ceda

REPORT SUMMARY

SIZE MATTERS: WHY CONSTRUCTION PRODUCTIVITY IS SO WEAK

2025

Size matters:

WHY CONSTRUCTION PRODUCTIVITY IS SO WEAK

DWELLINGS BUILT PER CONSTRUCTION WORKER

DECLINED BY ROUGHLY 50%

SINCE THE 1970s

IN SYDNEY, APPLICATIONS TO BUILD AN APARTMENT BLOCK HAVE BALLOONED IN SIZE

1967

12 PAGES LONG

2025

HUNDREDS OF PAGES LONG

THEY NOW REQUIRE STRUCTURAL, ENVIRONMENTAL, TRAFFIC AND OFTEN HERITAGE ASSESSMENT, MAKING THEM HUNDREDS OF PAGES LONG

CONSTRUCTION FIRMS WITH 200+ EMPLOYEES

GENERATE 85% MORE REVENUE PER EMPLOYEE

THAN CONSTRUCTION FIRMS WITH 5-19 EMPLOYEES

If construction firms matched the size distribution of manufacturing firms

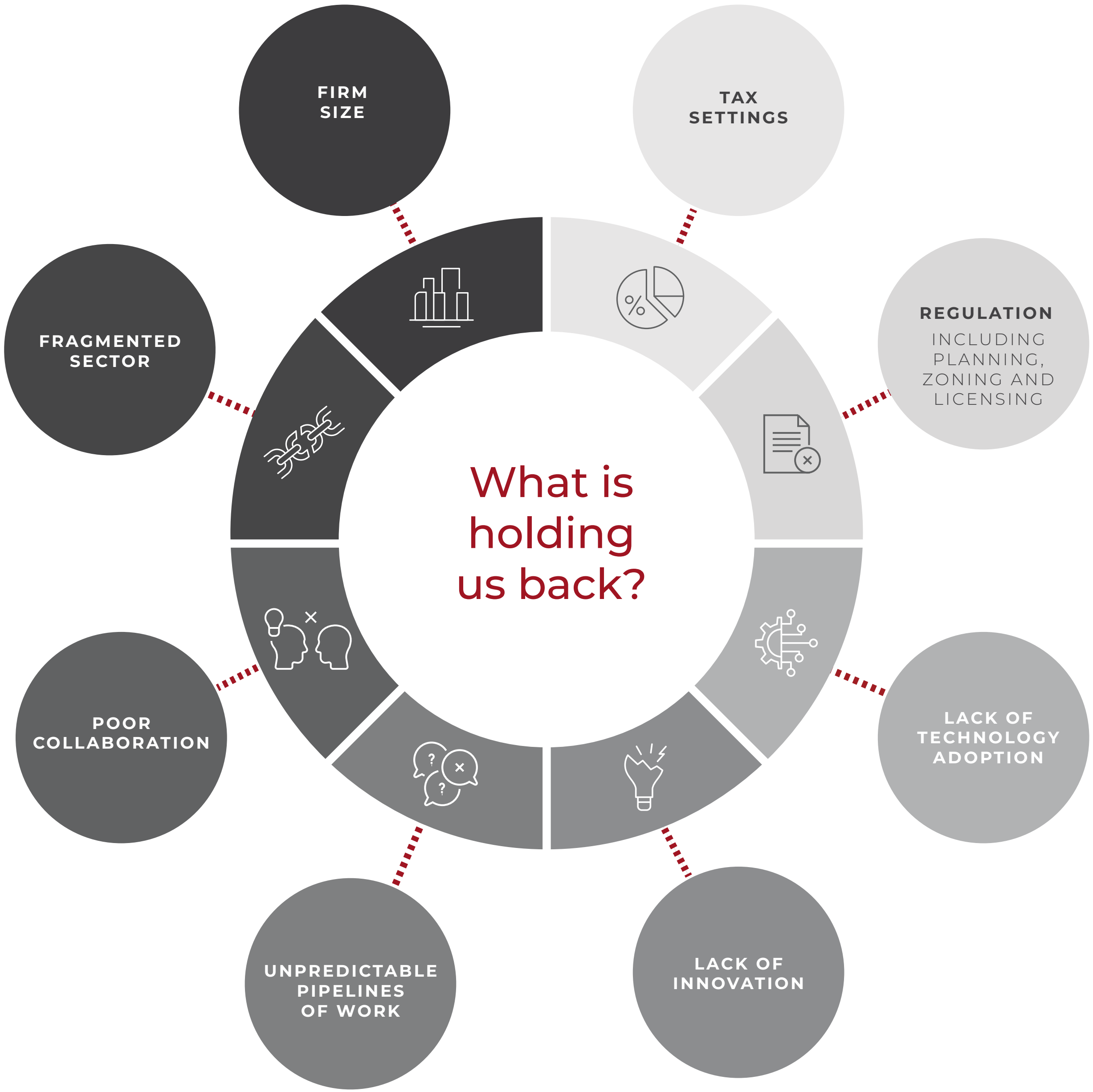
the construction industry would produce

12 per cent or $54 billion more revenue

without any additional labour

equivalent to gaining an extra 150,000 construction workers

Factors contributing to weak construction productivity



INTRODUCTION: CONSTRUCTION IS CRITICAL TO ALL AUSTRALIANS BUT IS FAILING TO DELIVER

The construction sector is one of our largest industries and is vital to the functioning of our economy. It plays a critical role in meeting Australians' housing needs, delivering the nation's infrastructure pipeline and making the energy transition. These goals are important not only for Australians today, but also for generations to come. Our economic prosperity relies on our ability to get things built, but we are losing this ability. Without improvement in this sector we will not be able to deliver on a strong economy and a strong social compact.

Put simply, productivity means producing more of something (an output) with the same or fewer resources (inputs). It is about working smarter, not harder.

By all measures, construction has been underperforming in the productivity stakes. Construction's size and interconnectedness mean it has a significant impact on the national economy and is a key driver of Australia's broader productivity weakness.[1]

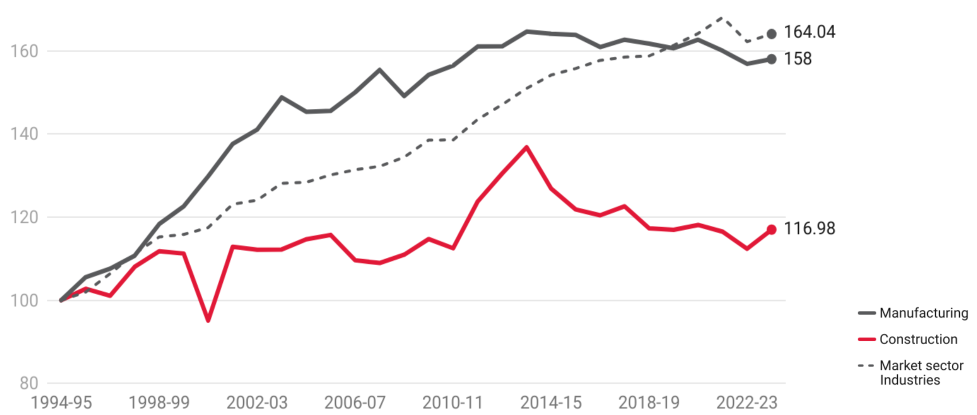
Labour productivity in construction (measured as output per hour worked) grew by just 17 per cent over the 29 years from 1994/95 to 2023/24 (Figure 1). In contrast, labour productivity grew by 64 per cent in the 'market-sector' industries, and 58 per cent in manufacturing over the same period.

Multifactor productivity in construction has been broadly unchanged from 1994/95 to 2023/24 (Figure 2). It grew by almost 20 per cent in market-sector industries and 23 per cent in manufacturing over the same period.[2]

Construction productivity underperforms

Figure 1 - Labour productivity

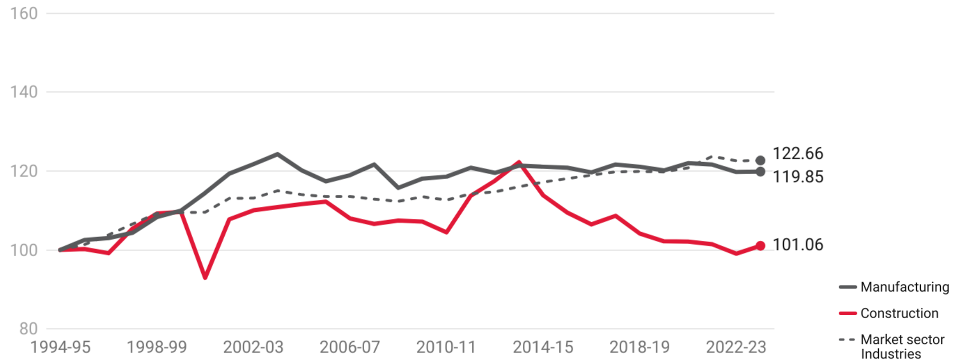
ABS estimates of labour productivity hours worked basis; 1994 =100.



Source: Australian Bureau of Statistics, 5260.0.55.002 Estimates of Industry Multifactor Productivity, Australia, table 6.

Figure 2 - Multifactor productivity

ABS estimates of multifactor productivity hours worked basis; 1994 =100.



Source: Australian Bureau of Statistics, 5260.0.55.002 Estimates of Industry Multifactor Productivity, Australia, table 1.

Productivity has been particularly weak in the building of houses and apartments. Our analysis shows that dwellings built per construction worker have declined by roughly 50 per cent since the 1970s (Figure 3).

These measures do not account for changes in the size and quality of buildings, which have both improved over time. The Productivity Commission has found that, even when adjusting for size and quality improvements, construction labour productivity per hour worked has declined by around 12 per cent since 1994, and still significantly underperformed the wider economy, which experienced labour productivity growth of around 49 per cent over the same period.

Construction's productivity performance has been one of the weakest of all sectors in the economy – it is one of only three market-sector industries to have *subtracted* from overall multifactor productivity growth in recent decades.[3] Boosting productivity in construction will be vital to solving Australia's housing crisis, rejuvenating weak business investment and supporting a strong economy.

We are not alone in this challenge - many other advanced economies have also experienced weak construction productivity over the past 30 years, including the United Kingdom, the United States and Canada.[4]

The construction productivity problem is complicated and there is no single driver of poor performance. Analysis by CEDA and others, as well as discussions with key stakeholders, suggest it has not been driven by some commonly cited culprits, including: a lack of new technologies;[5] measurement issues; quality improvements; growth in the white-collar workforce;[6] or industrial relations and conditions in enterprise-bargaining agreements.[7]

Instead, a range of other factors have contributed, including: complex, slow approvals; lack of innovation; lack of scale; workforce issues; and policy settings.[8] Inefficiency (rather than a lack of technical progress) also appears to be part of the problem.[9, 10]

Figure 3 - We are building half as many homes per worker as in the 1970s

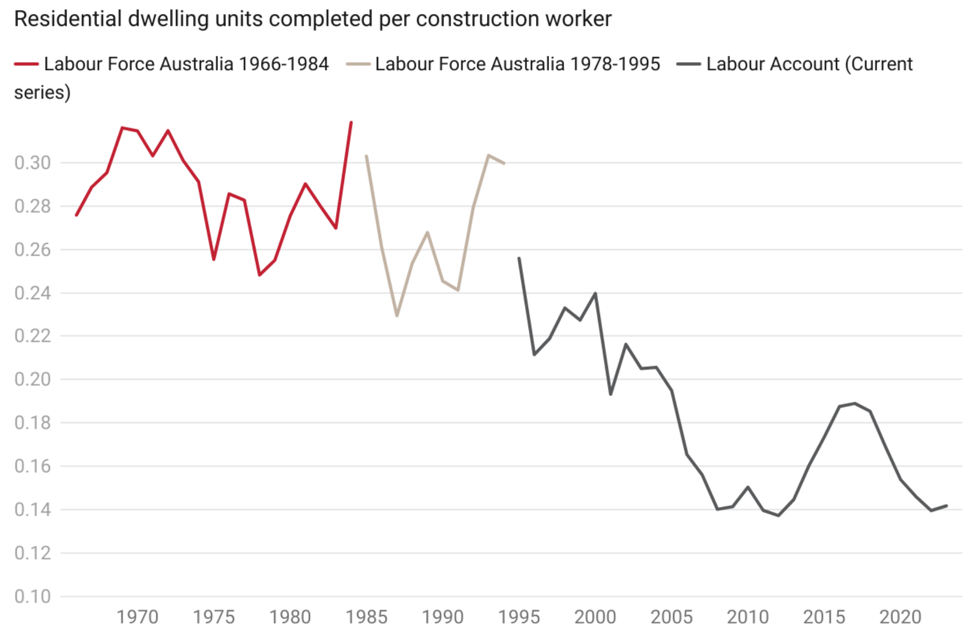


Chart: CEDA analysis of ABS data | Source: Labour Force Australia 1966-1984, Labour Force Australia 1978-1995, Labour Force Account (Current series)

Our analysis shows a key driver of this multifaceted challenge is that Australia's building industry is dominated by very small firms due to its structure, complex regulations and broader tax settings.

This report focuses on the lack of scale in the sector, an area that hasn't previously received much attention. The construction sector is currently suffering from labour shortages, which is holding back progress on critical infrastructure and housing. It is imperative that we address productivity in the sector to allow us to deliver the infrastructure Australia needs.

CONCLUSION AND POLICY DIRECTIONS

Productivity in the construction industry has been stagnant for three decades. While many factors have contributed to this outcome, a critical driver is the dominance of small firms. Currently, 98.5 per cent of Australian construction firms have fewer than 20 employees. Smaller building companies are less productive than bigger firms because they can't achieve the same productivity gains from economies of scale and scope, innovation and investment.

Our analysis of previously unreleased ABS data shows Australian construction firms with 200 or more employees generate 86 per cent more revenue than those with 5 to 19 employees. If Australian construction firms matched the size distribution of firms in the manufacturing industry, construction would produce 12 per cent, or $54 billion, more revenue per year without requiring any additional labour. This is equivalent to gaining an extra 150,000 construction workers.

The dominance of small firms is the result of the cyclical and segmented nature of the industry, combined with the shift to subcontracting that took place in the early 1980s and late 1990s.

Current regulatory settings are keeping builders small:

- Tax incentives favour independent contractors, who are four times more likely to disclose income under the tax-free threshold than salaried construction workers. Other tax settings, such as the instant asset write-off and payroll tax thresholds, also favour smaller construction firms.
- Australia has the most decentralised system of land-use regulation in the OECD, which exacerbates geographic segmentation and makes it harder for firms to expand into new areas.
- Complex, and in some cases increasingly stringent, state-based occupational licensing rules also make it harder for the most productive businesses to expand interstate.

Many drivers of productivity, such as technology adoption, require scale and certainty. As volatility and regulation in the sector grows, so too does the complexity and risk involved in delivering construction projects. This prevents productive firms from growing.

To encourage scale, governments should:

1. Make local and state government regulations more streamlined and consistent.
2. Help to smooth out variability in demand by creating a more consistent, predictable pipeline of construction work through their infrastructure and social housing programs.
3. Better align the relative tax rates for individuals and small and large businesses as part of broader reform of the entire tax system.

Australia has been slow to deliver on critical infrastructure projects and has not built enough homes to keep up with demand. Sydney is now the second most expensive housing market in the world, while Adelaide is sixth and Melbourne is ninth.[38]

All levels of government must tackle this challenge. We must ensure that basic policy foundations such as regulations and tax don't stand in the way of targeted measures to build more homes.

To help us build smarter, not just harder, we must focus on policies to lift productivity in construction.

This work has benefited from insights gathered from two workshops (around 15 attendees in total), as well as broad consultation with around 15 other CEDA members and key stakeholders, including industry participants, academics, state and federal government agencies and industry bodies. We are sincerely grateful for all contributions and insights received.

REFERENCES

1 Kevin Fox, "What Do We Know About the Productivity Slowdown? Evidence from Australian Industry Data," International Productivity Monitor 35 (2018): 149–56.

2 Productivity Commission, "Housing Construction Productivity: Can We Fix It?" (Australian Government, February 2025), www.pc.gov.au/research/completed/housing-construction/housing-construction.pdf.

3 Fox, "What Do We Know About the Productivity Slowdown? Evidence from Australian Industry Data."

4 Productivity Commission, "Housing Construction Productivity: Can We Fix It?"

5 Productivity Commission.

6 Austan Goolsbee and Chad Syverson, "The Strange and Awful Path of Productivity in the U.S. Construction Sector," BFI Working Paper (Becker Friedman Institute for Economics, University of Chicago, January 2023), https://bfi.uchicago.edu/wp-content/uploads/2023/01/BFI_WP_2023-04.pdf.

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38 Wendell Cox, "Demographia International Housing Affordability: 2025 Edition" (Center for Demographics and Policy, Chapman University, 2025), www.chapman.edu/communication/_files/Demographia-International-Housing-Affordability-2025-Edition.pdf.

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- Partnering and collaborating to tackle emerging opportunities and entrenched challenges; and
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