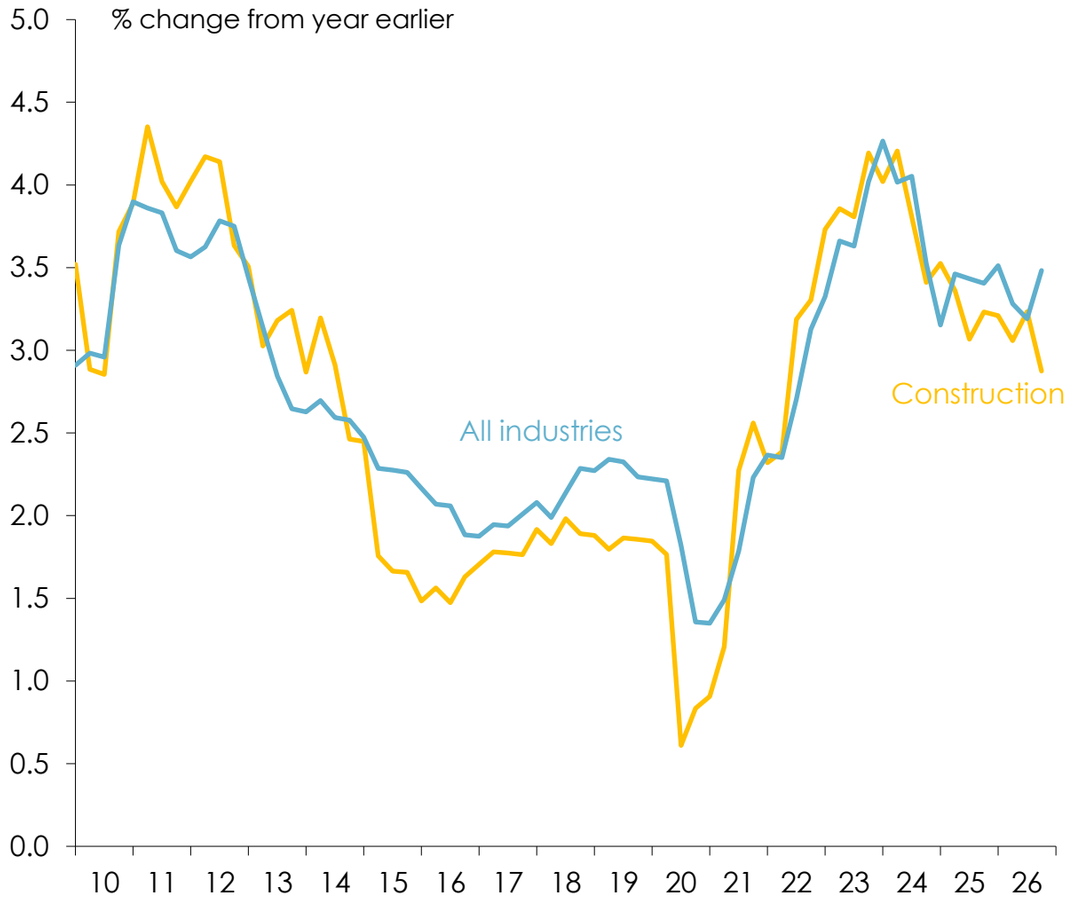


Source: ABS, *Business Indicators*, June quarter 2026.

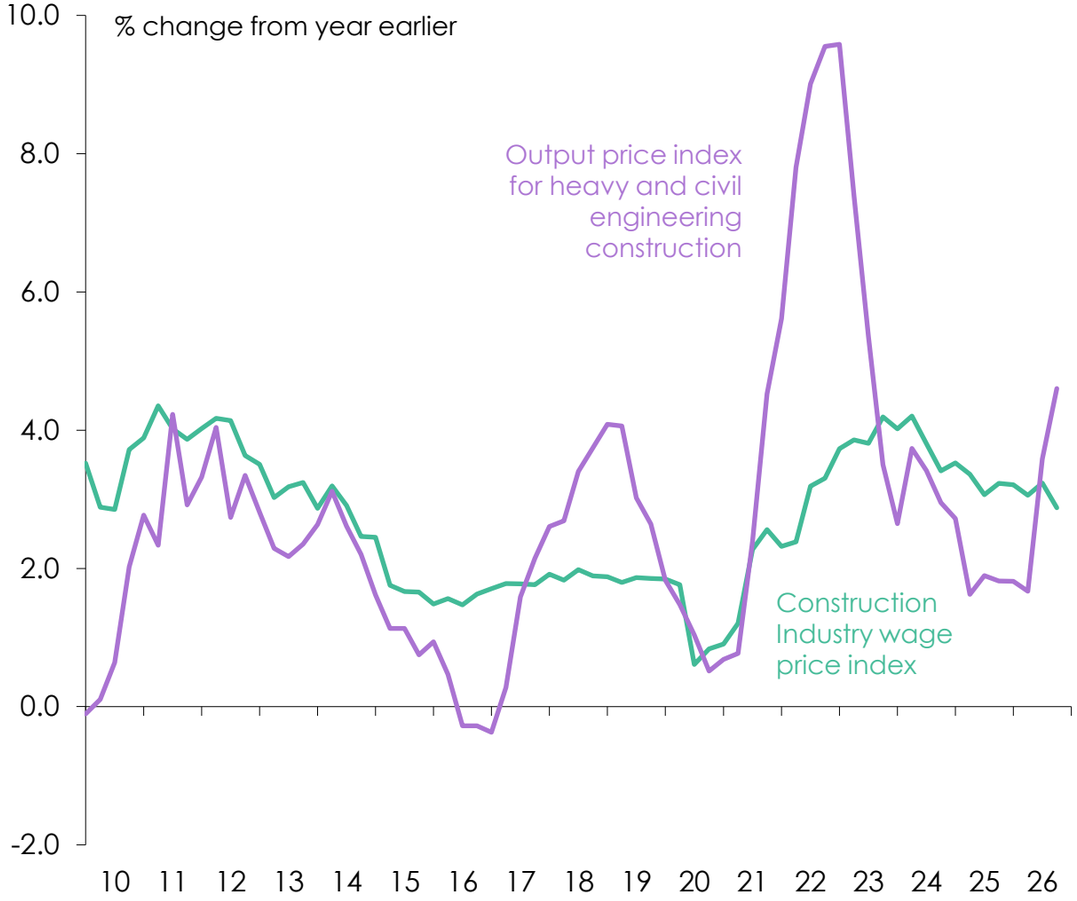
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Wage costs in construction have eased since 2023-24, but there's been a renewed surge in other costs this year

Wage price index for construction and all industries



Construction industry wages and output price index for engineering construction

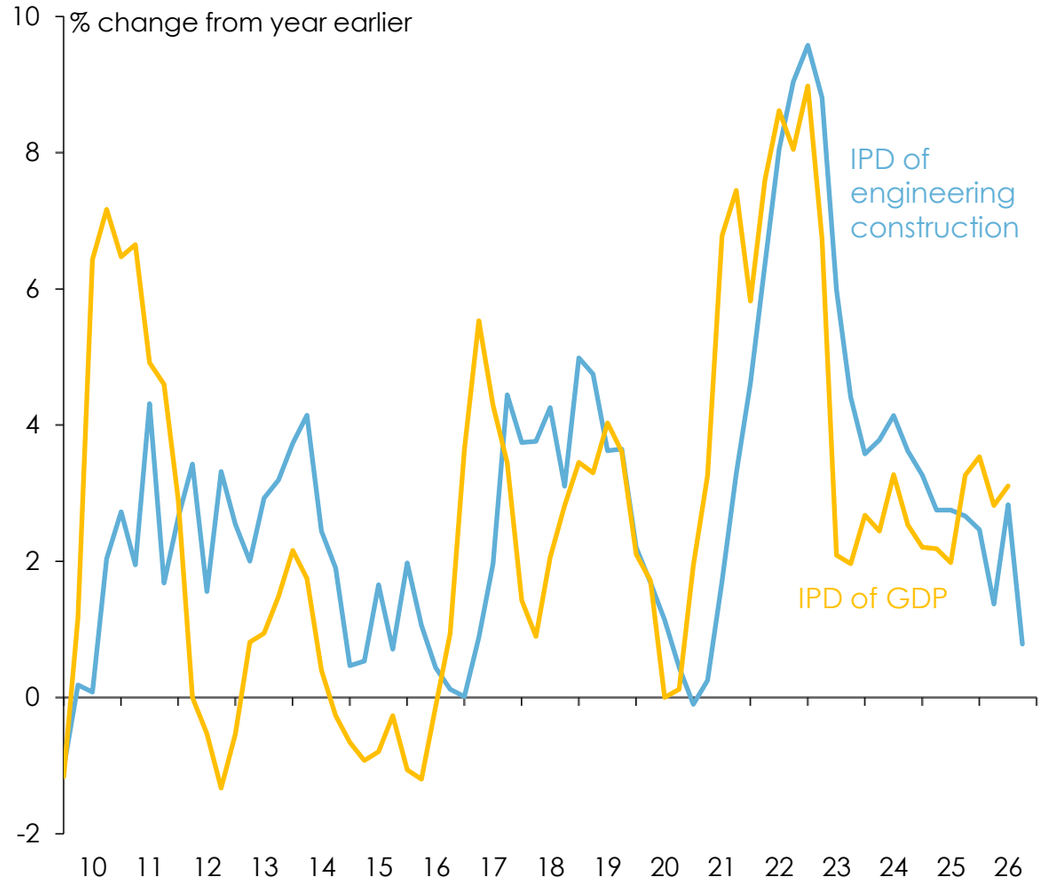


Sources: ABS, *Wage Price Index*, June quarter 2026, and *Producer Price Indexes*, June quarter 2026.

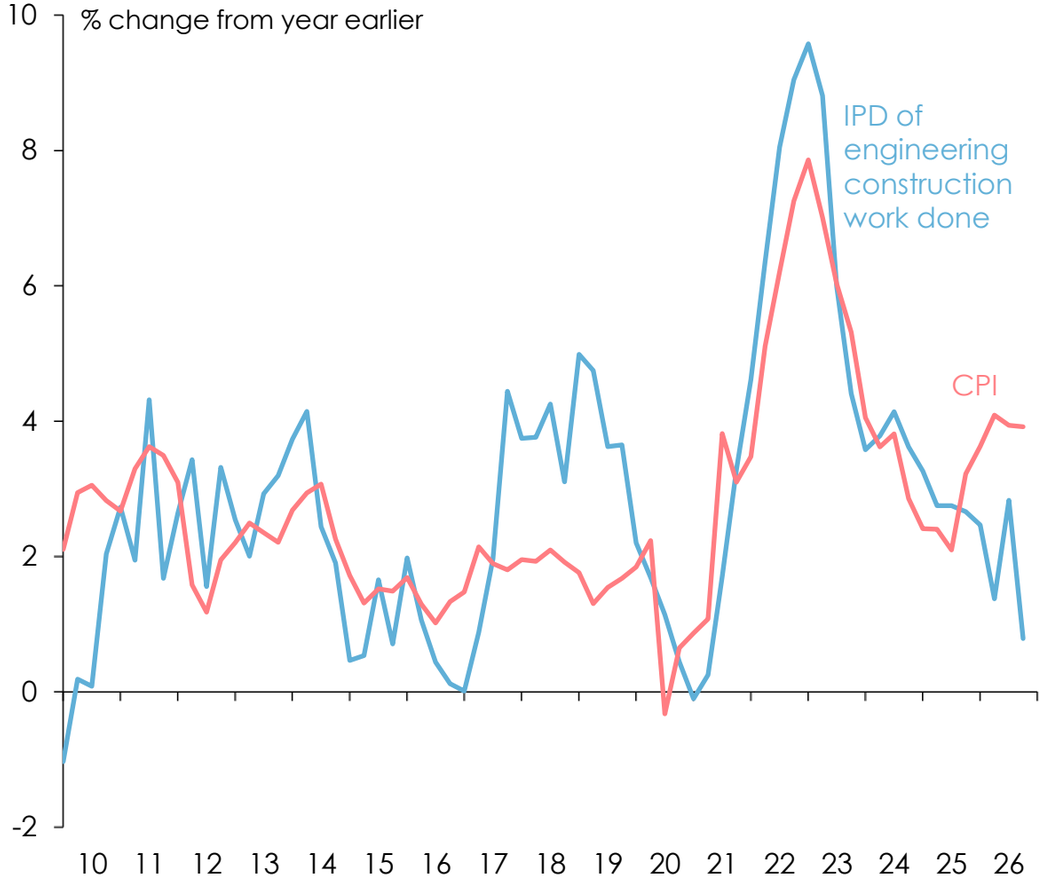
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Civil construction firms have absorbed a lot of the cost increases they've experienced this year rather than passing them on to clients

Implicit price deflator (IPD) of engineering construction activity vs IPD of GDP



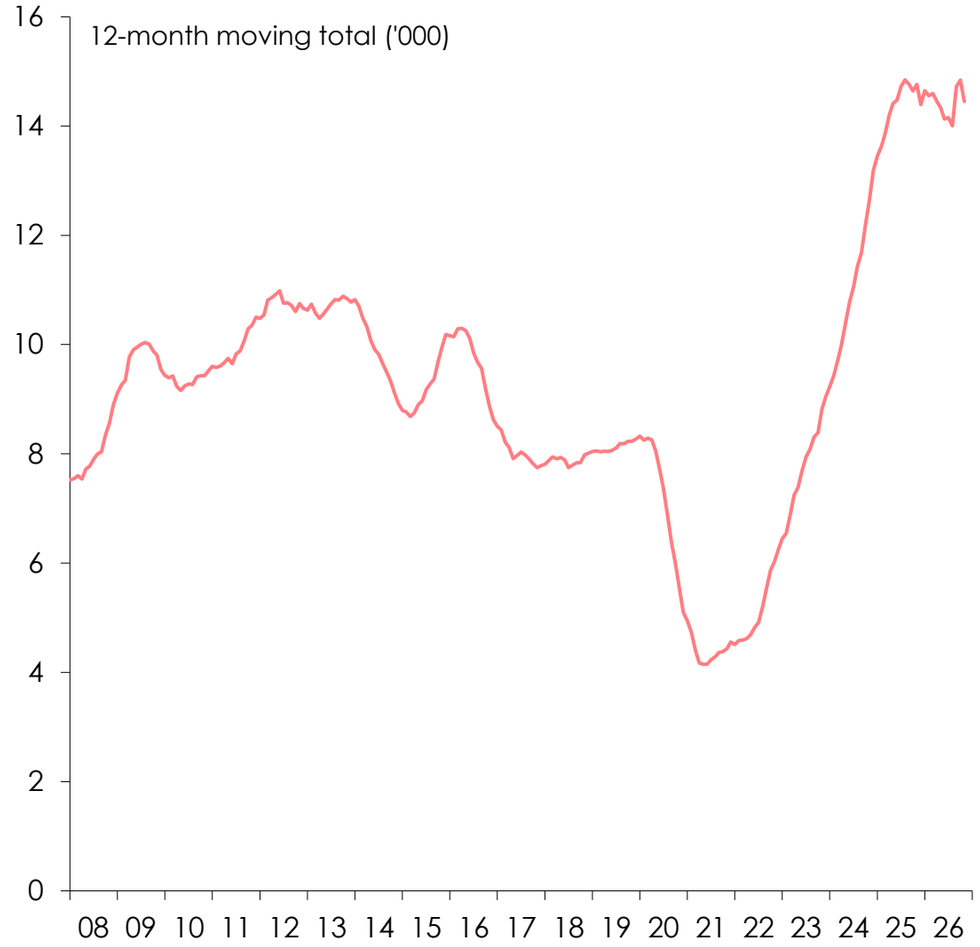
Implicit price deflator (IPD) of engineering construction activity vs CPI



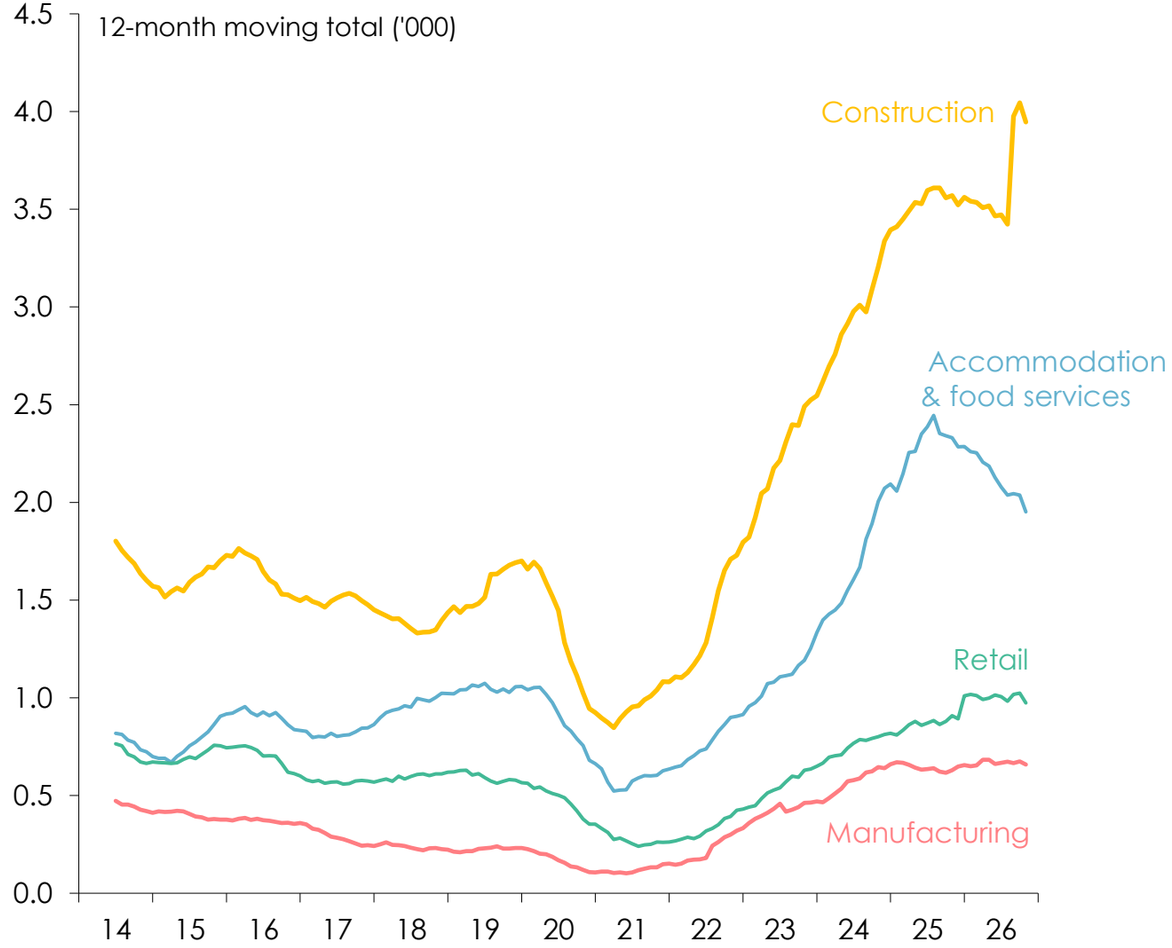
Note: The 'implicit price deflator' is the ratio of a nominal (or current price) measure to the corresponding 'real', constant price or 'chain volume' measure, and hence is a measure of price movements. *Sources:* ABS, *Engineering Construction Activity*, June quarter 2026, *Construction Work Done, Preliminary*, September quarter 2026, *Australian National Accounts: National Income, Expenditure and Product*, June quarter 2026 and *Consumer Price Index*, October 2026.

There's been a renewed increase in construction industry insolvencies this year

Companies entering administration



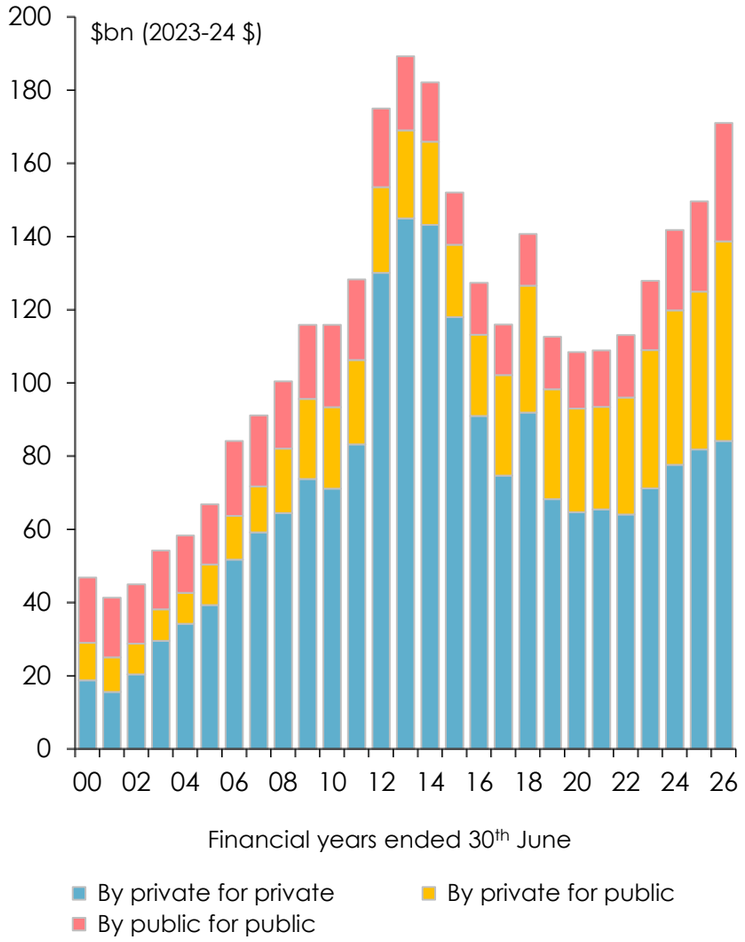
Companies entering administration, by industry



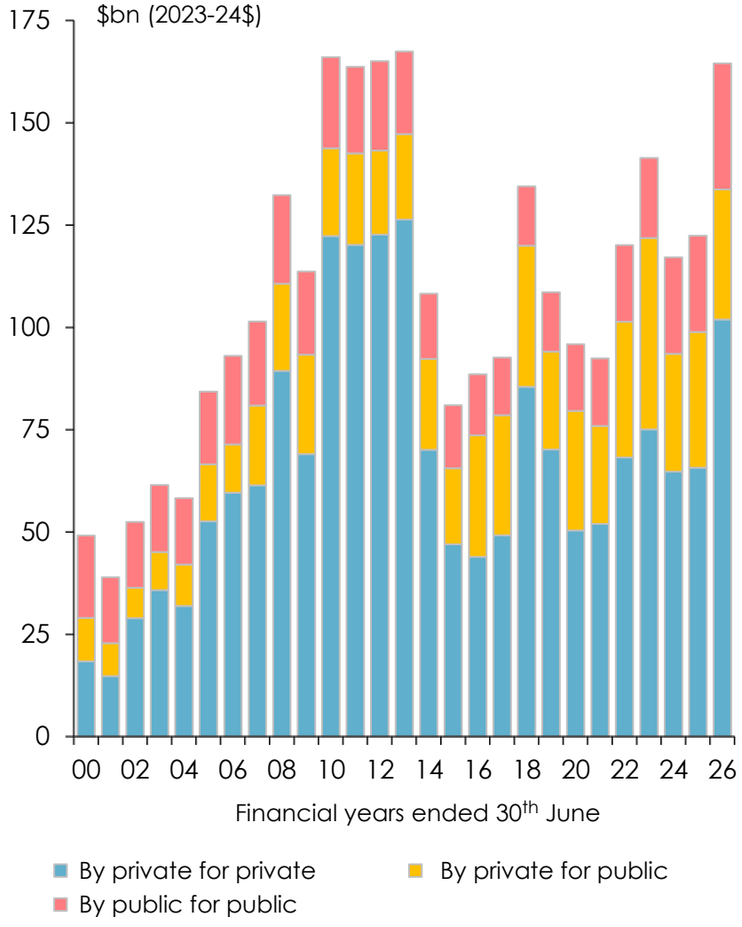
Source: Australian Securities and Investments Commission (ASIC), *Insolvency statistics (current)*, October 2026.

Engineering construction activity remains high by ex-mining boom standards, increasingly driven by public sector work

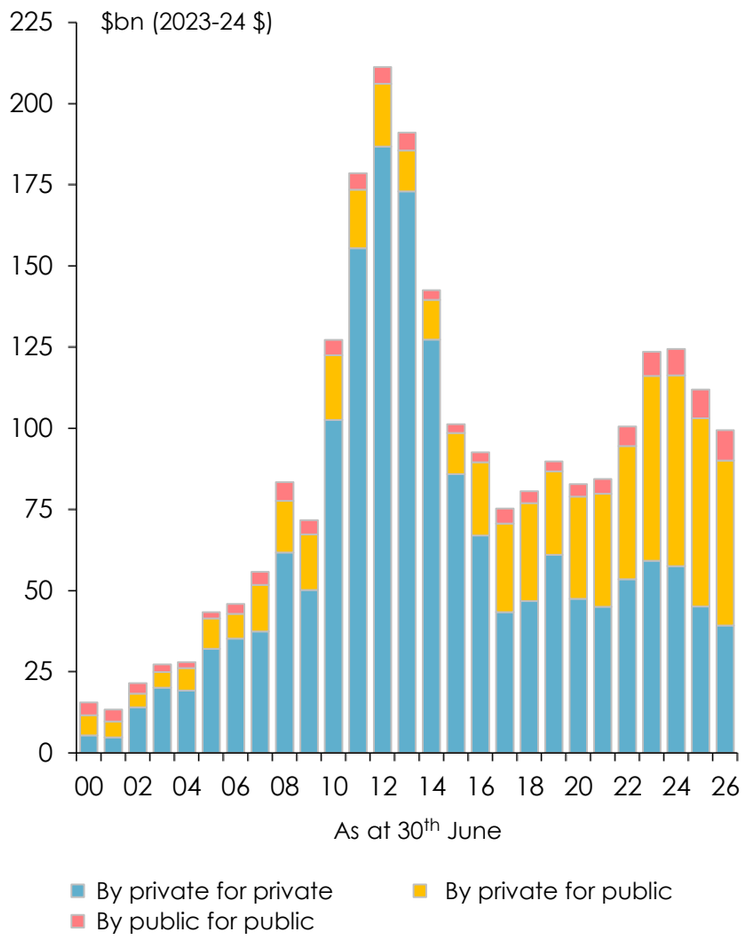
Value of work done



Value of work commenced



Value of work yet to be done

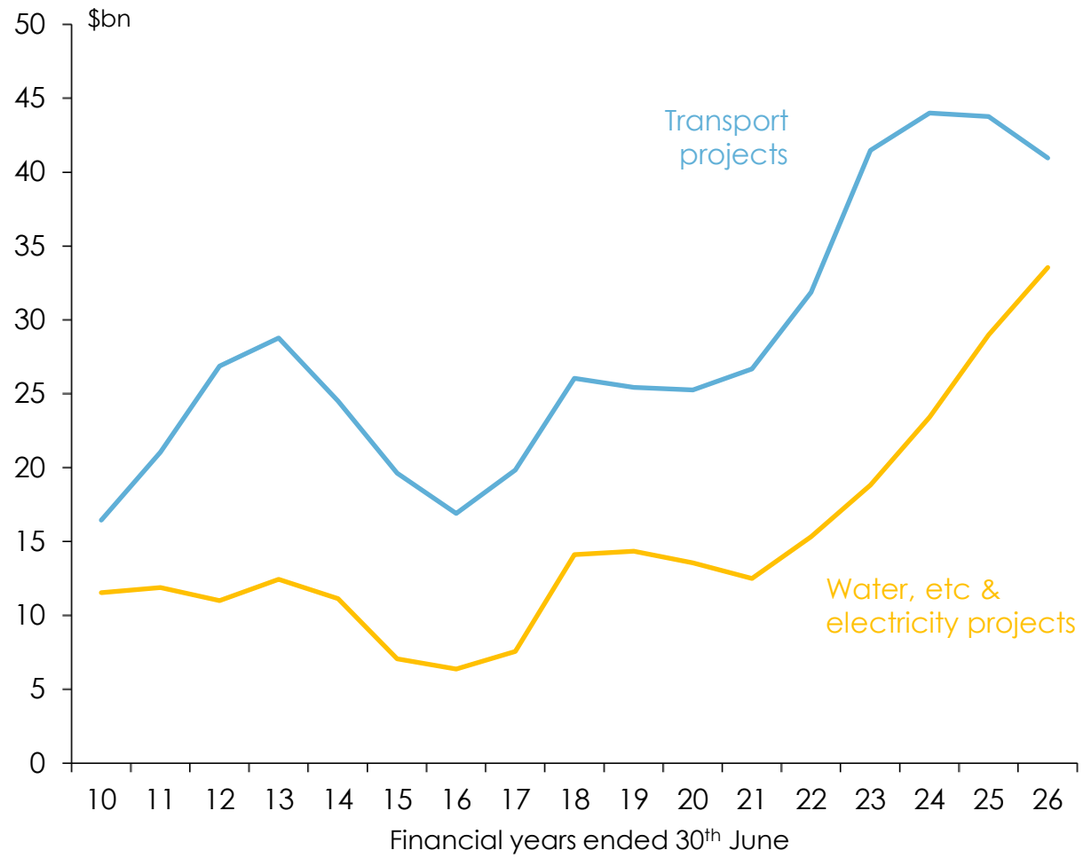


Source: ABS, *Engineering Construction Activity*, June quarter 2026.

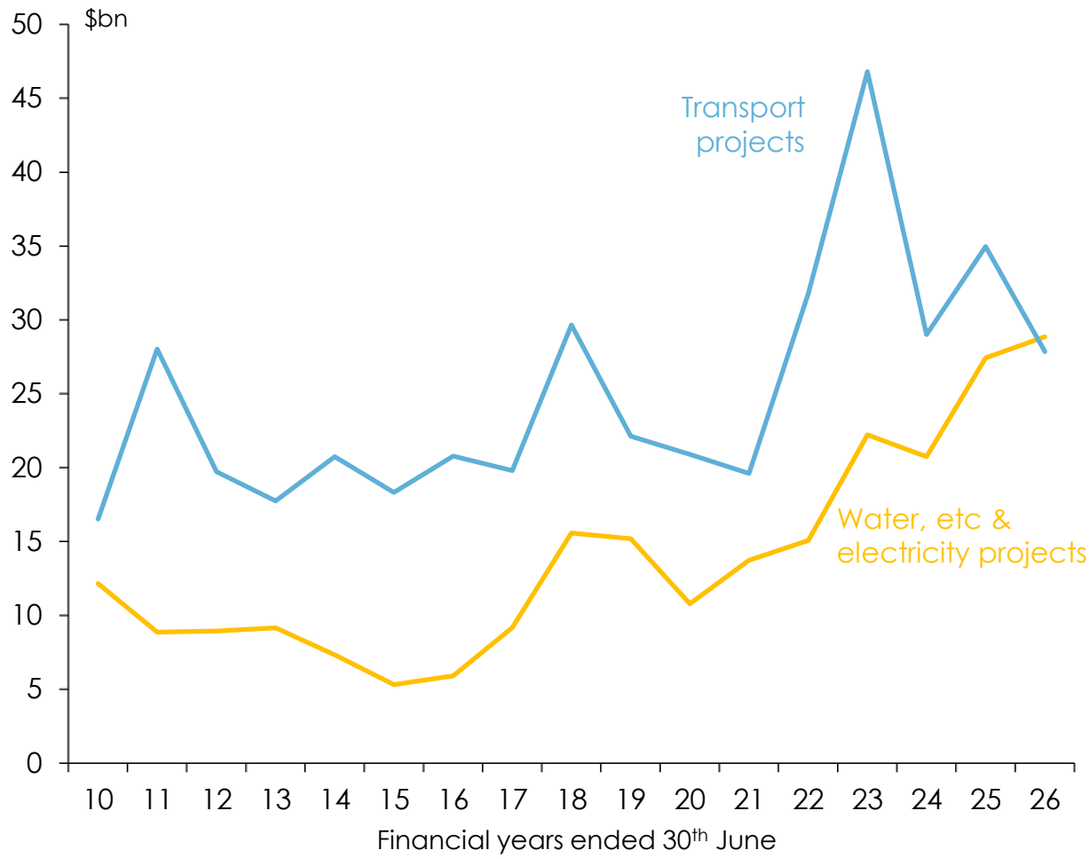
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There's a significant 'rotation' in the types of civil construction work being undertaken

Value of work done by the private sector, by major type of work



Value of work commenced by the private sector, by major type of work

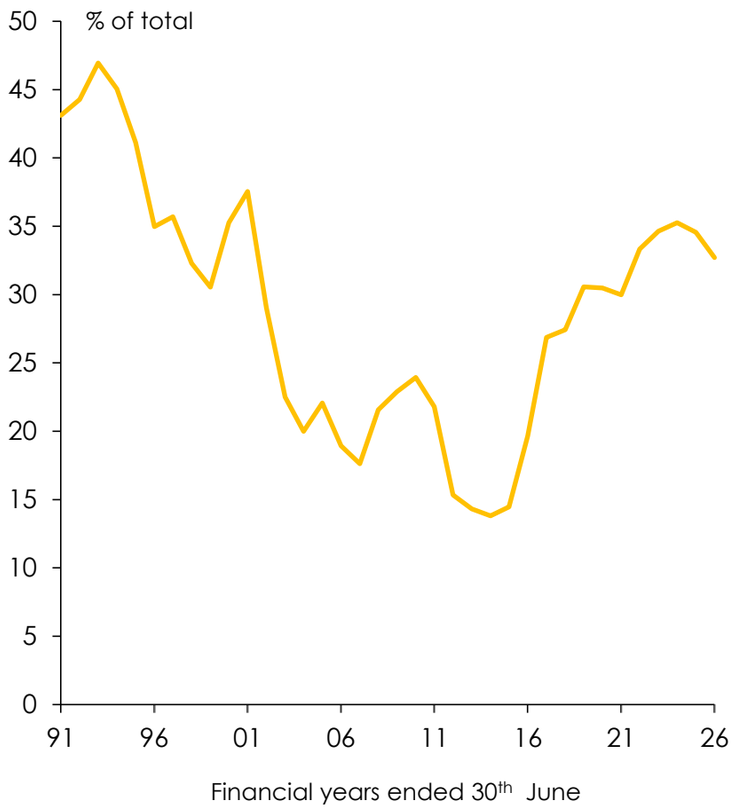


Source: ABS, *Engineering Construction Activity*, June quarter 2026.

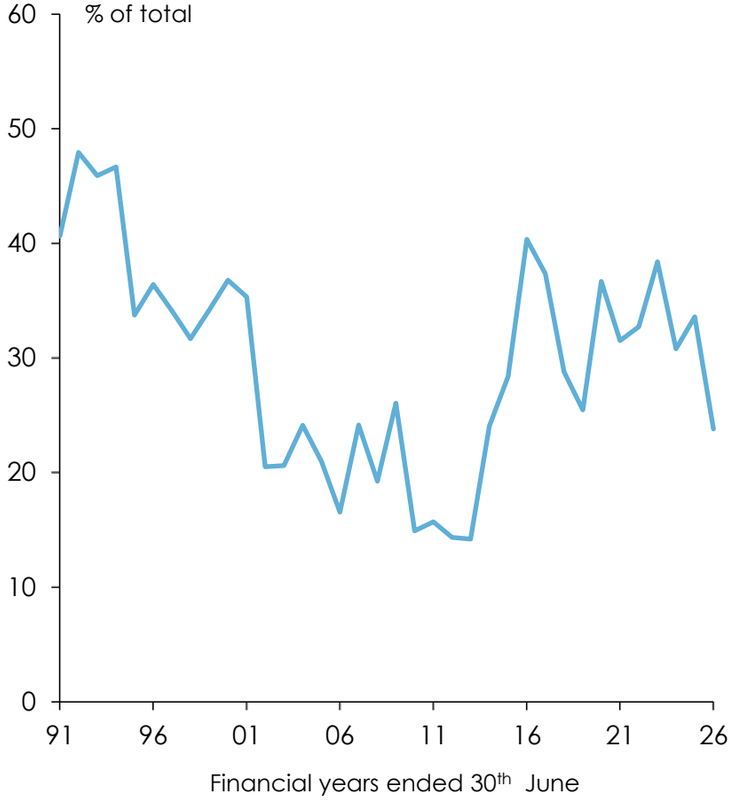
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Civil construction is becoming increasingly dependent on governments

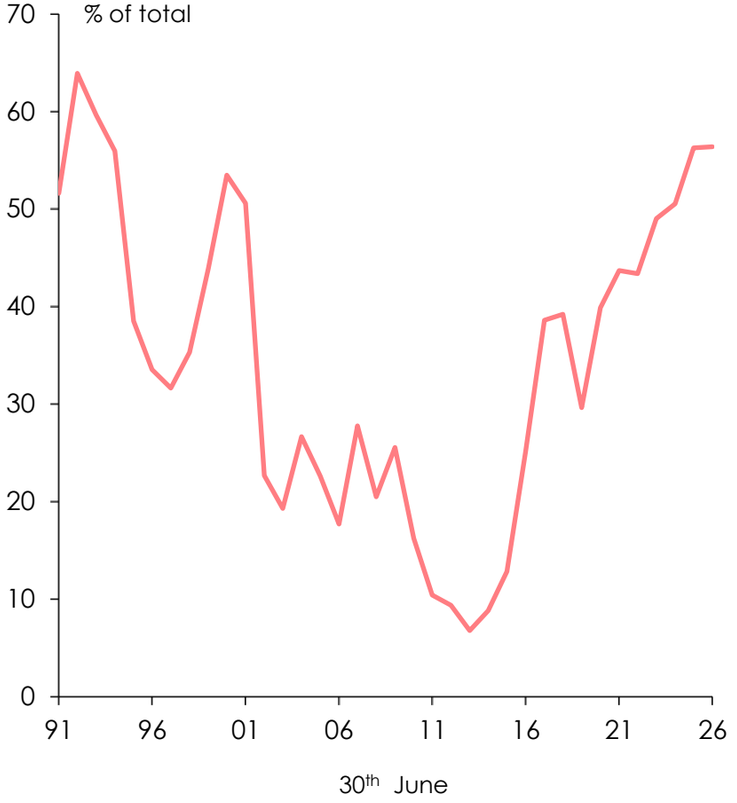
Value of construction work done by the private sector for the public sector as a pc of total work done by the private sector



Value of construction work commenced by the private sector for the public sector as a pc of total work commenced by the private sector



Value of construction work yet to be done by the private sector for the public sector as a pc of total work yet to be done by the private sector

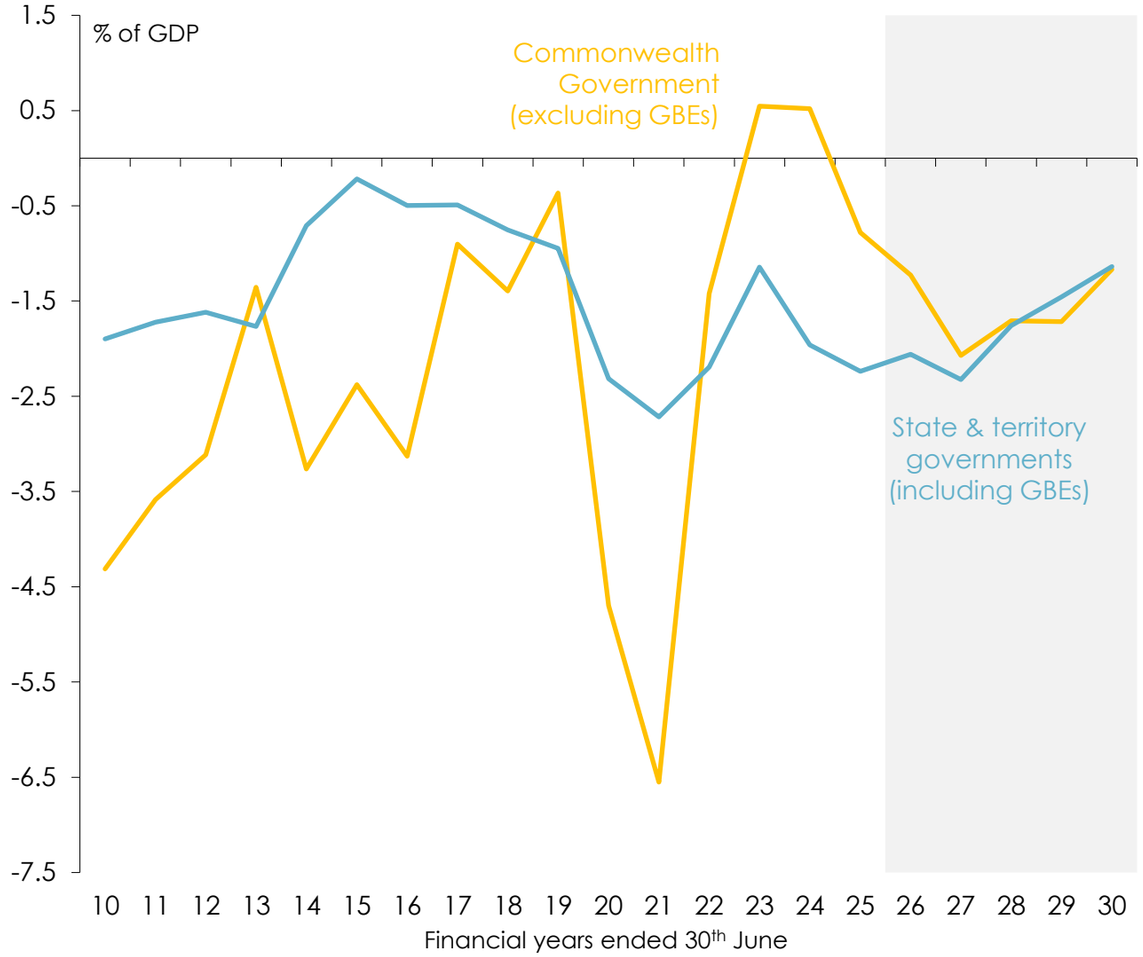


Source: ABS, *Engineering Construction Activity*, June quarter 2026.

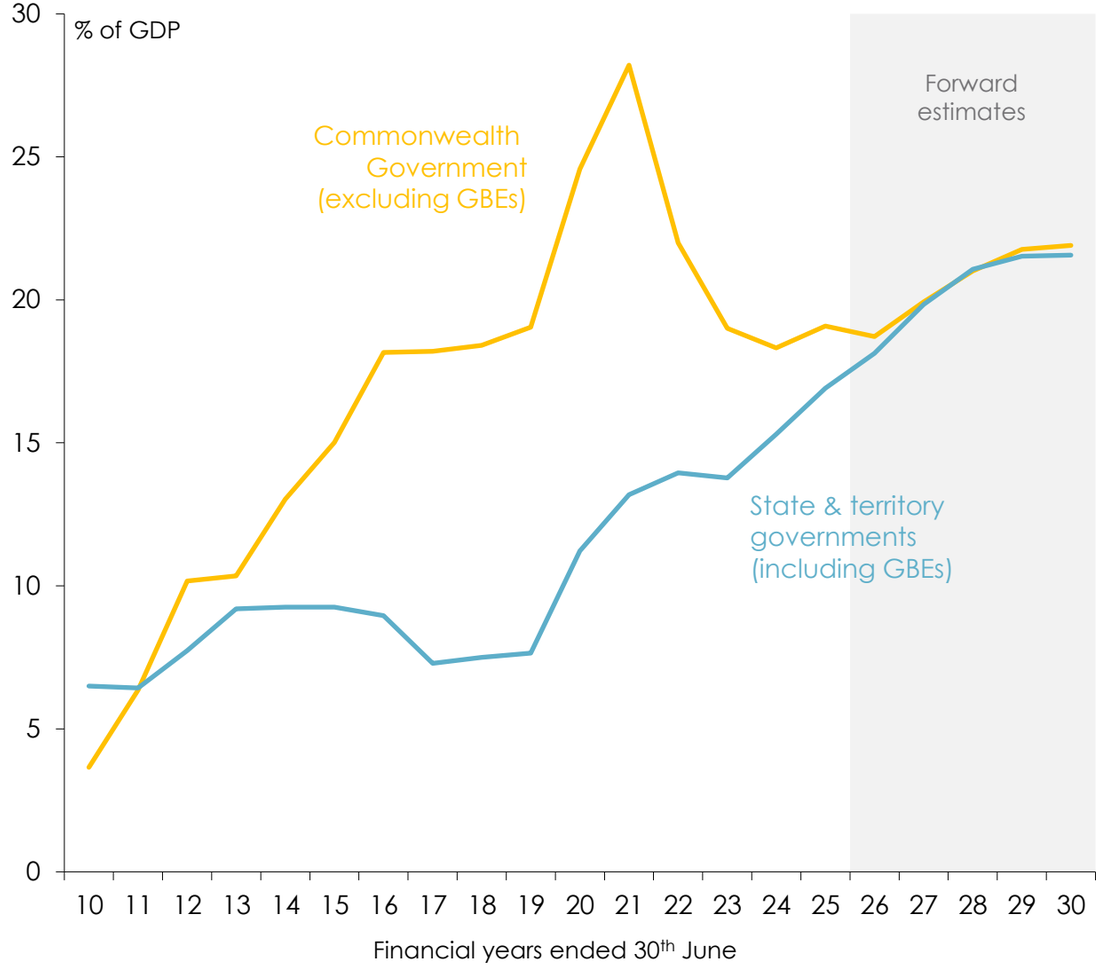
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And that's a potential risk because of the increasingly dire financial position of most state and territory governments

Cash surpluses or deficits



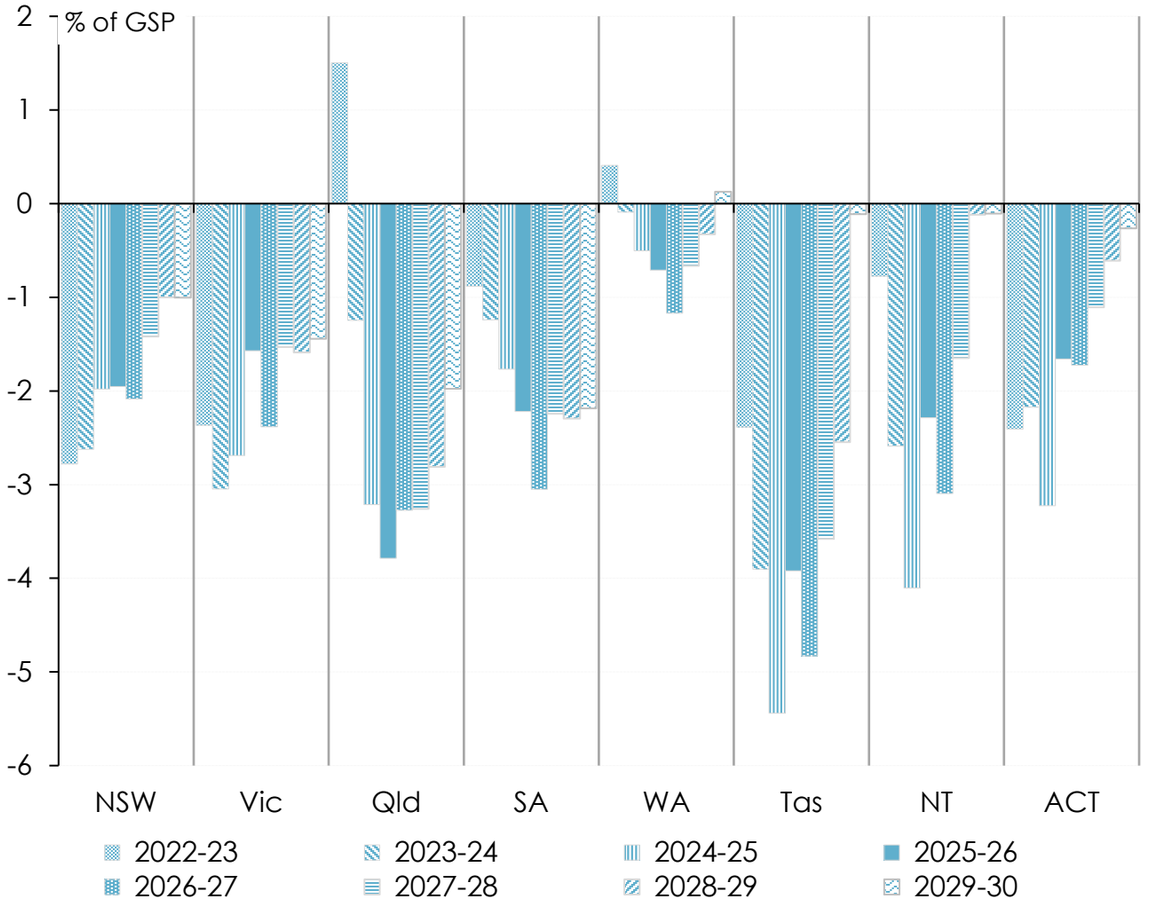
Net debt



Note: Commonwealth Government Budget Papers only provide forecasts for public non-financial corporations (GBEs) and the non-financial public sector as a whole for one year ahead. *Sources:* Australian Government, 2026-27 Budget Paper No. 1; 2026-27 State and Territory Budget Papers; and 2025-26 annual financial reports for Western Australia, Tasmania, the Northern Territory and the ACT.

All states and territories except (mineral-rich and politically powerful) WA have been running large deficits and accumulating debt

State and territory non-financial public sector cash balances



State and territory non-financial public sector net financial liabilities

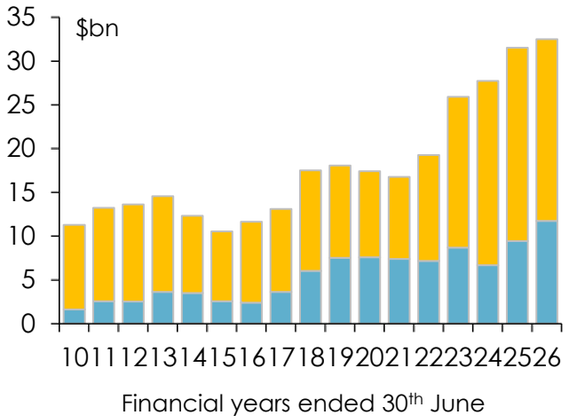


Note: net financial liabilities includes unfunded superannuation liabilities as well as debt. *Sources:* 2026-27 Budget Papers for each of the states and territories, and 2025-26 annual financial reports for Western Australia, Tasmania, the Northern Territory and the ACT.

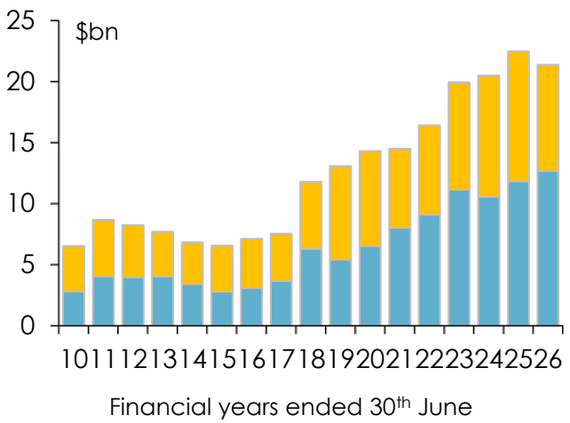
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Volume of public sector infrastructure spending likely to ease back in NSW and Victoria over the next few years

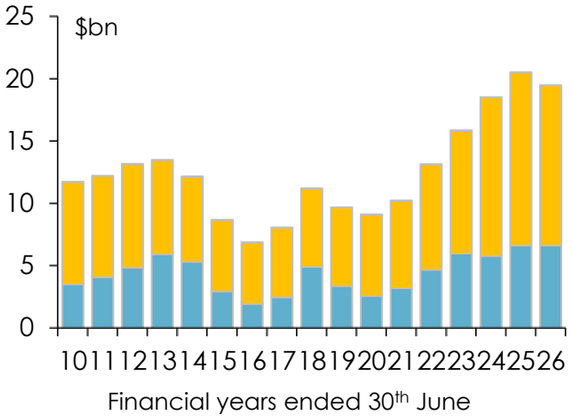
NSW – work done



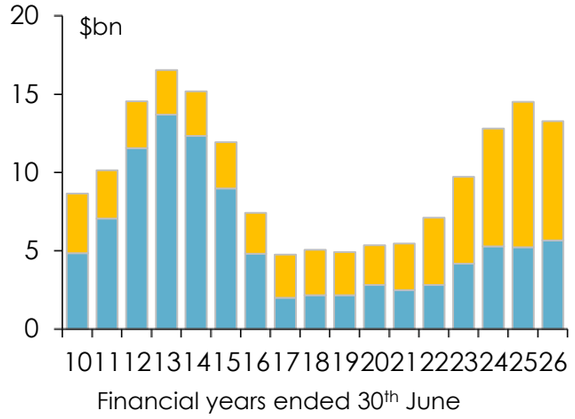
Vic – work done



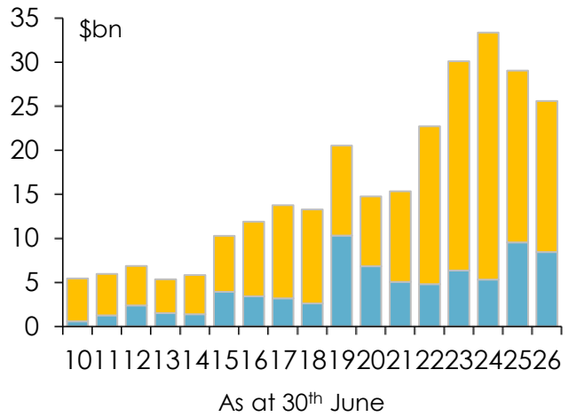
Qld – work done



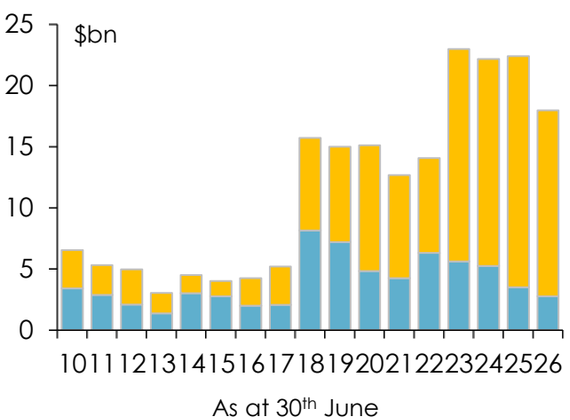
WA – work done



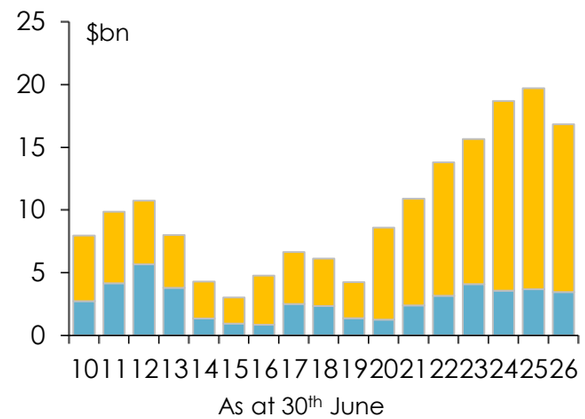
NSW – work yet to be done



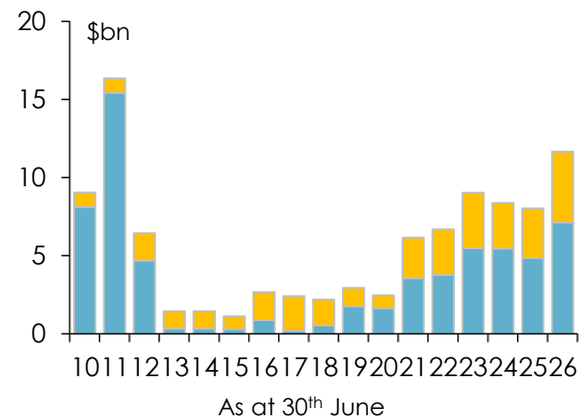
Vic – work yet to be done



Qld – work yet to be done



WA – work yet to be done



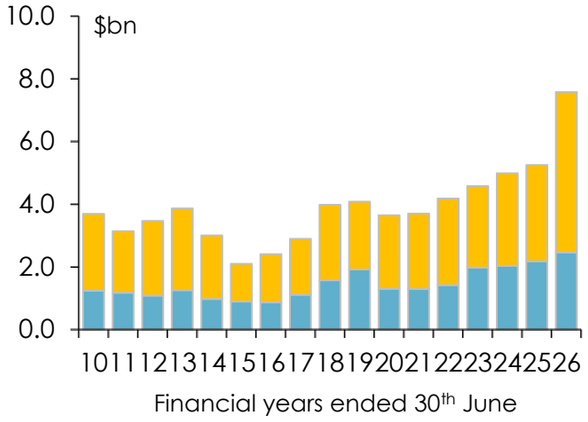
For private sector For public sector

Note: Charts show value of work done in current prices (ie not adjusted for inflation). Includes roads, highways & subdivisions; bridges, railways & harbours; electricity generation, transmission & distribution; pipelines; and water storage & supply, sewerage & drainage; doesn't include recreational facilities because these are not separately identified in state-level data. *Source:* ABS, Engineering Construction Activity, June quarter 2026.

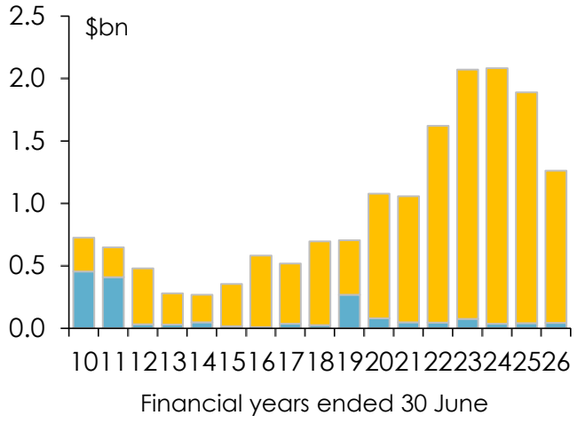
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SA & Tasmania have (relatively) large infrastructure programs still to run (although Tasmania's is very dependent on government)

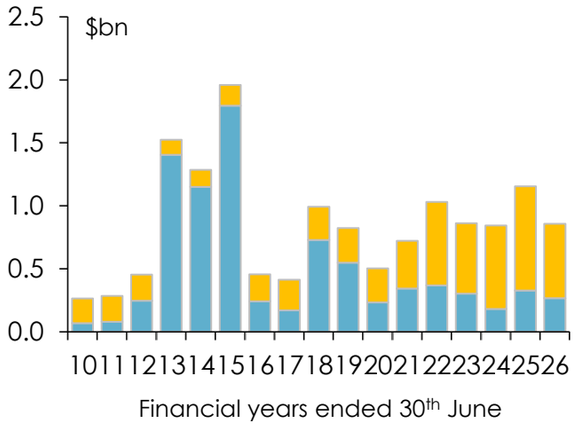
SA – work done



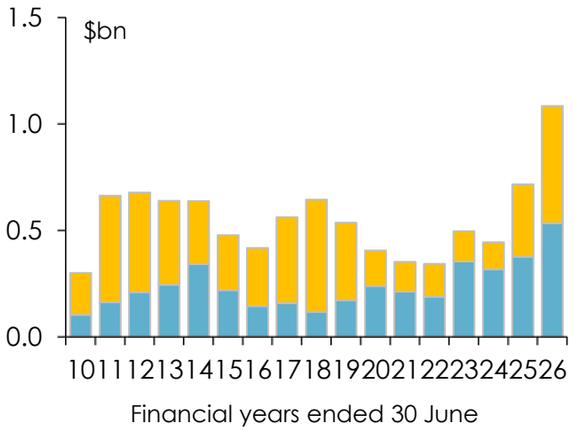
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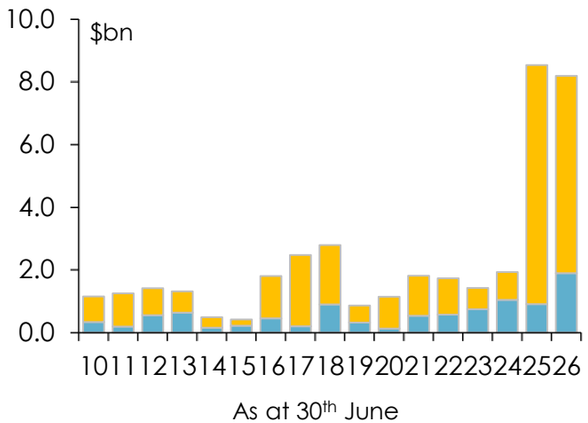
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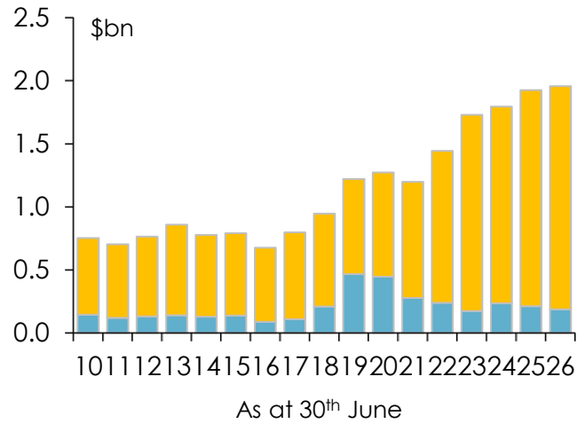
ACT – work done



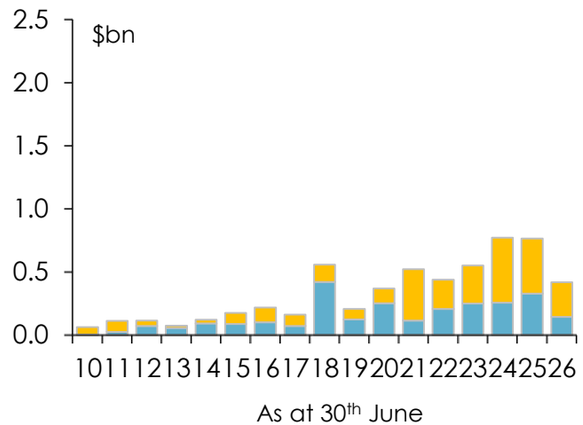
SA – work yet to be done



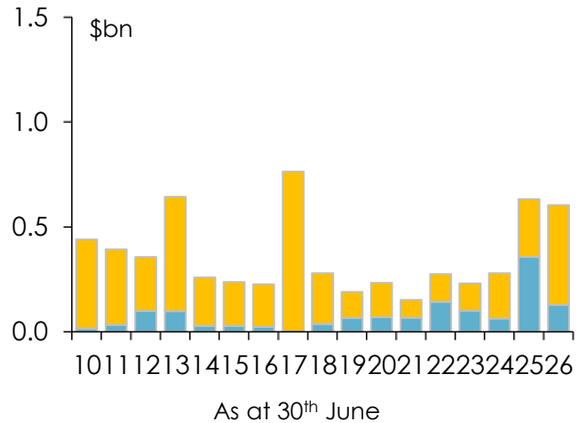
Tas – work yet to be done



NT – work yet to be done



ACT – work yet to be done



For private sector For public sector

Note: Charts show value of work done in current prices (ie not adjusted for inflation). Includes roads, highways & subdivisions; bridges, railways & harbours; electricity generation, transmission & distribution; pipelines; and water storage & supply, sewerage & drainage; doesn't include recreational facilities because these are not separately identified in state-level data. *Source:* ABS, *Engineering Construction Activity*, June quarter 2026.

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Conclusions

- **Despite impressive resilience to date, the risks around the global economy are increasing**
  - rising geo-political tensions (including the still unresolved conflicts in the Middle East and Ukraine)
  - on-going climate risks combined with increasing disagreement about appropriate responses
  - persistent inflation, and loss of 'fiscal discipline' putting upward pressure on interest rates
  - increasing risks in global stock markets as the 'AI bubble' continues
- **Australia's economy faces a difficult year in 2027**
  - interest rates at their highest level in 18 years
  - falling real household disposable incomes and household wealth
  - governments in increasingly constrained financial positions
  - increasing risk of (at best) a mild recession
- **Plenty of civil construction work going on, but also plenty of challenges**
  - on-going cost pressures colliding with limited capacity to recoup from clients
  - labour shortages potentially exacerbated by large cuts to immigration
  - growing dependence on public sector projects creates its own set of risks
- **Focus of civil construction is gradually shifting**
  - away from big transport projects in major metropolitan areas towards electricity generation & transmission, water supply, sewerage & drainage and housing subdivision works
  - many of these in more challenging locations