HOUSING INDUSTRY ASSOCIATION

Submission to the

Fair Work Commission

Variation of awards on the initiative of the Commission (AM2020/12)

6 April 2020

HOUSING INDUSTRY ASSOCIATION

contents

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1. INTRODUCTION

1.1. HIA refers to the Statement of the Fair Work Commission (Commission) dated 1 April 2020[1] that sets out a provisional view regarding a proposal to vary 103 Modern Awards (Phase 1 Awards) in response to the unique circumstances pertaining to the COVID-19 pandemic.

1.2. The proposed variations would see Phase 1 Awards varied to:

- Provide all employees (including full time, part time and casual employees) with a new entitlement of up to 2 weeks unpaid pandemic leave; and
- Enable employees by agreement with their employer to take twice the amount of their accrued annual leave at half pay.

1.3. HIA does not oppose the proposed variations.

1.4. HIA has had the benefit of reviewing the submissions of the Australian Chamber of Commerce and Industry (ACCI). HIA supports those submissions including proposals which seek to refine the drafting of the proposed variations.

1.5. The Statement also sets out a number of Modern Awards which are to be excluded from the proposed variations. This includes the *Building and Construction General Onsite Award 2010* (Onsite Award) and the *Joinery and Building Trades Award 2010* (Joinery Award).[2]

1.6. In forming this view, the Commission has relied on two conclusions:

> *'the businesses in these sectors have not been as adversely impacted (to date) by the COVID-19 pandemic as some other sectors. For example the ABS survey reported that 37% of businesses in mining had been adversely affected, compared to 78% of businesses within the Accommodation and food services industry. Further, on the basis of Professor Borland's report, the construction sector is not likely to be affected in the short term; and*
>
> *these sectors do not have a high level of award-reliance and enterprise agreements are relatively common.'*[3]

1.7. The purpose of HIA's submission is to respond to the exclusion of the Onsite Award and the Joinery Award from the Phase 1 Awards and the Commissions reasoning in support of their exclusion. HIA disagrees with both.

1.8. Notwithstanding that home building work in the pipeline is being permitted to continue, the residential building industry is equally vulnerable, along with so many Australian businesses, to the decline in economic activity.

1.9. HIA Economics have developed three scenarios (see Attachment 1) that demonstrate the economic shocks of COVID-19 on the housing industry and while there has been no official 'lock down' many people must now avoid public spaces and situation where they come into close contact with other people. This includes

[1] [2020] FWCFB 1760
[2] See paragraph 109 of the Statement
[3] See paragraph 110 of the Statement

open houses for established homes and display villages for the new home market. With fewer people shopping around there are likely to be fewer sales leads and in all likelihood fewer sales.

1.10. More than 70 per cent of a builder's workforce operates in the pre-construction stages of home building. This workforce is involved in sales, marketing, financing, design, planning approvals, building approvals and contract administration. The lead time for a new home building project to commence from the first client inquiry is generally around 6 months but often longer. It is during this period the pre-construction workforce carry out preliminary works to enable construction works to commence. Client activity has plummeted in March meaning that the pre-construction staff will be without work until new client activity resumes post the COVID-19 crisis. These staff will become unemployed in the coming weeks and retaining them in the business aligns directly with the purpose of the proposed variations.

1.11. To keep all building employees in work action needs to be taken now. On this basis HIA contends that the Onsite Award and the Joinery Award, that apply to the residential building industry, be included in Phase 1 Awards. This approach would align with the aim of the proposed variation and could assist in the retention of several thousands of jobs, ready for work when the industry is called upon to re-activate full new home construction productivity.

1.12. HIA continues to assert that there are many award reliant businesses, particularly small businesses in the residential building industry. Apprentices in the sector are particularly vulnerable at this time. A failure to include the Onsite Award and Joinery Award in Phase 1 Awards not only places those small businesses and apprentices in greater jeopardy but would also create inconsistencies between staff within businesses which may, for example, be covered by multiple awards. For example, a number of businesses in the residential building industry will have employees covered by the *Clerks Private Sector Award 2010* and the Onsite Award.

1.13. The proposed approach that would see the Onsite Award and the Joinery Award excluded from Phase 1 Awards would create a needless inconsistency amongst staff.

1.14. While HIA will endeavour to enter into discussions with other industrial parties about measures to respond to the impacts of the COVID-19 pandemic in accordance with the Statement, HIA submits that the Onsite Award and the Joinery Award should be included in the Phase 1 Awards. The flexibility offered by the proposed variations would be a significant benefit to employers and their employees in the residential building industry during this difficult time.

2. THE RESIDENTIAL BUILDING INDUSTRY

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

2.2. The aggregate residential industry contribution to the Australian economy is over $108 billion per annum, with over one million workers in the construction industry, of which tens of thousands are small businesses reliant on the industry for their livelihood.

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

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

2.5. Independent research by the Centre for International Economics (CIE) shows that for every $1 increase in construction activity, GDP will rise by $4.75 as a result. This clearly has positive implications for employment at the economy wide level. The economic benefits of increases in construction activity are even greater in situations such as the current one where the economy is not at full employment.

2.6. In terms of employment, an extra $1 million of construction expenditure generates 9 construction jobs. The initial effect of the additional $1 million worth of construction is 9 positions in construction-related fields, such as carpenters, brick layers, plasterers, etc. In addition to this initial effect there are also production induced effects generating 7 jobs across those businesses manufacturing the materials needed for the additional construction, such as concrete and steel frames, and those businesses supplying and servicing the concrete and steel frame businesses, such as aggregate quarrying and raw steel production. Not all these jobs are necessarily going to be full time, but clearly the employment multiplier effect across businesses involved in construction or closely aligned to construction is considerable.

2.7. The flow-on or "multiplier" effects of construction activity on the outputs of other industries are well recognised. [4]

2.8. The residential building industry relies very strongly on consumer confidence and is particularly susceptible to economic downturn. Specifically, businesses in the residential construction industry are particularly vulnerable to its cyclical nature and the economic shock that is playing out on the global economy as a result of COVID-19 is having a direct impact on residential building activity, in line with all other parts of the Australian economy.

2.9. The impact on consumer sentiment and spending is already obvious for many members who are sharing feedback that customer enquiries have reduced, contracts cancelled or postponed and in some cases, work has already ceased.

2.10. However the residential building industry's workforce can keep working and is not subject to the same COVID-19 related issues confronting commercial, retail, entertainment and similar industries that operate from offices and within enclosed spaces. Residential building sites are typically small scale, with less than ten workers at any time, on projects that are open to the air, with a workforce that typically travels in private or company vehicles rather than by public transport.

2.11. To that end HIA has developed an industry guideline to assist members manage their worksites in this new operating environment for both new homes (Making Space on Site: an industry guideline to manage COVID-19 on new housing sites) and renovation and repair work (Making Space on Site: an industry guideline to manage COVID-19 for renovation and repair work).

2.12. HIA hopes that following these guidelines will assist members demonstrate their commitment to the ongoing health, safety and security of their sites and workforce, however the implementation of these measures will result in a need for residential building businesses to change and/or scale down their operations impacting employees, including apprentices.

[4] See speech by Christopher Kent, Assistant Reserve Bank Governor for a summary of the importance of housing to the Australian economy: http://www.rba.gov.au/speeches/2013/sp-ag-140313.html

3. THE IMPACT OF COVID-19 - THE NEED FOR FLEXIBILITY NOW

3.1. The construction industry employs one in eleven people, and their fortunes are not immune to the fallout from external economic shocks.

3.2. While HIA does not rule out the need for further and more extensive temporary variations to the Onsite Award and the Joinery Award, the economic modelling suggests that businesses in the residential building industry will be making staffing and other business decisions based on a predicted significant down turn in activity. Without any form of mitigation, this could result in extensive layoffs instead of a 'bridge' across this pandemic, and a prolonged slump instead of a V-shaped recovery. Decisions need to be made today for when this fallout reaches on-the-ground activity. The risk of inaction is that another one of Australia's key industries ends up in freefall, well after the health crisis is over.

3.3. The construction industry is quite unique with respect to the lagged nature in which it responds to economic shocks. The industry's work extends over such a long time between sale and completion that a major economic shock may not translate into reduced activity on the ground for a number of months.

3.4. Australia's last recession in the early 90s – the 'recession we had to have' – was such an occasion. The 'Black Monday' Wall Street crash that occurred in October 1987 didn't translate into a sharp drop in Australian home building activity for around two years.

3.5. Similarly, the global financial crisis began with the collapse of the US sub-prime market in the second half of 2007, while Australian detached home building didn't drop until the September quarter 2008, the following year – multi-units not until the December quarter.

3.6. Even the Asian Financial Crisis, beginning in July 1997, didn't appear to reach Australia's detached home building market until the September quarter the following year, multi-units not until the December quarter.

3.7. The reason for the lag in previous shocks is due to two factors: Firstly the volume of work in the pipeline and second the nature of these previous shocks.

3.8. There is typically a 3-4 month lag between the time when a contract is signed and finance is gained to build a new home, and when a building approval (permission from local council) is granted. There is then typically another 3-12 month lag before work commences on site. This lag varies depending upon the volume of work entering the pipeline and the volume of work being completed.

3.9. The pipeline for home building across Australia at present is highly variable. Melbourne entered 2020 with a significant volume of building work yet to be undertaken while the Northern Territory and Western Australia are in sustained troughs with little or no work in the pipeline.

3.10. The nature of this shock also means its impact is likely to flow through to the building and construction sector faster than previous economic shocks. This is because governments are largely 'getting in front of it' by drastically curtailing international trade and immigration and implementing widespread shutdowns of industry and quarantining of people. Social distancing restrictions are inevitably affecting open houses for established homes and display villages for the new home market. With fewer people shopping around there are likely to be fewer sales leads, and in all likelihood fewer sales.

3.11. Other industries like tourism, hospitality and events may be feeling the early effects of the pandemic immediately and more fully but by the time the fallout reaches the construction industry, measures already need to be in place to support activity. They need to have been put in place before the industry looked to be significantly suffering – something that is harder to justify than for an industry that suffers immediately.

3.12. As this shock is caused by Government intervention into the market it is best to consider the impact of similar government actions. The introduction of the GST caused a significant downturn in building activity and this impact could be observed without any lag – even before the shock, in its anticipation. The Hayne

Royal Commission reported in February 2019 and it immediately impacted the flow of work into the building pipeline.

3.13. Given the lag between when a client signs to purchase a new house and land package, and its completion, the industry is required to make employment decisions at least six months in advance. The industry is making decisions right now regarding its employment arrangements for the rest of the year and into 2021.

3.14. Homes that commence construction in April 2020 will not be completed until December 2020. Given the economic uncertainty that emerged in March, the decision to build is increasingly risky.

3.15. If the impact of this shock is comparable to the GFC or the 90s recession then we could see detached house commencements contract by up to a third and multi-unit commencements by over half. This is on top of the 20 per cent contraction that has occurred over the past two years.

3.16. Recent data on construction industry trades also provides insight into potential labour market impacts. By mid-2018, there were widespread skills shortages in the construction industry as activity peaked in major eastern states housing markets, tightened further by State infrastructure pipelines. Over the course of 2019 as home building commencements were estimated to have contracted by more than 20 per cent, many of these skills shortages were alleviated and the market was approaching a new equilibrium. Another 20+ per cent contraction in home building activity would turn this equilibrium into broad skills surpluses, resulting in many idle workers across the industry.

3.17. There is also a risk that the recovery will not be entirely V-shaped, despite the Australian government doing its utmost to maintain workers' connections with their employers, and support employers across the 'bridge' too. Industry may be unable or unwilling to get back to 'business as usual' immediately following the pandemic, with workers only cautiously reabsorbed. The RBA also does not have the ammunition that it had in previous downturns to support the housing industry. Based on comparisons of previous shocks and without appropriate support from fiscal policy that directly includes the housing industry, we could be approaching 2023 before a recovery in home building is comfortably underway.

Employers in the Residential Building Industry have been affected

3.18. Given that COVID-19 is spread by social contact, the social network and personal activities of an individual will most likely be more relevant to exposure that their place of work. Therefore drawing artificial distinctions between industry sectors through award coverage is largely unhelpful in the current circumstances.

3.19. Through its Group Training Organisation, HIA employs apprentices and places them with host employers in the residential building industry. A number of HIA apprentices have been affected by Coronavirus which has impacted their work arrangements and the businesses of their host employers.

3.20. In a number of cases apprentices have either returned from overseas, been in contact with someone from overseas or if they are based in South Australia and have been out of the state have been required to self-isolate for 14 days before returning to work.

3.21. In one case, an apprentice returned from overseas and was required to self-isolate. During the 14 days isolation the apprentice's wife and father-in-law have tested positive for COVID-19. While the apprentice has tested negative at this stage he remains in isolation and has not been to a site since returning home to Australia in February.

3.22. There has also been numerous examples where someone on site has reported symptoms e.g. a sore throat and the host and apprentice have gone into isolation until the person is confirmed not to have COVID-19. Currently these apprentices have been asked to use personal leave but in some cases these apprentices will not have enough accrued leave entitlements.

3.23. The media is also reporting on the actions of businesses in the residential building industry regarding varying pay and working conditions. For example, BGC WA's biggest residential builder is cutting the salaries of senior executives and asking staff to take voluntary reductions in wages (see Attachment 2).

3.24. When the circumstances trigger it, an individual must comply with the Governments directions regarding self-isolation. Under these difficult circumstances having certainty regarding the options, from an employment perspective, to respond to the Government requirements would certainly relieve some of the stress and pressure that is undoubtedly being felt by the residential building industry.

4. CONCLUSION

4.1. This submission demonstrates the adverse impact, both economically and on an individual basis that COVID-19 is having on the residential building industry. On this basis HIA sees no reason why the sector, through the inclusion of the Onsite Award and the Joinery Award in the Phase 1 Awards, should not benefit from the proposed variations.

4.2. As indicated at the outset, HIA will have discussions with other industrial parties with the view to a consent position on the proposed variations. However, if these discussion are unsuccessful HIA submit that the Onsite Award and the Joinery Award be included in the Phase 1 Awards and varied as proposed by the Commission in its Statement.

4.3. To that end, if the Commission wishes to inquire into these matters further, HIA would be happy to appear during a hearing, should one be necessary.

ATTACHMENT 1

Economic Shocks and The Housing Industry: Three Scenarios

March 2020

ECONOMICS

CONTENTS

Background

How will the COVID19 crisis impact the housing market?

As uncertainty spread and financial markets took a dive, consumer sentiment plummeted. The current health crisis is creating an economic crisis that right now has no clear end point, but what is obvious is that it will be detrimental for household consumption growth and that will be a significant drag on Australia's GDP growth. The question is, what does this mean for the housing market and for new home building?

Housing is a long-lived asset and decisions around home ownership are not typically made quickly or flippantly. It is likely that the vast majority of households who were considering buying a home prior to the COVID-19 crisis will still do so, but the economic interruption will affect timing. This will be caused partially by financial/economic factors and partially by behavioural factors.

While there hasn't been an official 'lockdown' many people are voluntarily avoiding public spaces and situations where they come into close contact with other people. This is likely to include open houses for established homes, and display villages for the new home market. With fewer people shopping around there are likely to be fewer sales leads, and in all likelihood fewer sales.

Many businesses are already feeling the pinch from the reduction in consumer demand. Businesses in the tourism, hospitality and the events sectors are at the coal face. Many businesses are already taking action to limit losses and many are looking to reduce their wage bill. As in previous periods of economic contraction, this means cutting down hours worked.

Given that the interruption is expected to be short lived, it is likely that most businesses will aim to retain their workforce and reduce their wage bill by shifting workers from full-time to part time hours, rather than reducing their headcount. This was seen during the global financial crisis to be an effective, albeit painful, way to retain good people. A reduction in hours for full-time workers has flow on effects on the hours worked by part time and casual workers. In this environment the rate of job creation will slow considerably.

Conditions in the labour market will deteriorate as job creation slows and the number of hours worked drops, but it is unclear how this will affect the unemployment rate. Concern around the risk of infection, particularly amongst older people, may see a reduction in workforce participation as more opt for social isolation rather than working. This could see a partial or temporary reversal of the recent growth in workforce participation.

Travel restrictions are also likely to mean that the number of overseas workers arriving in Australia will be down compared with the trend over recent years.

These two factors are likely to mean that while there are fewer jobs being created, the size of the Australian workforce (i.e. the number of people willing and able to work) will grow at a slower rate.

For workers in the industries hardest hit by the drop in demand, reductions in work hours will create financial strain and affect their perception of job security. Both factors are likely to mean that buyers who would have been in the market for a home, both new and existing, will put off making decisions about major purchases.

In times of financial market volatility many investors feel compelled to redirect funds from high risk to low risk asset classes. In the universe of global investments, local residential property is considered a relatively low risk asset class.

Investors have been largely absent from Australia's residential property market in recent years. This coincided with a tightening of credit markets and a downturn in property prices between mid-2017 and mid-2019. It also coincided with a period where equity markets recorded substantial growth. The stabilisation in property markets since mid-2019 and the recent destabilisation in financial markets may lead more investors back to property.

While we might see some investors returning to the property market, it is likely that the drop in demand from owner-occupiers will be the more prevailing factor. The drop in demand is likely to see a drop in transaction activity in the established home market and a drop in sales of new homes and off-the-plan apartments.

Provided that the constraints on trade and commerce prove to be a temporary phenomenon, the recovery should see those who deferred buying a home during the crisis return to the market. The pace that this occurs will be determined by the depth of the economic slowdown. If the downturn is more prolonged than expected then the drop in demand for residential building today will result in a drop in residential building activity, which will then create another drag on economic growth. Around 10 per cent of Australia's workforce are employed directly in construction so a slow-down in residential building would be broad reaching.

This is the big unknown and it will be highly dependent on how well policy makers can respond to the challenges. Unlike the GFC, the cash rate is already at record low levels. When interest rates were slashed in the aftermath of the GFC it left more money in households' pockets which ended up being spent elsewhere and generated additional demand in the economy. Further cuts to the cash rate from this point or the implementation of 'quantitative easing' will have only marginal (if any) impact on mortgages rates. The monetary policy lever still has a role to play in maintaining a well-functioning financial system but it has limited capacity to boost household spending this time around.

This leaves fiscal policy to do the heavy lifting. The Prime Minister and Treasurer may lament the fact they now won't deliver the promised budget surplus, but the conservative fiscal stance throughout the Abbott/Turnbull/Morrison era has still strengthened the Commonwealth's balance sheet meaning there is sufficient fiscal capacity to respond.

A range of stimulus measures have already been announced, but these are targeted policies with a narrow focus. Further stimulus measures are likely to be necessary and these will need to be broad based. Bringing forward the legislated income tax cuts will put more money in the pockets of households and is an option worthy of consideration.

The number of new homes built has already dropped by over 30 per cent over the last two years due at least in part, to tighter lending criteria imposed on the banks by financial regulators. On its own this has placed some pressure on builders and product manufacturers.

Measures to bolster demand for new homes have the advantage not only of stimulating a sector that employs one in ten workers, creating lasting assets but as the bulk of building components are manufactured locally, it supports a wider group of businesses. The risk of inaction is that another one of Australia's key industries ends up in freefall, well after the health crisis is over.

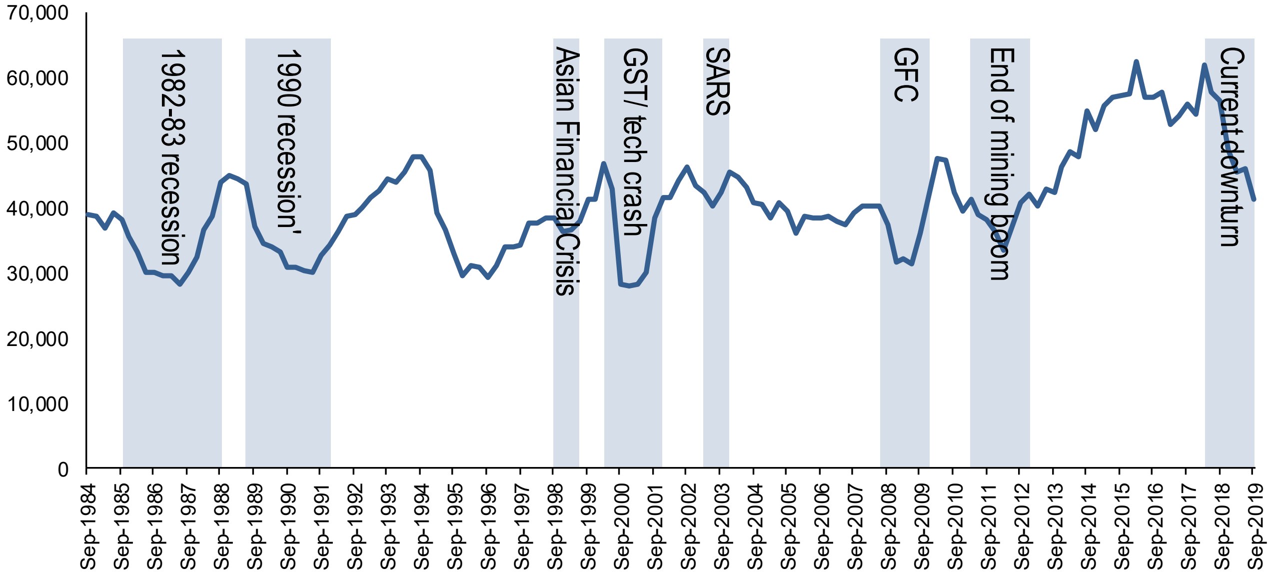
Three Scenarios

In February 2020, HIA published a forecast of the number of new homes to be built for the next three years. We no longer believe that these forecasts are accurate. Data to date continues to show that economic growth was gaining pace and that new home building commencements had ceased their decline and had started to stabilise are relatively strong levels.

To determine the length and magnitude of this shock we have reviewed previous shocks to the economy which form three different scenarios of the level of new home starts over the next three years. These are not forecasts, rather they provide a range of possibilities, but not probability. In coming weeks we will revise our forecasts for new housing commencements for 2020/21 and aim to provide more certainty.

The chart below highlights a number of downturns in the housing market. The causes of these shocks are varied as is the depth of each impact. For example, the 1990s recession adversely impacted home building as weak economic activity led to slower population growth. The impact of the GFC on the other hand was an exogenous global shock. Each event impacted the housing market to differing degrees and with different timing.

Total Commencements, major events
Source: ABS



Lag, Length and Magnitude

In looking at these scenarios there are three criteria that we are analysing. The lag, length and magnitude of each shock are the features that are relelvant in this analysis.

Lag: It took almost nine months from the initial events of the Global Financial Crisis to impact the number of new homes that commenced construction in Australia. This reflects two factors: the nature of the shock and the volume of work in the home building pipeline at the time. In the case of the GFC, the lag was due to the shock not having been anticipated and taking some time to flow through to domestic demand. At the time, there was only a small pipeline of building work.

At the other end of the spectrum, the introduction of the GST hit the home building market before the new tax arrangements even came into place, as the market pre-empted the change. The relatively strong pipeline of work in the industry and stimulus measures eased the impact of the shock.

Currently, there are varying volumes of work in the building pipeline across each jurisdiction. Victoria remains exceptionally strong and the lag from shock to impact will be longer in Victoria as a consequence. This could also mean that – as was seen during the 'credit squeeze' in 2018 – the market starts to improve before there is a material deterioration in commencements.

On the other hand, Western Australia and the Northern Territory have very little work in the pipeline and this exogenous shock will hit their markets within three months, perhaps as early as July 2020.

Queensland also has a relatively short pipeline of building work at present after a number of years of underwhelming activity. Given the reliance on tourism for economic activity, Queensland is likely to experience this shock sooner and to a greater degree than most states.

Length: The length of each shock reflects the state of the economy prior to the shock and the impact of government intervention into the market. The 1990 recession occurred after three years of slowing economic activity and did not involve specific intervention to stimulate demand for new housing construction.

At the other extreme, the GFC occurred when the economy was growing strongly and it involved significant direct assistance to new home building, small business and the renovation market. As a consequence, the housing market bounced back very strongly two years after the event.

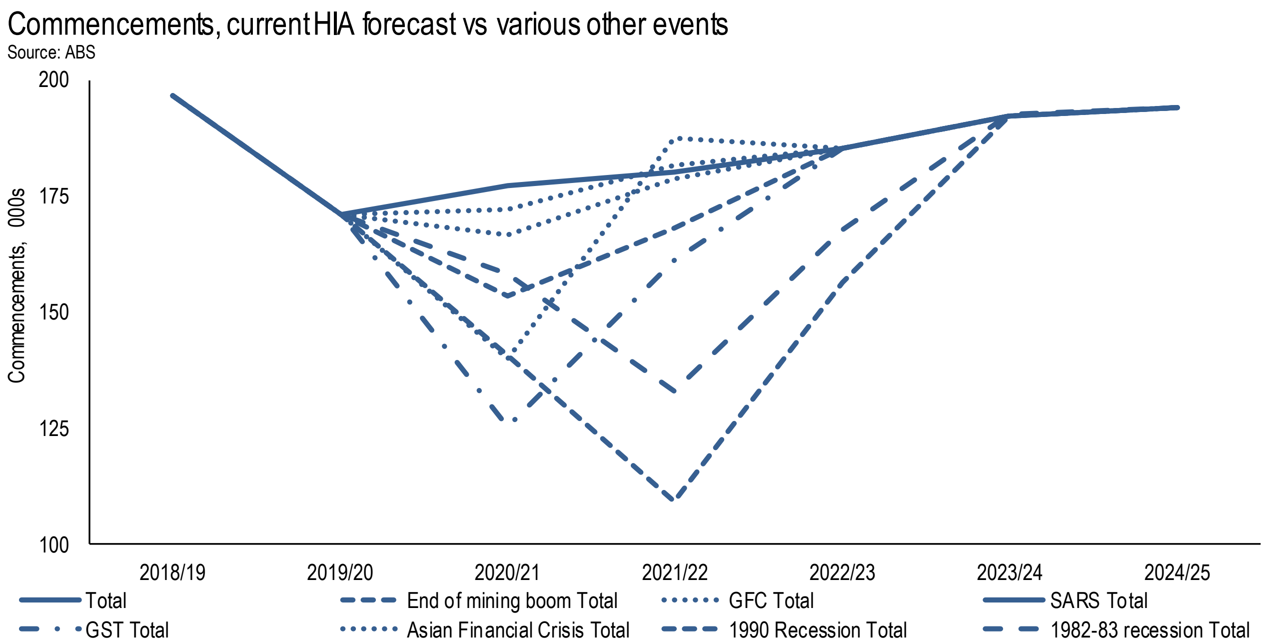
Magnitude: The magnitude of events is generally dependent upon the impact on GDP, wage growth and population growth.

In the three scenarios below, all begin with the assumption that economic growth will return to 3.5% and 1.6 per cent population growth by 1 July 2022. These are exceptionally ambitious assumptions that are intended to show the relative impact of each shock, not forecast future activity.

The share of the new home market split between detached and multi units has changed significantly over the past decade. Prior to the GFC multi-units were lower than 10 per cent of the market and grew to around 30 per cent of a much larger market by 2016.

Regardless of this, every shock has impacted multi-unit starts more significantly than detached housing starts. This reflects, in part, that they are more likely to be owned by investors and first home buyers who are more sensitive to changes in economic conditions and sentiment.

As the share of multi-units has grown, total housing commencements have become increasingly sensitive to changes in economic conditions. For this reason, the scenarios below assume a decline in detached and multi-unit homes in the same propositions as seen during the GFC.



Scenarios

Low Impact Scenario: If SARS was to have occurred in February 2020

The SARS outbreak has similar characteristics to the current economic shock in that they both led to unanticipated constraints on trade and tourism.

There was no lag as the impact on homebuilding occurred just three months later. This reflects the low level of activity preceding the event and other factors. The impact on multi-unit starts was almost double the impact on detached home building, despite being a relatively small share of the new home market.

The magnitude of the SARS outbreak was relatively small. It occurred when economic activity in Australia was accelerating with the support of mining sector investment.

The SARS shock, along with the Asian Financial Crisis were similar in length, both weighing on commencements for a single quarter before the building returned to its pre-shock level of activity.

Outcome:

- Starts fall to a low of 166,600 in 2020/21.
- Starts then rebound as the economic activity recovers.

Medium Impact Scenario: If the Global Financial Crisis were to have occurred in February 2020

The GFC evolved over a number of months and there was a nine month lag between the initial events and an impact on leading housing indicators. The GFC will not be instructive in forecasting the lag experienced in leading housing indicators in 2020.

The magnitude of the GFC shock to the new home market, exceeded all previous shocks, with the exception of the 1990 recession.

The impact was relatively short lived due to significant government stimulus for new home construction.

Outcome

- Starts fall to a low of 139,740 in 2020/21
- Starts then rebound the following year due to the impact of significant stimulus measures aimed at the residential building industry.

High Impact Scenario: If the 1990's recession were to have occurred in 2020

The nature of this shock is distinctly different from the current (unanticipated and exogenous) shock experienced in 2020. This recession was widely foreseen, occurred at a time of high interest rates, and was preceded and followed by an era of slow economic growth and high unemployment.

This recession did not prompt any significant stimulus for the construction of new homes.

Importantly, this recession occurred when annual population growth was around 1 per cent and fell as low as 8.89 per cent in 1993. It is for this reason that the 1990 recession is relevant.

With population growth slowing over recent years, down from 1.65 per cent in September 2017 to 1.48 per cent in September 2019, there is already lower demand for housing, particularly units in capital cities. The pent-up demand has already been satisfied, if the population growth rate and thus underlying demand falls further, there is the chance of an even more significant downturn in unit construction. The impact on employment (hours worked) and the wider housing market would be significant.

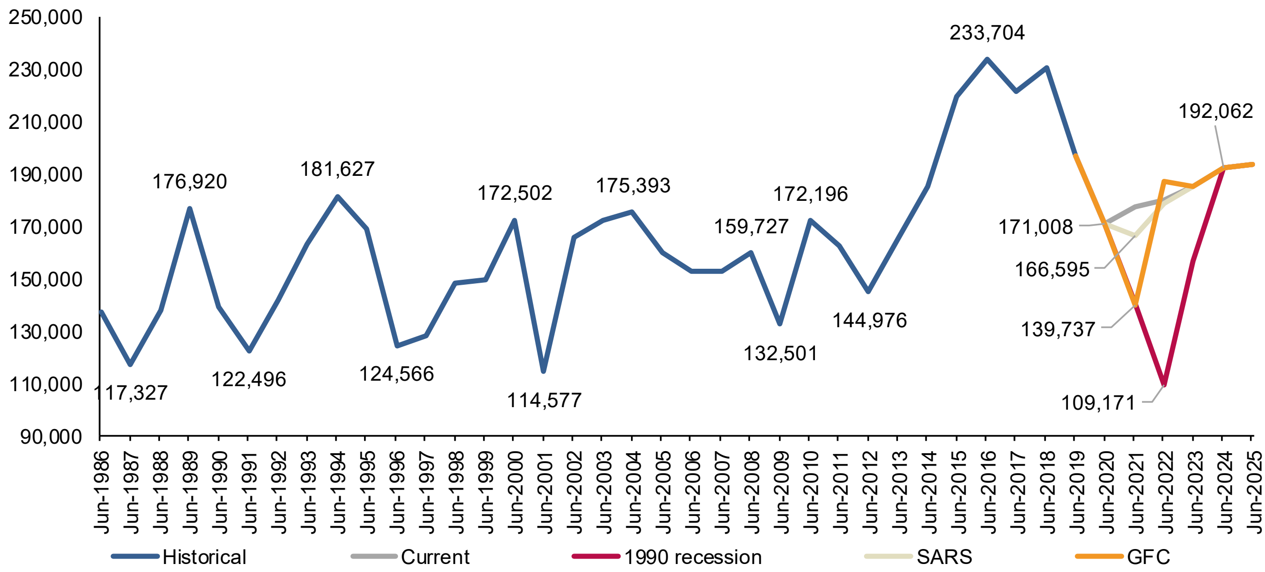
Outcome

- Starts fall to 140,580 in 2020/21
- Starts continue to fall to 109,170 in 2021/22

- The absence of stimulus measures and low levels of economic activity see the market remain depressed.

Total commencements, annual

Source: ABS



	Outlook Pre-Shock			Low Impact (SARS)			Medium Impact (GFC)			High Impact (1990 Recession)		
	House	Multi	Total	House	Multi	Total	House	Multi	Total	House	Multi	Total
2019/20	100.04	70.97	171.01	100.04	70.97	171.01	100.04	70.97	171.01	100.04	70.97	171.01
2020/21	101.39	75.75	177.14	100.09	66.51	166.6	85.93	53.81	139.74	87.8	52.79	140.58
2021/22	102.75	77.39	180.14	102.75	75.9	178.65	100.95	86.47	187.42	72.97	36.2	109.17
2022/23	104.35	80.98	185.33	104.35	80.98	185.33	104.35	80.98	185.33	91.93	64.59	156.51
2023/24	106.63	85.43	192.06	106.63	85.43	192.06	106.63	85.43	192.06	106.63	85.43	192.06

For the purposes of this exercise we have assumed that:

- The 2020 shock is not apparent until July 2020 or later. This reflects varying conditions and work in the pipeline across the states and territories: in particular conditions had been improving in key markets of NSW and Victoria while the markets of Queensland and Western Australia have not been as strong and are likely to see this shock reduce activity before July 2020.

- Underlying economic conditions remain solid. That includes economic growth around 2 per cent and population growth at 1.53, as per conditions in February 2020. These are wildly ambitious assumptions and explain why under each scenario new housing commencements return to our forecasts by July 2023.

These are assumptions, not expectations.

Conclusion

Economic Indicators to Monitor

The leading indicators that reacted strongly and quickly during these benchmark events were retail trade, building approvals, hours worked, housing credit growth and/or dwelling prices. By early May, we will have all of these indicators up to and including the month of March (even April for dwelling prices).

The following are the key trigger points we believe will be instructive:

- **Low Impact Scenario:** If the indicators only appear to be marginally affected, we may have only a SARS-level impact, which result in an 8.9 per cent fall in detached starts over just three months and a 16.6 per cent fall in multi-unit approvals over nine months.

- **Medium Impact Scenario:** If house prices and hours worked actually start falling and housing credit growth stops climbing, we could be in for a GFC-scale event where detached starts fall by 20 per cent and multi-unit starts fall by almost 40 per cent, both over the course of nine months.

- **High Impact Scenario:** If retail trade undergoes a monthly contraction of around -1.0 per cent or worse, we may be looking at the worst-case scenario of a 1990 recession-scale event where detached dwelling starts fall by over 30 per cent over 18 months and multi-units – which are much more significant now than 30 years ago – are expected to fall by almost 60 per cent over 15 months.

These are the criteria we will be monitoring to re-forecast commencements. Unfortuantley these indicators are lagged.

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ATTACHMENT 2

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Coronavirus crisis: BGC cuts exec salaries by 40 per cent with frontline staff asked to reduce hours

Josh Zimmerman The West Australian
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Josh Zimmerman

BGC has announced it will slash some salaries by up to 40 per cent as a result of the coronavirus pandemic. Credit: Martin Farquharson/supplied

WA's biggest residential builder BGC has slashed the salaries of senior executives by 40 per cent amid a drastic downturn in demand for new builds in the midst of the pandemic.

Fees for the company's seven directors — including late founder Len Buckeridge's two sons Sam and Andrew and stepson Julian Ambrose — have also been suspended.

The West Australian understands the sale of new home and land packages at BGC has come to a standstill in recent weeks.

BGC chief executive Daniel Cooper said the company was enacting measures to “maintain a strong and sustainable business employing Western Australians through these challenging times.

“A range of actions are currently being implemented including the suspension of all directors’ fees and a 40 per cent reduction in the salary of all senior executives until May 31,” he said.

It is understood that some frontline BGC staff have been contacted about voluntarily reducing their hours by as much as 40 per cent.

Mr Cooper said reductions to the hours of other staff “across the company’s various business units” would be assessed on a “case by case basis in coming weeks as the financial impact of COVID-19 is assessed”.

Mr Cooper said BGC’s residential construction work continued across WA “with all members of our workforce complying with government COVID-19 guidelines”.

“We are working closely with the Housing Industry Association, the Master Builders Association and the State Government to ensure residential construction jobs are maintained and our workforce stays safe,” he said.

Founded in 1960, the family-owned Buckeridge Group of Companies has grown into a building products and construction empire employing more than 4000 staff across the country.