



**MASTER BUILDERS
AUSTRALIA**

**Submission
to the
Productivity Commission
on
Economic Impacts
of Migration and Population Growth**

September 2005

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building australia



1. INTRODUCTION

- 1.1 This submission is made by Master Builders Australia Inc (Master Builders).
- 1.2 Master Builders represents the interests of all sectors of the building and construction industry and consists of nine State and Territory builders' associations with approximately 28,000 members.
- 1.3 Building and construction contributes around 6 per cent of annual GDP and 8.5 per cent of Australia's total workforce. The industry provides a major underpinning of general economic activity and employment as a result of important and widespread linkages with the rest of the economy.
- 1.4 Construction contributed \$90 billion of work done in 2004-05 and at August 2005 employed over 860,000 people. Residential construction is the largest of the three distinct sectors within the industry, undertaking work amounting to \$38.5 billion; followed by civil and engineering construction with a turnover of \$32.2 billion; and commercial and industrial construction at \$19.8 billion.

2. PURPOSE OF THIS SUBMISSION

- 2.1 As noted in the Issues Paper, productivity growth is a major driver of improvements in real per capita living standards, so there is value in identifying ways in which population growth and human capital aspects of migration can affect productivity.
- 2.2 This submission outlines Master Builders' policies regarding the contribution to productivity that a properly targeted immigration program can engender. We then proceed to address some specific questions raised in the Productivity Commission's August 2005 Issues Paper.

3. IMMIGRATION AND ECONOMIC GROWTH

- 3.1 Australia's population growth is slowing and this has major implications for labour force growth and hence GDP growth in the future. With the fertility rate as yet showing no signs of reversing its downward trend, Australia's long-term supply of labour will be crucially dependent on immigration. Continued, properly structured, immigration must therefore be a central platform of a broad strategy aimed at addressing stagnation of the workforce.

- 3.2 Master Builders advocates a higher level of immigration as an important component in boosting Australia's long-term economic growth. Master Builders has long argued that an overall program in excess of 100,000 is clearly sustainable and in Australia's long-term interest, especially in light of the findings of the Government's 2002 Intergenerational Report. Properly targeted immigration brings many social and economic benefits to Australia. It adds to the supply of skilled labour, increases accumulated savings and contributes to domestic investment and expanded domestic consumption.
- 3.3 Higher immigration levels can redress the risks to Australia's economic performance from an ageing population by slowing the demographic transition. It is acknowledged that immigration cannot prevent the ageing of the population, per se, but it can lift Australia's economic growth potential over the medium to long term.
- 3.4 Master Builders advocates a medium term approach to setting immigration targets, rather than their annual allocation, to provide for greater predictability in planning for government, community and business.
- 3.5 As well as overall higher levels of immigration, Master Builders advocates a bias towards increasing the skilled stream. Studies have shown that these groups of migrants have made a positive economic contribution and only experience a short unemployment period after arrival, if at all.

4. IMMIGRATION AND THE CONSTRUCTION INDUSTRY

- 4.1 The future of the building and construction industry will depend on a number of interrelated issues, including: changing demand patterns, productivity, demographics and the ageing of the workforce. Workforce needs of the industry will, of course, depend on future activity in an industry which is not only prone to cyclicity but is also subject to major socio-economic change.
- 4.2 On standard assumptions, Australia's labour force will stagnate within 25 years. In addition, so-called 'baby boomers' are starting to retire and this will exacerbate skill shortages. These phenomena will have a significant impact on the building and construction industry where it is estimated that 80,000 skilled tradespersons will exit the workforce over the next five years due to ageing.

- 4.3 There are currently an insufficient number of new entrants into the industry to make up this shortfall. Skilled migration must be actively considered as part of a range of policy initiatives to ensure the adequate supply of skilled labour in the building and construction industry in the medium to long term.
- 4.4 Master Builders has in the past advocated not only an increase in migration to supplement its domestic workforce but a targeting of skilled tradepersons and professionals who can assist in partly relieving the skill shortages that are prevalent in the industry today.
- 4.5 In addition to the need to attract skilled migrants to Australia, there is a need to ensure that the processes and practices that are used to formally recognise the skills of potential migrants are simple and practical. Master Builders is cognisant of the need to ensure that potential migrant tradespersons are able to meet the licensing needs of their trades. However, the licensing requirements not only vary across Australian States and Territories but also across the globe. As such there is a need to develop recognition practices that allow for these variations and provides for the opportunity for migrants to upskill in an Australian setting to take account of the core skills that they already possess.
- 4.6 We believe that the Productivity Commission's work in this reference should include the compilation of a matrix of the plethora of skills recognition mechanisms with a view to implementing recommendations for a uniform Australia-wide system.

5. DEMAND FOR AND SUPPLY OF NEW WORKERS

- 5.1 The Australian Bureau of Statistics estimates that employment in the construction sector was 864,000 in August 2005. Given that activity may be at or close to reaching a peak, a period of more moderate employment growth on average is likely over the next 5 years. Medium term developments are difficult to predict, but the cycle in prospect is likely to be milder by comparison with previous episodes. Employment in the construction sector fell by around 15 per cent in the early 1990s recession and by 7 per cent in the 2000-01 downturn.

- 5.2 A period of more moderate output growth of say 2 per cent per annum, coupled with continued productivity growth could realise employment growth around 1 per cent per annum, on average, over the next 5 years. That would result in construction sector employment of a little more than 900,000 in 2009-10, an additional 40-45,000 on current levels. This number would be less to the extent that output growth was lower and/or productivity growth was higher.
- 5.3 Age cohort analysis of the construction industry suggests that 80,000 workers will exit the industry over the next 5 years. Assuming that current levels of new entrants continue over the same period (less than 40,000 over 5 years), the industry would therefore need an additional 40,000 people, or 8,000 people per annum simply to cover the gap, or ageing worker effect on the building and construction industry.
- 5.4 As noted in 4.3, there are currently an insufficient number of new entrants into the industry to make up this shortfall. Most demographic projections have the 20-34 year age group growing only very weakly over the next 15 years. There is therefore likely to be very strong competition for young workers from other industry sectors experiencing similar problems. Again, as noted previously, skilled migration must be considered as part of a range of policy initiatives to ensure the adequate supply of skilled labour in the building and construction industry in the medium to long term.
- 5.5 Table 1 shows that in the past 12 months to March 2005 there has been a modest increase in commencements in all States with the exception of Queensland. However, there continues to be an increase in the number of cancellations and withdrawals from apprenticeships in all States and Territories. There still remains just over 41,000 apprentices in various stages of their training which, on Master Builders' figures, still shows a shortfall against the number that we project are needed to fill the gap between those that are commencing training and those that are leaving the industry, particularly through the ageing demographics.

Table 1: Apprenticeship Statistics - Comparison December 2004, March 2005

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Australia
Commencements									
Construction Tradespersons – to December 2004	4,800	5,340	4,400	890	1,380	480	80	270	17,640
Construction Tradespersons to March 2005	4,930	5,450	4,300	1,010	1,490	530	100	290	18,090
Cancellations/withdrawals									
Construction Tradespersons – to December 2004	3,140	4,030	1,970	270	510	160	60	140	10,260
Construction Tradespersons – to March 2005	3,500	4,360	2,140	310	570	170	60	150	11,260
Completions									
Construction Tradespersons – to December 2004	2,020	2,070	1,210	350	470	130	30	110	6,390
Construction Tradespersons – to March 2005	1,860	2,130	1,100	360	450	130	30	100	6,170
In training									
Construction Tradespersons – to December 2004	11,510	11,530	8,820	1,990	2,670	940	150	500	38,120
Construction Tradespersons – to March 2005	12,450	12,140	9,680	2,220	2,910	1,080	170	620	41,270

6. RESPONSES TO SPECIFIC QUESTIONS RAISED IN ISSUES PAPER

- 6.1 **Question:** Do the skills of migrants differ from those of other Australian workers? If so, how?
- 6.2 **Answer:** In regard to the qualifications and skills of tradespersons in the building and construction industry, the skills of migrants vary greatly depending on the training and work experience that they experience in their own country. For example, the skills of tradespersons from the UK, US and some European countries are similar to the trade skills held by Australian workers as they normally have the same apprenticeship and employment structures as Australians.
- 6.3 The skills of migrants from other countries, including the Asia/Pacific are somewhat lower as the training practices and skill formation processes in those countries are not as mature as those held in the countries above and often linked with different technologies. However, this does not mean to say that they have not developed, over time, the necessary physical skills that their fellow migrants would possess.

- 6.4 Recently arrived migrants do not necessarily have the occupational health and safety and language and literacy skills that are normally held by Australians. Although the building industry has well developed language and literacy training programs that are attended by both migrants and, indeed, those that have been from non English speaking backgrounds from the existing Australian workforce, more work needs to be done in the area.
- 6.5 **Question:** Is there evidence that Australia is experiencing a significant loss of certain skills through emigration.
- 6.6 **Answer:** There has historically been a low level of emigration in the construction trade areas.
- 6.7 **Question:** Is there widespread evidence that migrants' skills are not being fully utilised in the Australian labour market.
- 6.8 **Answer:** Master Builders and its members believe that there is not a significant underutilisation of migrant skills in the Australian labour market, with the exception of the lack of early productivity as migrants acclimatise to the operational profile of construction in Australia. Similarly, it also takes time to acquire the necessary language and literacy skills that prevent some migrants from fully realising and utilising their overseas experience.
- 6.9 **Question:** Is there evidence of skills transferring from migrants to other Australian workers?
- 6.10 **Answer:** The experience of particularly master tradesmen coming to Australia from UK, Canada, US is that they bring a variety of technical skills related to the style of construction in their particular country that adds to the suite of available knowledge to produce different structures that are not necessarily mainstream in Australia at a particular time, eg pole homes, whole of timber (Canada) style houses and European style double glazing.
- 6.11 **Question:** Is there evidence that the increase in the number of skilled migrants coming into Australia has positively or negatively affected Australian workers eg training opportunities.

- 6.12 **Answer:** As mentioned earlier, the number of skilled migrants entering the building and construction industry has been somewhat limited in number over the years with figures showing in the order of 800-900 per year. This has not affected the ability of Australian workers to pursue labour market opportunities or training. Indeed, Master Builders welcomes the increased number of skilled migrants announced in the recent Federal Budget, particularly as the Australian building and construction industry is experiencing significant skill shortages.
- 6.13 Further, trade skill shortages have intensified over the past year, with the number of suitable applicants applying for each vacancy in the building and construction industry falling from 1 to 1 in 2003 to 0.7 in 2004.
- 6.14 **Question:** Is there evidence of regulatory barriers arising, for example the failure to recognise international qualifications or skills.
- 6.15 **Answer:** Master Builders is concerned that the process for establishing a person's qualification and skills through the Trade Recognition Authority takes considerable time to process and approve. This is particularly an issue as the licensing regime in Australia is both different across States and Territories and also different to countries from where we would potentially attract skilled migrants. It is Master Builders position that consideration needs to be given to the overall skills of individuals rather than the formal certificate and qualifications that they may hold.
- 6.16 The work suggested in paragraph 4.6 of this submission will assist Master Builders Australia to finalise its policy in this area.