



Australian Government

Office of the Australian Building and
Construction Commissioner

ABCC Media Backgrounder

Productivity in the Construction Industry Continues to Improve

Friday, 1 August 2008

Executive Summary

In July 2007, the ABC Commissioner, John Lloyd released Econtech's report, "*Economic Analysis of Building and Construction Industry Productivity*". The report analysed the impact of the ABCC and its predecessor, the Building Industry Taskforce on productivity in the construction industry. The report also used economic modelling to estimate the economy-wide contributions of the ABCC and associated reforms.

One year on, the Commissioner is releasing an update to the 2007 Econtech Report. The 2008 report, "*Economic Analysis of Building and Construction Industry Productivity: 2008*" updates the economic analysis in the 2007 Econtech Report. Another year of data and other studies in the area are analysed.

The three types of productivity comparisons in the 2007 Econtech Report are updated with the latest information.

Year-to-year comparisons of construction industry productivity are made using the latest data from the ABS, a Productivity Commission report and a recent report by the Allen Consulting Group.

Comparisons of productivity for the **commercial versus domestic residential** sides of the industry are made using Rawlinsons' data on construction costs.

Comparison of individual projects undertaken before and after industry reforms.

The 2008 Econtech Report confirms a central conclusion of the 2007 Report. The work of the ABCC and reforms to the construction industry has added approximately 10% to the industry's productivity.

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Summary of the 2008 Econtech Report Findings

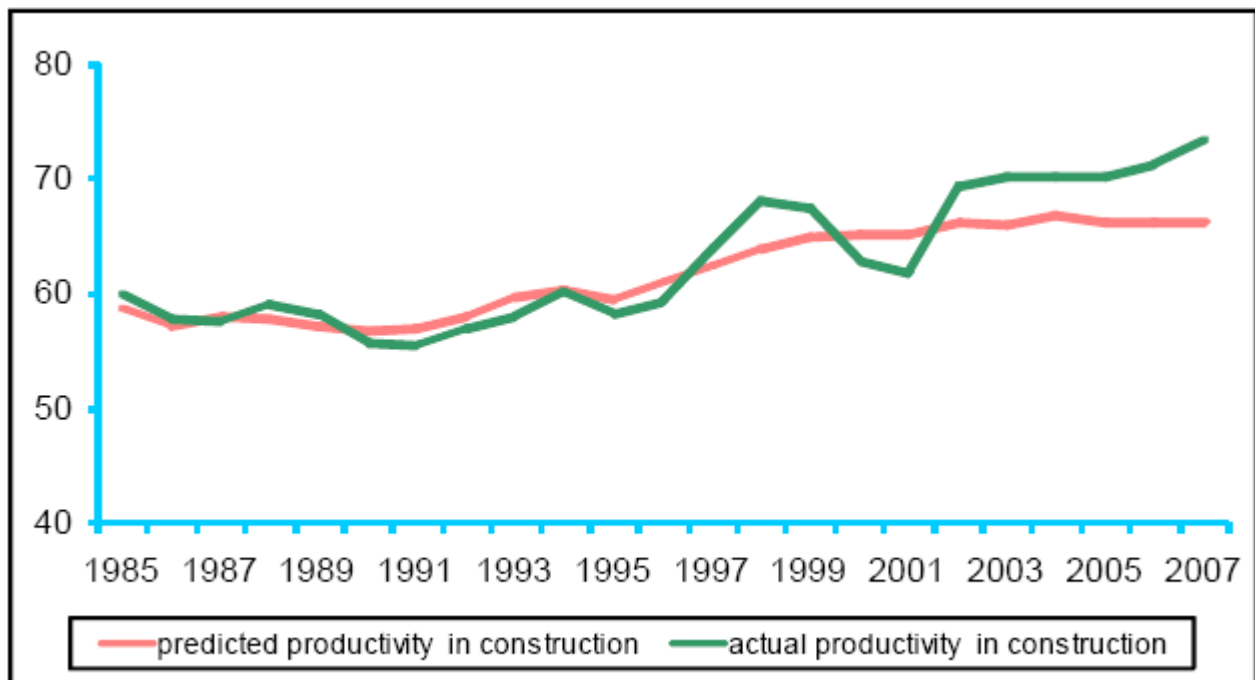
Productivity - Year-to-year comparison

ABS Data – Labour Productivity

The latest ABS data shows that by 2007, construction industry labour productivity outperformed predictions based on historical performance to 2002 by 10.5%, see graph below.

Construction Industry Labour Productivity Compared with a Prediction Based on an Historical Benchmark

Chart 2.1 of the 2008 Econtech Report

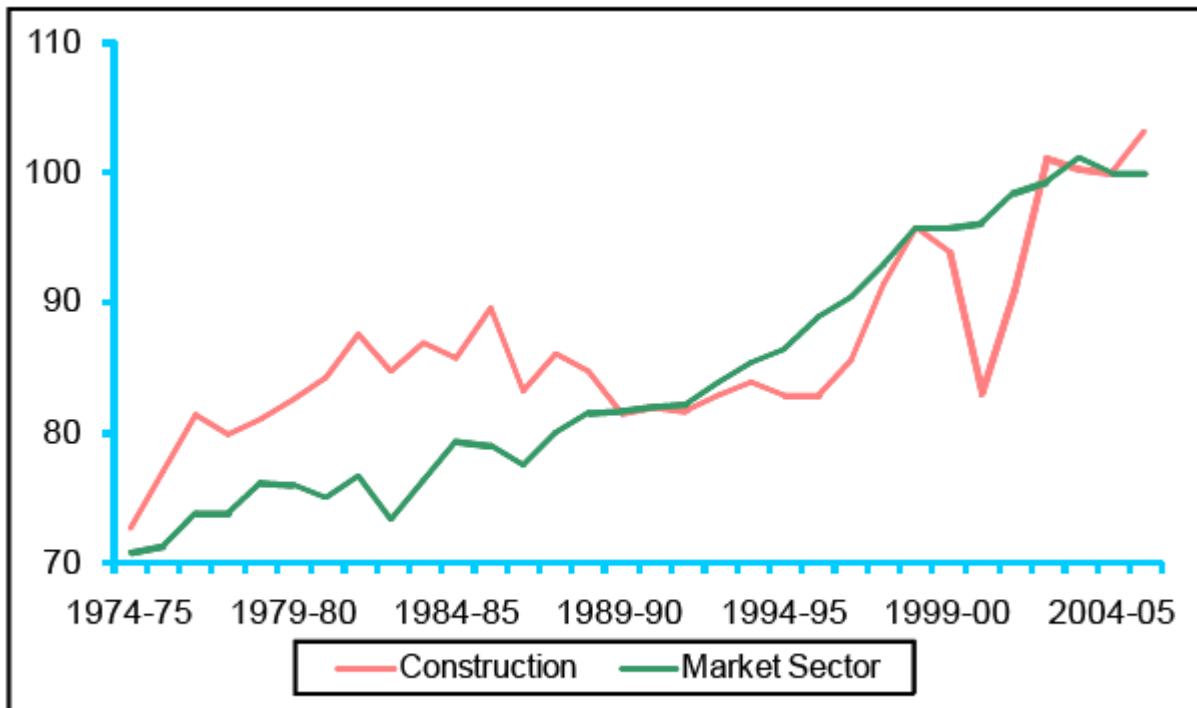


Source: Econtech estimates based on ABS data

Productivity Commission – Multifactor Productivity

Productivity Commission's figures show that multifactor productivity in the construction industry was no higher in 2000/01 than 20 years earlier. However, multifactor productivity rose by 13.6% in the four years to 2005/06, see graph below.

**Construction Sector Multifactor Productivity
1974-75 to 2005-06 (2004-05=100)**
Chart 2.2 of the 2008 Econtech Report



Source: Productivity Commission 2006, "Productivity Estimates to 2005-06" and ABS "Australian System of National Accounts 2005-06".

Allen Consulting Group – Multifactor Productivity

In August 2007, the Allen Consulting Group produced a report examining multifactor productivity in the non-residential construction industry. In support of the Productivity Commission’s figures, the Allen report found an increase of 12.2% in non-residential construction industry multifactor productivity in the five years to 2007. The Allen report notes a “*more harmonious industrial relations environment has been conducive to greater productivity of both labour and capital and hence multifactor productivity has grown quickly*” in the non-residential construction industry.

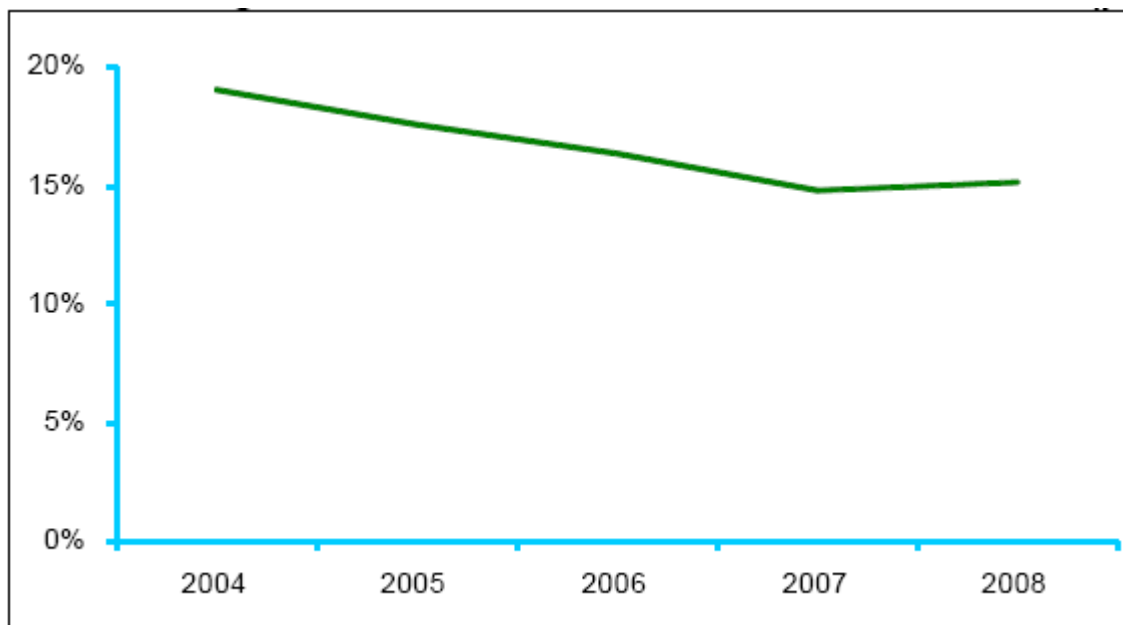
Productivity - Cost Comparison –Commercial versus Domestic Residential Comparisons

The ABCC has jurisdiction in the commercial construction sector. This is because traditionally the commercial construction sector exhibited a strong disregard for the law and a higher level of industrial disputation. These conduct characteristics were not as apparent in the domestic residential sector. Cost data also demonstrated that the cost of undertaking specific tasks in commercial construction was higher than in residential construction. Accordingly, a way of testing the impact of the ABCC on productivity is to examine the relative performance of commercial and residential sectors in undertaking the same building tasks.

Data contained in the Rawlinsons Australian Construction Handbook is used to investigate movements in recent years in the cost comparison between commercial and domestic residential construction for the same building tasks.

Analysis of the Rawlinsons data shows that the cost gap between commercial and residential construction fell from 19% in 2004 to 14.8% in 2007. The cost gap rose slightly in 2008 to 15.2%. Overall, an improvement of 3.8% since 2004. See table below.

Average Cost Difference Between Commercial Building and Domestic Residential Building for the same Tasks for 5 States, 2004-2007 (per cent)



Source: Econtech estimates.

The updating of the cost comparison analysis is changed in four main areas:

1. The recently released Rawlinsons data for 2008 is used.
2. The base year for comparisons is changed to remove the effects of an apparent break in some of the data series from 2003 to 2004. Some of the cost series spiked at the time of the series break in stark contrast to steady moderate increases over other years. More generally, there appears to be a discontinuity in some of the data collected up to 2003 and the data collected from 2004 onwards. To remove this discontinuity or series break, the updated report uses 2004 as a base year.
3. Econtech reviewed its use of the Rawlinsons data and removes anomalies. In the 2007 report some data was inadvertently juxtaposed in manually extracting it from Rawlinsons hard copy publications. The recording of incorrect data for 2007 has been rectified.
4. The number of building tasks used for the comparison is reduced from eight to six. The building tasks removed are corrugated zinc roofs and single skin face brick walls. They are considered to be not as important to the commercial sector as the six remaining tasks.

Econtech refutes the methodology adopted by a study commissioned by the CFMEU in 2007. The study was critical of the 2007 Econtech report. The collector of the raw data, Rawlinsons, agrees with the Econtech refutation.

Productivity - Individual Project Comparison

To assist Econtech to understand the sources of the productivity gains in the construction industry, Econtech interviewed a senior representative of four construction companies for the 2007 Report. Econtech also refers to a 2006 report on cost of the EastLink project by Ken Phillips of the Institute of Public Affairs. The aim of the analysis was to examine different projects before and after the existence of the ABCC.

The case studies found that reforms to the construction industry and the ABCC have led to:

- a significant reduction in the days lost in the industry due to industrial action;
- less abuse of OH&S issues for industrial purposes;
- proper management of OH&S issues;
- proper management of inclement weather procedures;
- improvement of rostering arrangements (additional flexibility in rostering has effectively increased the number of working days per annum); and
- cost savings stemming from the prohibition of pattern bargaining.

The case studies provided internal data which clearly illustrates a reduction in the number of days lost since industry reforms and the creation of the ABCC.

Lost Time in Case Studies' Projects Due to Industrial Action

Table 2.5 of the 2008 Econtech Report

| | Type of Project | Pre/Post ABCC? | Av. Days Lost (per year) |
|-----------|--------------------------|----------------|--------------------------|
| Project 1 | Office building | Post | 1.1 |
| Project 2 | Office building | Pre | 20.7 |
| Project 3 | High Density Residential | Post | 1.7 |
| Project 4 | High Density Residential | Pre | 29.4 |

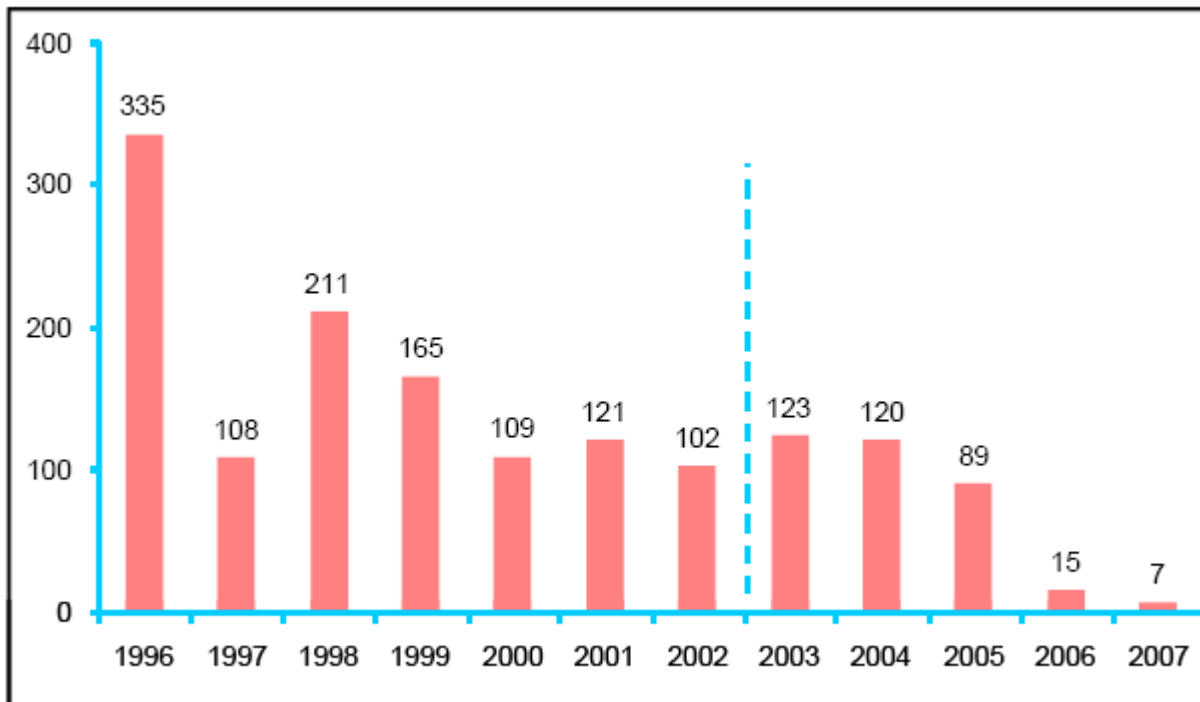
Source: Information provided by Companies 1 and 2.

Notes: Assumes 1 day= 8 hours.

ABS figures also demonstrate a remarkable reduction in the number of days lost to industrial action in the construction industry.

Working Days Lost in Construction Due to Industrial Action ('000)

Chart 2.4 of the 2008 Econtech Report



Source: Industrial Disputes, Australia, ABS (Cat. 6321.0.55.001).

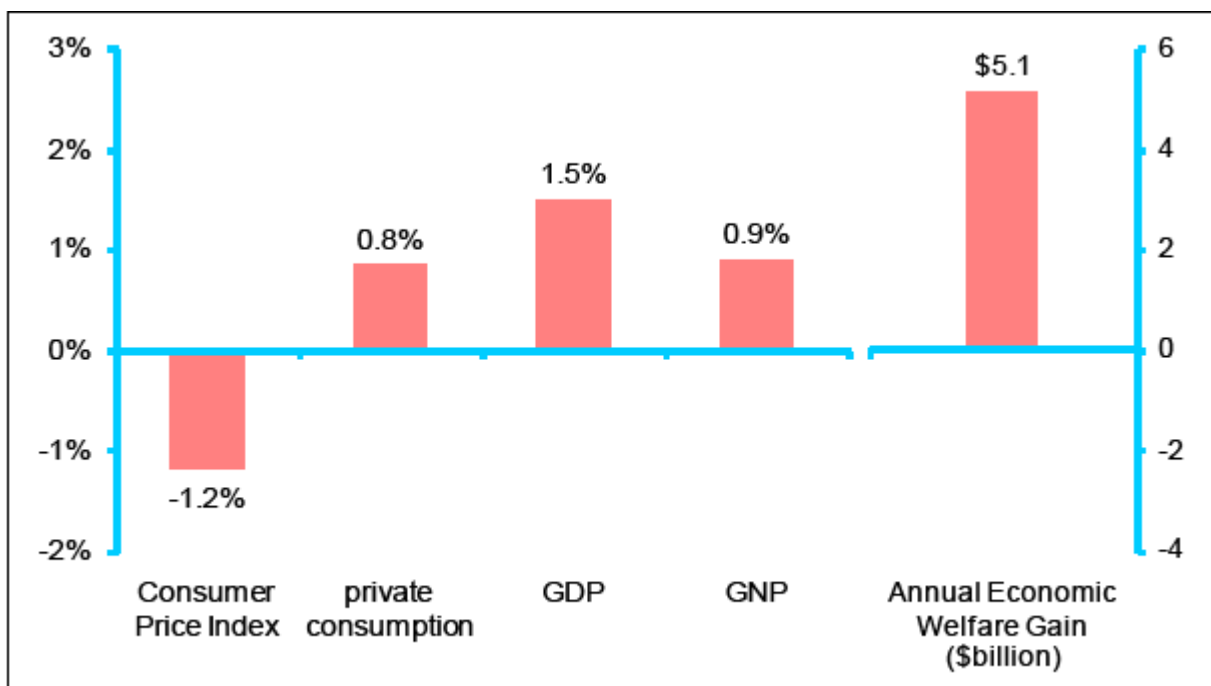
The case studies suggested that there were three main sources influencing the improvement to the industry:

- the BCII Act establishing various prohibitions;
- the ABCC's extensive powers of investigation and prosecution; and
- the National Code of Practice for the Construction Industry which provides a powerful commercial incentive to comply with the principles of freedom of association.

Economic Impact of the Activities of the ABCC

Econtech uses economic modelling to ascertain the long term economy-wide impact of the ABCC's activities. The most striking findings are in relation to the national macro-economic effects. The economic modelling suggests that the productivity gains in the construction industry give improved outcomes in a number of indicators compared to what otherwise would be the case in the absence of the ABCC and associated reforms. The updated report reaffirms significant benefits in the CPI, GDP and consumer living standards, see graph below.

National Macro-Economic Effects
(% deviation from baseline)
Chart 4.6 in the 2008 Econtech Report

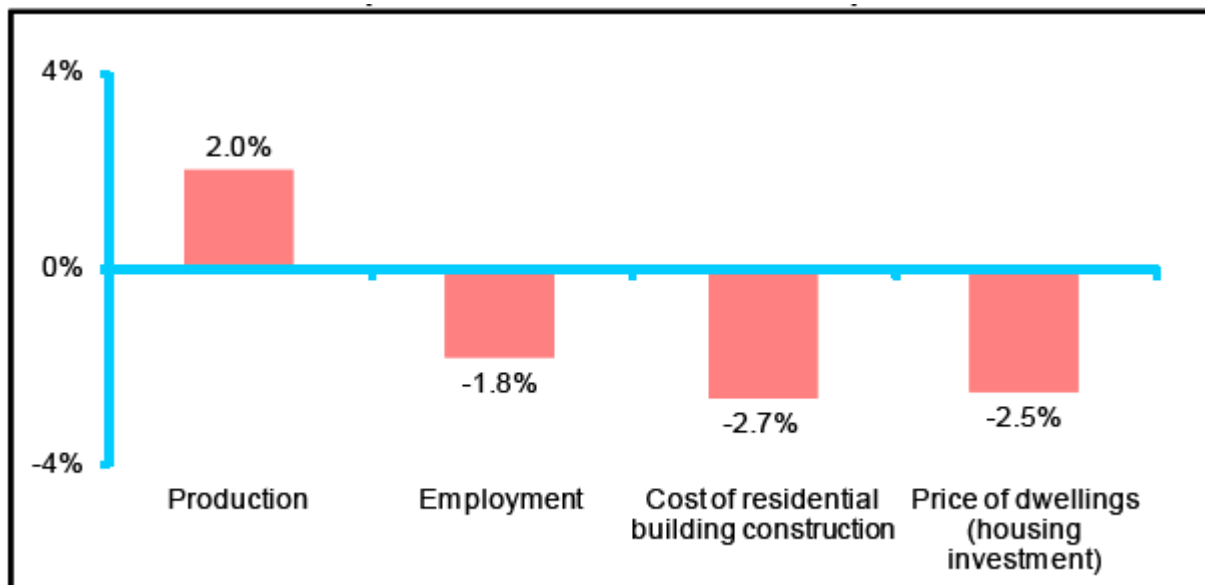


Source: Econtech MM600+ simulation

The increase in productivity stemming from the activities of the ABCC has provided significant permanent gains to the construction industry. The gains in production range from 2.0% for residential building, 2.6% for road and bridge construction, 3.6% for non-residential building to 4.2% for other engineering construction. The cost of production has fallen considerably. The cost of residential building construction is 2.7% lower than it otherwise would be and 6.3% lower for commercial non-residential construction.

**Effect of Increased Efficiency on Residential Construction
(% deviation from baseline)**

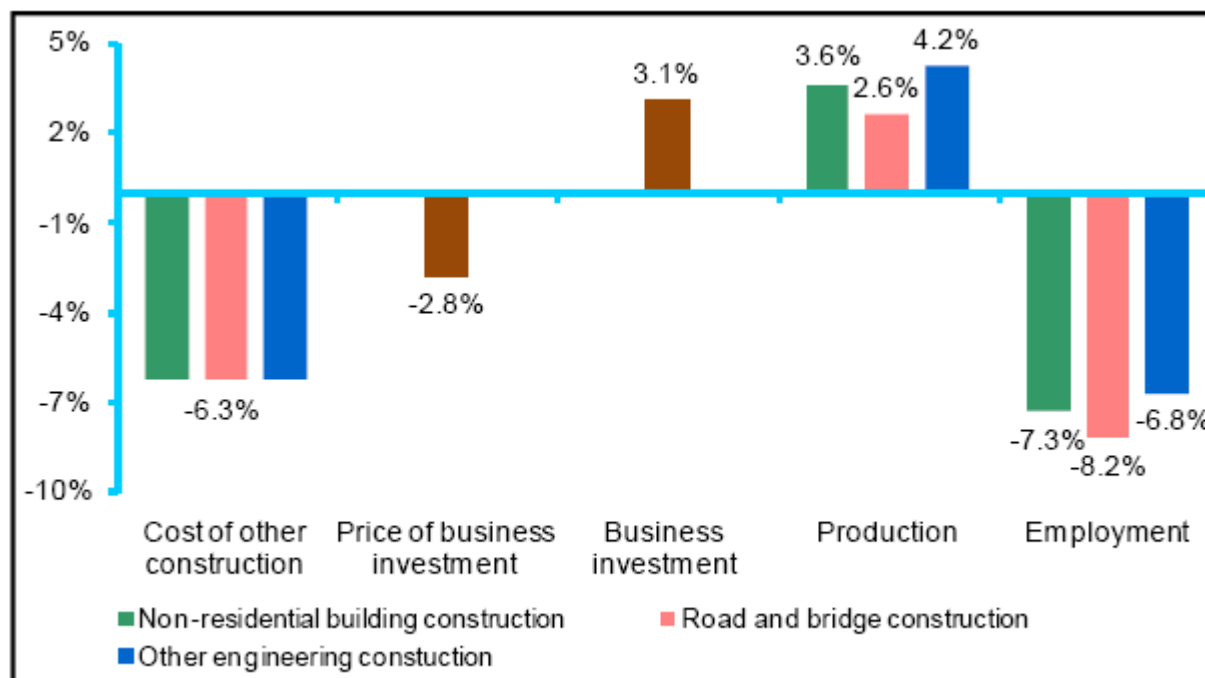
Chart 4.1 in the 2008 Econtech Report



Source: Econtech MM600+ simulation

**Effect of Increased Efficiency on Other (Non-Residential) Construction
(% deviation from baseline)**

Chart 4.2 in the 2008 Econtech Report



Source: Econtech MM600+ simulation