



## Pipeline of work continues to grow

From Tim Woods at [IndustryEdge](#)

Australia is going through a housing boom that is without precedent in its history. The amount and value of work in the building pipeline has never been greater, has never been faster, has never been more focussed on free-standing houses.

As a result, for many, the times have never been more stressful in what is now the most stretched supply chain in modern times.

### When too much data is... too much

Often, in these analysis items for the FTMA and its members, we discuss just how much data is available on Australia's housing markets. It is great to have the data, but the truth is that some is contradictory. Worse, some is simple enough to be suitable for the 6 o'clock news, but perhaps isn't the main point.

So, when Australia's quarterly detailed housing series data for the December quarter of 2020 was released in April (yes, it's a while ago – but stick with me, its important!), some of the most important data was not discussed very much.

Here, we will lay out some of that data and show just how remarkable and unpredictable this current and massive housing boom is. And yes, we also know that these are stressful times, so this time, we will keep it as short as we can.

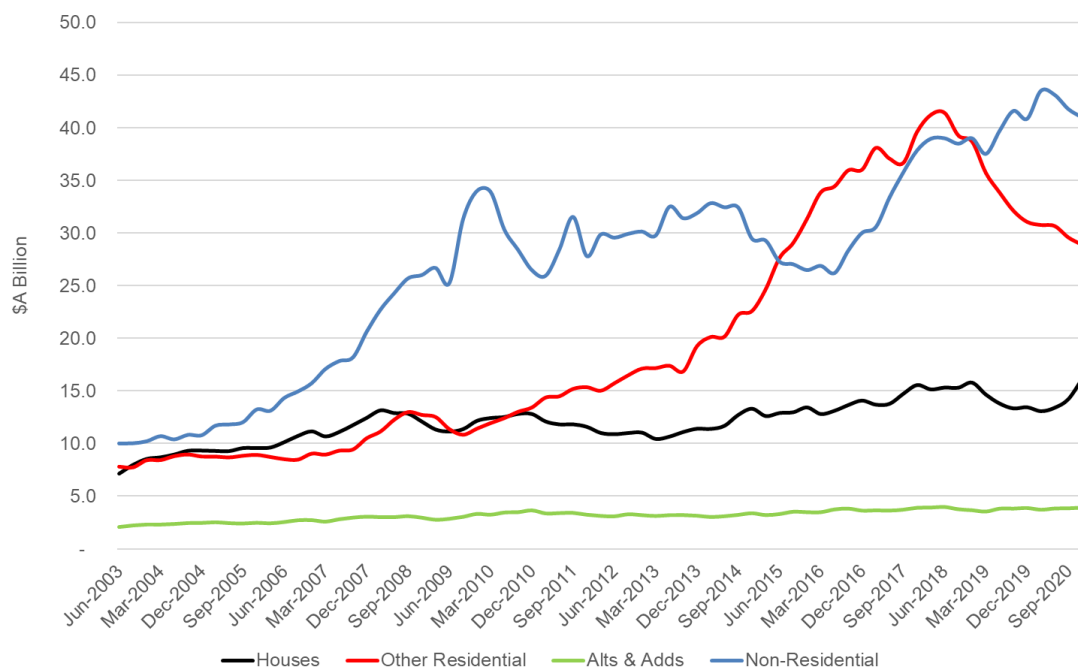
### Value of the building pipeline is growing – because of houses

In the December quarter of 2020, the value of building work 'in the pipeline' – just think of this as work not yet completed – lifted a pretty modest 0.5% to total \$89.9 billion, compared with the September quarter. The increases have been greater in the past, and so too has the value of work sitting in the pipeline.

BUT, the value of free-standing houses in the pipeline for the quarter lifted by a massive and highest ever 13.4% to a new record value of \$16.159 billion. Never has more work been added to the housing pipeline than in the December quarter.

The chart shows this on the black line, but the red line in particular – other residential – is just as telling. Falling by 2.3% in the December quarter, the pipeline value of all the other residential formats combined is declining, as demand rushes toward new houses.

## Australian Building Work Pipeline: JQ'03 – DQ'20 (AUDBn)



Source: ABS, derived and IndustryEdge

A shift in demand was already underway from late 2018, but the migration to houses has never been larger or faster – and that is putting supply chains under enormous stress, as nearly everyone can attest.

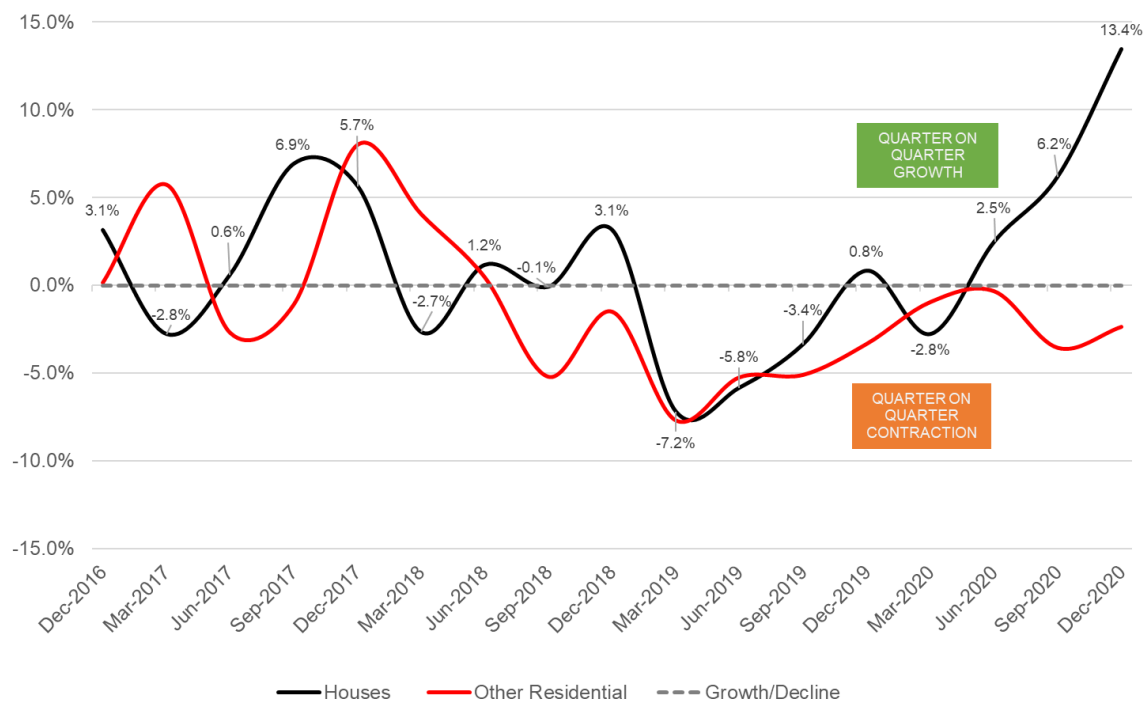
But, as the next chart shows, even as the market began to improve in late 2018, the value of work in the pipeline was still declining, but was doing so more slowly. And then came the explosion in demand from the March quarter of 2020, which was all in houses.

This chart shows the percentage change, in the value of work in the pipeline, from one quarter to the next. To make this very clear, it just shows Houses, compared with Other Residential (all combined), and it is over a shorter period.

The key point here is for us to grasp that the value of work in the pipeline has never grown faster, has rarely grown for as long and has never been so focussed on one sector: houses. Little wonder the entire supply chain is stressed to breaking point.

In fact, the supply chain had begun to reduce its inventories and was not working at full speed when the pandemic hit and the stimulus arrived. The result was a supply chain stripped of resource just when it needed to be at its fullest!

## Australian Building Work Pipeline: Quarterly Changes: DQ'16 – DQ'20 (AUDBn)



Source: ABS, derived and IndustryEdge

When we look at some of the other housing data, like the record house approvals achieved in March 2021 (read below), we are betting that when the March 2021 quarter data becomes available in August, the pipeline will be bigger still, and another huge quarter of growth has to be expected. Our bet is such short odds, SportsBet is ready to pay us out.

The summary: the pipeline will not get smaller anytime soon, so the stress on the supply chain will continue.

### “I’ve started, so I’ll finish...”

That was the line in the old quiz show ‘Mastermind’ when a contestant’s time ran out mid-question. For the home builder of Australia today, it is an immediate question, and one causing plenty of sleepless nights.

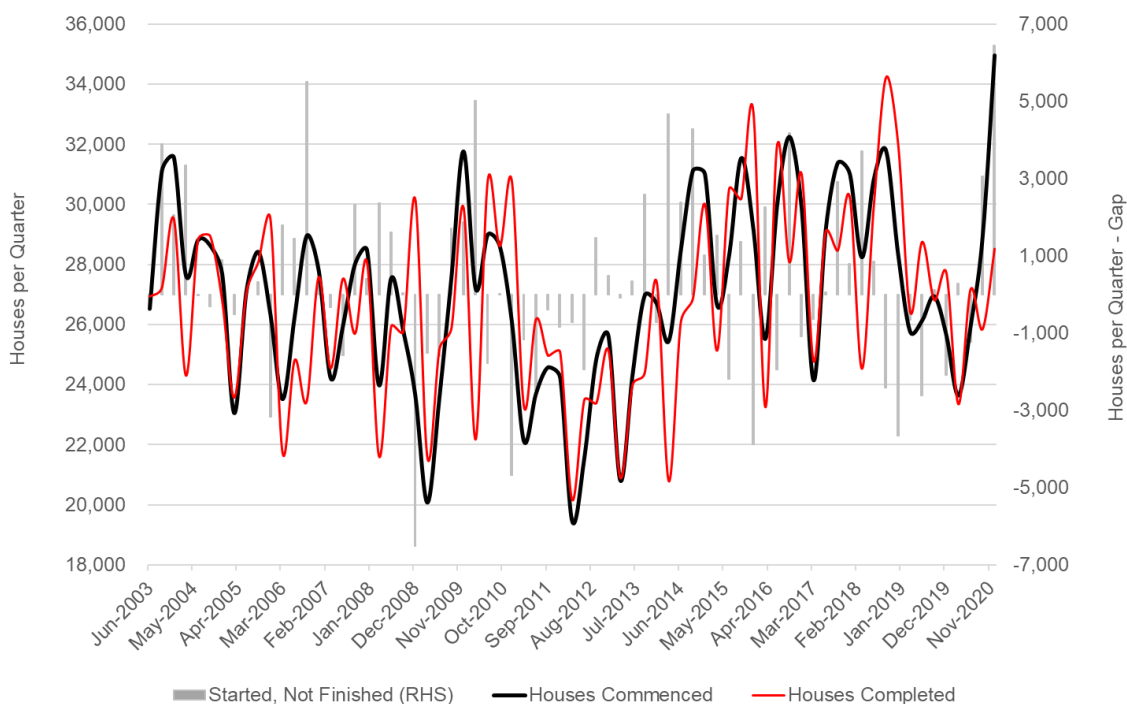
In a stimulus-fuelled orgy of contractual activity and housing commencements, the December quarter gap between the number of free-standing houses on which work was commenced and those on which work was completed was the third highest on record. There were 34,970 commencements and 28,525 completions in the December quarter, leaving 6,445 houses that were started and not completed.

There have never been more house commencements!

Moreover, only once ever has there been a bigger overhang of started but not finished houses. That was in 2001, and it came after five successive quarters when completions outstripped commencements.



## Australian House Commencements v Completions: JQ'03 – DQ'20 (Number)



Source: ABS, derived and IndustryEdge

Yet more evidence that the pipeline of work is overflowing with work, as though any more evidence was needed.

### Record approvals in March – when's that going to be built?

In the first three months of 2021, Australia approved 55,895 separate dwellings, up 30% on the same period in 2020. Annualised, that amounts to a little under 224,000 separate dwellings to be built.

That is huge by any measure, but here is the kicker...

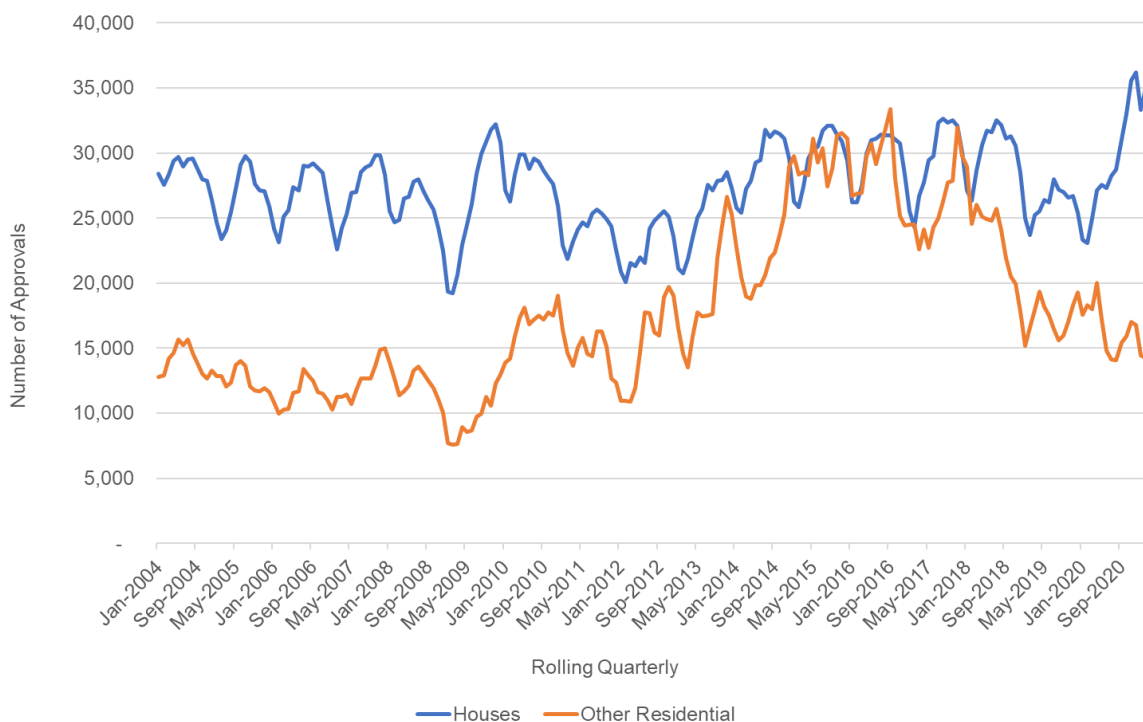
In the March quarter of 2021, there were 38,517 free-standing houses approved, or 69% of total approvals. That is a record and is well ahead of the previous record of 36,220 approvals in the December quarter of 2020.

For those who need to add a kicker to that, here it is...

In the month of March 2021, there were a mind-boggling 15,596 approvals of free-standing houses. Another record, to beat the previous month's all-time high of 13,849 approvals.

We know the stimulus fuelled the demand, and we know the stimulus has now ended, so the April and future approvals will soften. Probably, a lot. But that still leaves a massive pipeline of building work left to complete.

## Housing v Other Approvals: Jan '04 – Mar '21 (Number – Rolling Quarterly)



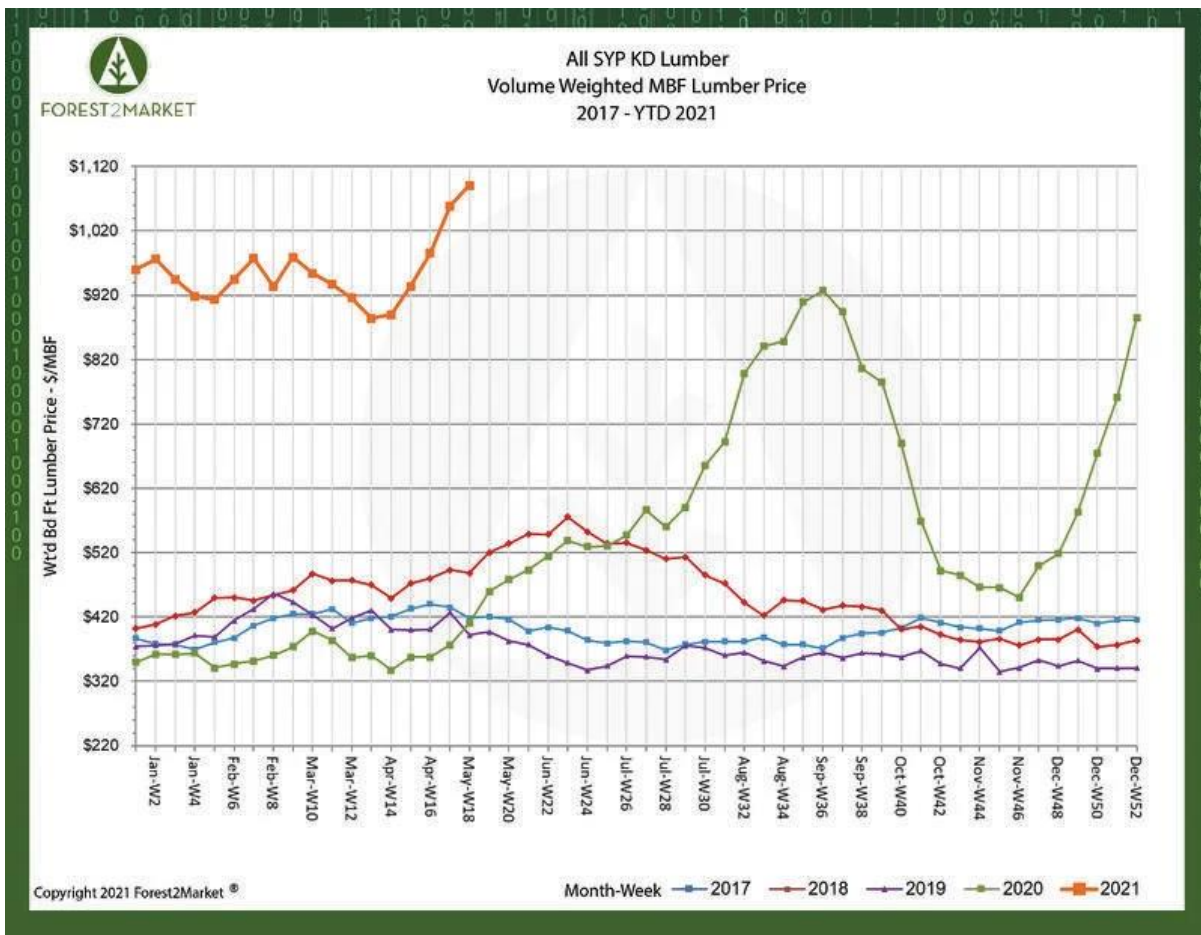
Source: ABS, derived and IndustryEdge

The real question is no longer how much work there is, but rather, how and when will this massive pipeline of work – which expanded by record levels in the March quarter – actually get built?

### Global supply chains are depleted and higher-value than ever before

We all know it is impossibly difficult to get timber right now. Not just from Australia, but from around the world. The reason is simple: demand is massive, not just in Australia but globally.

That is why, as our colleagues at [Forest2Market in the US continually report](#), the price of structural lumber has grown enormously over the last year. Compare the green (2020) line and especially the orange (2021) line with the others. At around USD1,050/Mbf, the price is more than triple the historic average, up around 200% in little more than eighteen months.



Canadian lumber is reportedly flowing freely into the US to feed the world’s largest housing market, and most of the Scandinavian and Western European data points the same way. And why not? After all, the suppliers are earning significantly more for their wood than in other export markets like Australia.

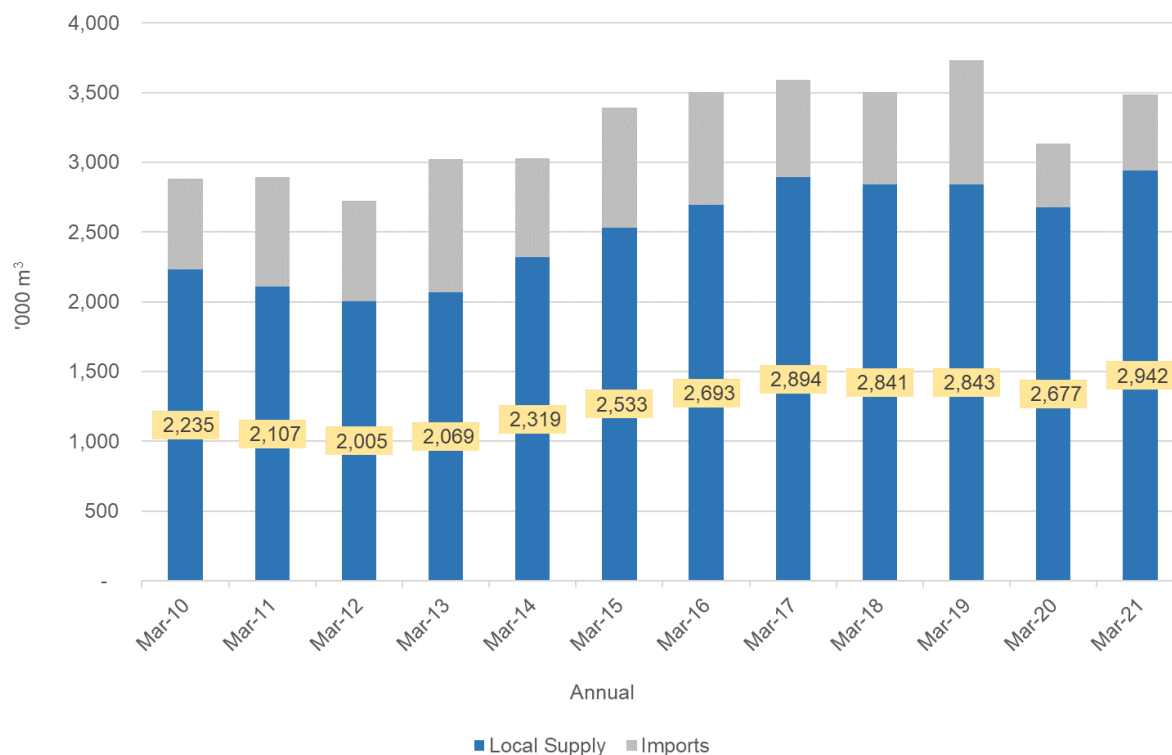
It is true that local spot prices have increased – we have heard of some fabricators being offered spot pricing at \$4.60 per lineal metre, against around \$2.85 per lineal metre for local supply. But that spot price is for marginal volume, not core supply.

That means the vast majority of sawn timber sold in Australia is significantly lower priced than elsewhere in the world. Think the long game and home owners, builders, fabricators, processors and growers will need to accept that timber prices have to increase. Otherwise, wood will not be available whenever there is an alternative supply.

**Local supply of timber is at record levels**

Imports are one thing – we consider that volume to be the ‘flex’ in the market. But, the core volume is the domestic production of sawn timber. Using data supplied every month by sawmills, the Forest & Wood Products Australia (FWPA) sawn softwood data series provides the evidence.

## Australian Sawn Softwood Consumption: YE Mar '10 – YE Mar '21 ('000 m<sup>3</sup>)



Source: FWPA, ABS, derived and IndustryEdge (downloaded from Wood Market Edge online)

We have to be explicit about the situation here:

- Australian supplies of sawn softwood have **NEVER** been higher
- At 2.942 million m<sup>3</sup> year-ended March, local sawn timber supply, after miniscule exports, is at **all-time highs**, just 0.9% off the record 2.968 million m<sup>3</sup> achieved year-ended February
- Previous peaks have been around (but just below) this level, pointing to a supply chain that has no spare capacity
- Local sawn timber supply is **9.9% higher** over the last year, than the prior year

Australia's sawmills are operating at capacity – they cannot saw more wood. New sawmills take time to analyse, consider, invest and install. They cannot come on over night. The same is true for new plantations to feed the sawmills. With prices for sawn timber typically and often significantly lower than in the US market, the driver for increased investment in domestic wood processing is limited. That is another driver for higher timber prices, across the supply chain.

Sawn structural timber is mainly used (we estimate well over 75%) in houses, and to some extent in townhouses. That ensures the demand-side pressure on sawn timber is greatest when there is a rapid expansion in the approval and building of houses.

As the pipeline of building work has exploded over the last year, the total building supply chain has struggled to keep up. Not just for sawn wood, for every building product... and also for labour.



## **Entire building supply chain under labour pressure**

Ours are not the only sectors struggling to find new employees. The entire building supply chain is stressed for all resources, including labour. That will not change soon, because the migrant base – on which population growth relies – is stalled for now and will not recommence until at least mid-2022.

Meantime, available labour is being chased into the next bottle-neck, wherever that may be. In the housing sectors, supply chain stress has typically resulted in significant inefficiencies as one skilled labour group after another is kept waiting by delays from precedent trades.

It is hard to frame a slab that hasn't been poured, to lay a second floor when there is no LVL, to truss and clad a roof without frames and so on. Every delay, from any stage, reverberates along the supply chain, pushing the end of this historic pipeline further down the line.

## **How long will the pipeline take to build out?**

The short answer is that we do not know.

The amount of work is still growing, the availability of materials and labour will be stressed for longer than at any time in history and the world is utterly disrupted with only limited prospects of that changing before at least 2022.

With uncertainty on so many fronts, most of which are outside the control of individual businesses, industries and even countries, all we can do is focus on what is in our control.

For the timber supply chain feeding into the housing market, that means lining up known demand, with supply, and ensuring our commitments are within our capacity to deliver. Supply chain information and relationships have never been more important.

## **Getting timber demand forecasts in shape**

As part of the need for better information, rightly, the FTMA has joined others of our clients asking for more reliable projections and forecasts of sawnwood consumption, based on the housing pipeline.

Whether it is local wood producers, importers, fabricators or builders, the ask is the same: give us some reliable analysis that can assist us to plan our future.

IndustryEdge's internal work program includes using our sawnwood consumption models, housing data and some 'industry private' data to construct a forecast of sawnwood demand. We expect the forecasts to be available before the end of the year, delivered through our online data visualisation platform, [Wood Market Edge](#).

Yes, just like a house, building a forecast that will stand the tests of time and use effort and resources. But, that's another pipeline, and a story for later in the year.

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