Building resilience through uncertainty

BDO CONSTRUCTION SECTOR REPORT 2026

Welcome to the eighth BDO Construction Sector Report, our annual study of the priority issues facing business leaders in New Zealand's construction industry. Construction is the fourth largest industry, contributing nearly 8% towards annual GDP and comprising more than 81,000 businesses nationally. Acting as a leading employer and vital platform for broader economic growth, our report aims to support its business leaders by growing a shared understanding of their common challenges and opportunities, and ways to successfully move ahead.

Our report also captures construction business leaders' expectations for the future and takes a closer look at specific projects, business types and regional variations.

Based on a nationwide survey of 180 business owners and leaders in April-May 2026. The report reveals that overall business performance sentiment has softened year-on-year, and economic and political uncertainty continues to weigh on construction business leaders, making it harder for them to invest, hire and plan for growth. Despite this, the report also shows that while the sector might not feel confident in the traditional sense, it is one that continues to adapt: There are signs of resilience emerging.

A year of pressure for the construction sector

In the 12 months since our previous survey, close to two-thirds of construction businesses surveyed have had projects cancelled or put on hold, nearly two-thirds have incurred losses of up to $100,000, a quarter have witnessed a counterparty go into liquidation in the past year and a further 15% report that they have witnessed more than one.

Sentiment toward economic and political conditions has weakened since last year, falling from 37% and 41% respectively to 28% and 29%. The upcoming General Election and ongoing global uncertainty - including conflict in the Middle East and pressure on fuel prices and supply chains – are likely to be weighing on business leaders' minds. Supply chain positivity has also declined, down to 40% from 53% in 2025, reinforcing that operational disruption and related inflationary impacts continue to be a concern.

"The year ahead is unlikely to be defined by a simple recovery story. Construction businesses may have work ahead, but profitability, cash flow and risk management will determine how successfully they navigate the next phase. Leaders who maintain pricing discipline, monitor project performance closely and manage counterparty exposure will be best placed to convert pipeline into sustainable performance. It will be important for construction businesses to avoid major gaps in their forward work. The sector may not be out of the woods, but businesses that protect margin, manage risk and make clear, disciplined decisions will be best placed to move from resilience to recovery."

Nick Innes-Jones,
BDO National Construction Sector Leader

Softer sentiment, steady pipelines

Construction business leaders are less positive than they were a year ago, with 52% feeling positive about their current overall business performance, down from 60% in 2025.

52%
Feeling positive about current overall business performance
DOWN 8%

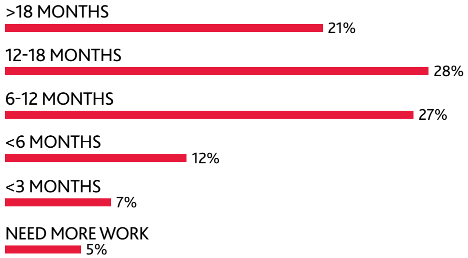
57%
Expecting to feel positive about overall business performance in six months
DOWN 10%

Similarly, 57% expect to feel positive about overall business performance in six months' time, down from 67% in 2025.

"Given the cost pressures being felt by the construction industry and the weakening of demand for construction, it is unsurprising to see a weakening in confidence of leaders within the construction sector."
Jason Shoebridge, NZIER Chief Executive

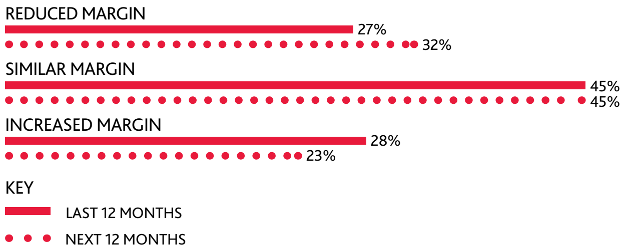
Most businesses (76%) report sufficient confirmed work for more than six months. However, this pipeline is not translating into stronger positivity around profitability.

BUSINESS FORWARD WORK POSITION (Sufficient confirmed work for each period)



Margin expectations reinforce this cautious outlook. While 28% report increased gross profit margins over the past 12 months, only 23% expect margins to improve over the year ahead, and 32% expect margins to decline. The results point to a sector that is not bracing for a further sharp downturn but remains cautious about whether the work ahead can deliver sustainable margins.

GROSS PROFIT MARGIN CHANGE



"The businesses faring best are those with strong forward work, the scale to operate efficiently, and the discipline to manage or pass through cost increases. Those under the most pressure are more exposed to cash-flow stress, uncertain demand and cost inflation all hitting at once. This is not a story of collapsing activity, but of pressure compounding across the sector, with businesses working hard to protect margin, manage working capital and keep pipeline moving."

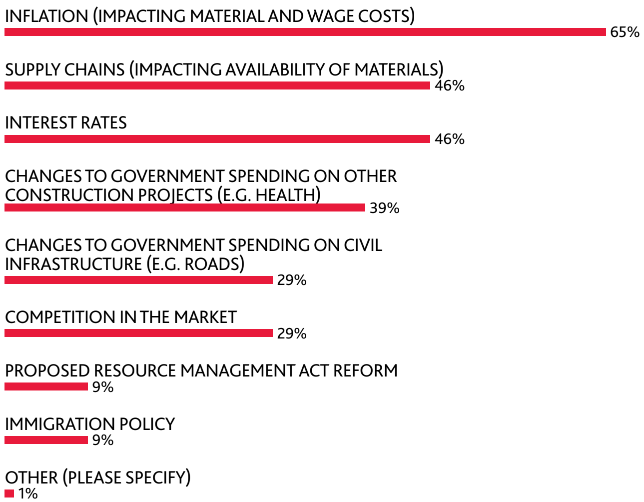
Bjorn de Nijs, Construction Partner, BDO Southern Lakes & Central Otago

Cost pressures reshape profitability expectations

Cost pressure is now the dominant profitability challenge for construction businesses, with 65% of respondents expecting inflation and its impact on materials, fuel, energy and wages to have the greatest effect on profitability over the next 12 months. Supply chains and interest rates are the next most significant pressures, each cited by 46% of respondents.

"NZIER and other organisations such as Treasury and the Reserve Bank are all forecasting an increase in inflation over the coming year. This will also result in interest rates increasing as the Reserve Bank attempts to rein in this inflation, which will in turn put more pressure on construction firm profitability."
Jason Shoebridge, NZIER Chief Executive

FACTORS EXPECTED TO IMPACT PROFITABILITY (NEXT 12 MONTHS)



Tender success appears to have improved slightly, with 69% saying they won around half of the tenders and pricing opportunities they pursued in the last year (compared with 63% in 2025). However, this does not necessarily point to stronger profitability. In a competitive market, businesses may be securing work at prices that leave little room to absorb further cost movement. For business leaders, this reinforces the need to price inflation, supply chain risk and financing costs into contracts upfront, rather than trying to recover them during delivery.

"For some construction business leaders, the market still feels highly competitive and margin constrained. Work is being won on price, which puts pressure on profitability, and even long-standing client relationships are being tested through tender processes as clients look for ways to manage their own costs. It reflects a sector that is working hard to secure pipeline, but often without the pricing power needed to rebuild margins."

Ruth McGregor,
Construction Partner,
BDO Wellington

Labour demand remains stable across the sector

Labour does not appear to be the construction sector's most immediate constraint, but this could change quickly if pipelines strengthen.

Fifty-seven percent of survey respondents say that current staff levels meet their needs, which is the same as last year. However, there has been a slight increase in construction businesses that say they are over-staffed but not planning layoffs, from 6% last year to 8% in 2026.

RECRUITMENT INTENTIONS (NEXT 12 MONTHS)

"It is encouraging that construction businesses continue to feel they have adequate labour supply to meet current needs, particularly given recent migration trends to Australia. The real test will come if pipelines strengthen and construction activity lifts, especially off the back of public infrastructure investment signalled in Budget 2026. Labour confidence is positive, but it will need to hold as demand builds."

Nick Innes-Jones,
BDO National Construction Sector Leader

Leading issues for construction business leaders

Ongoing economic and political uncertainty continue to weigh heavily on business leaders' shoulders, with just 28% feeling positive about economic factors and 29% about political factors - the lowest scoring across all business performance attributes. While these were also the lowest scoring attributes in last year's survey, positivity regarding each factor is considerably lower than in 2025.

"The fact that construction sector leaders are less positive about economic conditions in this year's BDO Construction Sector Report, despite 74% of firms having sufficient pipeline of work over the next 18 months, also signals recognition that the current economic conditions are likely to make it harder to replenish that pipeline as current projects are completed."

Jason Shoebridge, NZIER Chief Executive

This year, supply chain concerns have also joined the three lowest-scoring factors, likely reflecting the impact of ongoing geopolitical uncertainty on fuel pricing. Last year, business leaders were feeling less positive about their ability to leverage and adapt to new technologies (including AI), and supply chain concerns did not feature in the top five.

"Cost pressure and labour availability are likely to remain persistent challenges for construction businesses. If project timing softens or clients become more selective, demand and pipeline confidence will become even more important. Technology and AI are shifting from emerging opportunities to practical tools for improving productivity, reducing administration and supporting better decision-making without adding unnecessary overhead."

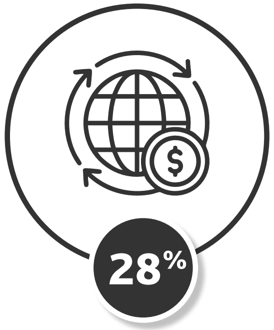
Bjorn de Nijs,
Construction Partner,
BDO Southern Lakes
& Central Otago

Combined with persistent cost pressures, particularly fuel and materials, this is contributing to a more constrained outlook for the sector. The 2026 BDO Construction Sector Report reflects a sector that remains stable, but under increasing pressure, with business leaders focused on managing costs and maintaining performance in an uncertain environment.

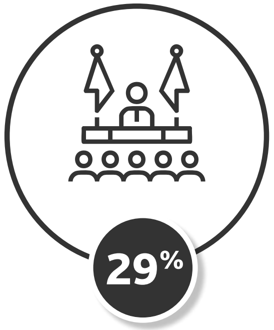
"Looking ahead, the next six to 12 months could feel similar to the current environment if geopolitical uncertainty, particularly conflict in the Middle East, continues to influence costs and confidence. In an election year, there is also a risk that decision-making slows, projects are delayed, and uncertainty builds across the pipeline. For construction businesses, that makes it even more important to stay close to pricing in risk, cashflow, margins and forward work."

Martin Veitch,
Construction Partner,
BDO Christchurch

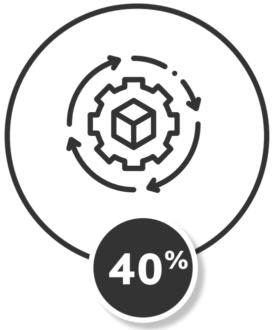
1. Economic factors



2. Political factors



3. Supply chains



This charts depicts construction business leader positivity in relation to 19 business performance attributes surveyed - in the last two weeks, in 6 months' time and in comparison to their 2025 sentiment.

This year, business leaders expressed greater positivity regarding internal and controllable factors such as risk management, compliance, systems performance and employee motivation. While positivity generally improves regarding most business performance metrics when looking six months ahead - particularly for supply chains - the uplift is uneven, highlighting a sector that clearly feels less at ease with external influencers which shape the sector's outlook - namely external economic and political conditions.

This year, we also asked construction business owners about succession planning, including their confidence in the continued leadership and ownership of their business. Encouragingly, 73% said they feel confident in this area, suggesting many owners have a degree of confidence in their business continuity beyond the current operating environment. Confidence was highest in Auckland, at 79%, and lowest in the South Island, at 68%.

Looking at cash flow, just over half of business leaders (53%) are currently feeling positive about this, yet only 48% expect to feel positive in six months' time, indicating uncertainty about future work. However, there is more positivity about cashflow in 2026 than in 2025.

Similarly, just under half of all respondents expect to feel positive about their business growth in six months' time, lower than currently (52%).

BUSINESS PERFORMANCE SENTIMENT CURRENT VS FUTURE

HOT TOPICS - ALL BUSINESSES

35%
Expect net profit to improve
(next 12 months)

71%
Expect fuel prices to impact net profit
(next 12 months)

4%
Very likely to be unable to meet financial obligations or experience insolvency
(next 12 months)

29%
Actively hiring
(next 12 months)

49%
Expect to feel positive about leveraging new tech and AI
(next 12 months)

Hot topic snapshot

A range of topical factors stand out as top-of-mind for construction business leaders in successfully navigating the economic landscape over the year ahead. Together, these provide a clearer picture of how businesses are balancing cost pressure, financial risk and investment decisions as economic conditions remain challenging.

The hot topic results reinforce that construction leaders are focused on protecting financial resilience. Cost pressure, financing conditions, cash flow, counterparty risk and investment decisions are closely linked – meaning businesses will need to manage these collectively rather than as separate challenges.

Insolvency risk is a concern, although the construction business leaders surveyed appear slightly more positive than the broader business community. Only 4% of business owners surveyed said they felt very likely to be unable to meet their financial obligations or experience insolvency in the next 12 months, compared with 7% across all business sectors surveyed in the May 2026 BDO Business Performance Index.

"We can see that the construction sector is feeling the most pressure at the moment, with cost-of-living inflation, low New Zealand dollar, fuel prices and softened consumer demand squeezing growth opportunities and margins. This sector was the most impacted by liquidations last year, with 751 firms liquidated. Given the lag effect that my team see as economic cycles impact the economy, our projections are that there is potentially a further pipeline of construction firms still to face significant financial difficulty as we continue through at least the next 12 to 18 months. Insolvency represents just a small part of the overall economic activity despite its coverage in the media. Most businesses can stabilise through difficult periods - particularly when options are explored early."

**Rees Logan,
BDO National Business
Restructuring Leader**

A variety of challenges on construction leaders' minds

When asked to comment on their greatest challenges and concerns over the coming year, most responses emerged in five key areas across the survey demographic.

Cost pressures and inflation

This was by far the most dominant issue, and respondents cited inflation, fuel prices, material costs, wages and the cost of living, taxes and interest rates. This represents broad based cost escalation squeezing margins and applying pressure from all sides.

"cost of living causing major build increases"

"fuel costs affecting imports and exports"

"weak NZ dollar making imports more expensive"

Labour shortages and workforce challenges

This is the second structural constraint on growth, including a shortage of skilled trades, difficulty in hiring or retaining staff and wage pressures.

"holding onto our key staff during slower periods of work"

"loss of talent from NZ to Australia"

"inflation vs wage growth, how do we keep up wage growth with an ever moving target"

Economic uncertainty and demand

A general nervousness about future work came through here, not just a reflection of current conditions. Business leaders are concerned about the economy, weak or uncertain business pipelines and slower sales and growth.

"uncertainty around work pipeline"

"the number of projects released for tender"

"ensuring we don't take part in a race to the bottom in a competitive tender market"

GREATEST CHALLENGES FOR BUSINESS LEADERS OVER THE NEXT 12 MONTHS

Cashflow and financing pressure

This is likely compounded by the above-mentioned cost pressures and economic uncertainty, business leaders told us they are concerned about cashflow constraints, pressure on working capital and the increased cost of borrowing.

"supplier and subcontractor ability to survive and not go into administration"

"high borrowing rates"

"being able to pay my team for their work confidently"

Technology and AI disruption

While still just an emerging issue, it is clearly on the radar for construction sector leaders. They are feeling the pressure to adopt AI and other digital tools, uncertainty about the ROI and highlighting capability gaps in their business.

"adoption of AI and its disruption to our current productivity and risk management"

"keeping up to date with AI"

"the need for technology adoption to remain competitive"

What construction leaders should watch over the next 12 months

- Whether confirmed pipelines convert into profitable delivery.
- Movement in fuel, material and wage costs.
- Public infrastructure investment and timing of project releases.
- Counterparty liquidation and subcontractor stability.
- Interest rate movements and access to working capital.
- Labour availability if demand improves.
- Practical use of technology and AI to reduce administration and improve project visibility.

"The year ahead is unlikely to be defined by a simple recovery story. Construction businesses may have work ahead, but profitability, cash flow and risk management will determine how successfully they navigate the next phase. Leaders who maintain pricing discipline, monitor project performance closely and manage counterparty exposure will be best placed to convert pipeline into sustainable performance. It will be important for construction businesses to avoid major gaps in their forward work. The sector may not be out of the woods, but businesses that protect margin, manage risk and make clear, disciplined decisions will be best placed to move from resilience to recovery."

Nick Innes-Jones,
BDO National Construction Sector Leader

Subsector trends

Variability in subsector business performance remains one of the clearest indicators of how uneven construction sector health remains in 2026. Civil and infrastructure firms continue to report the strongest position overall, supported by longer work pipelines and public-sector investment. However, across all subsectors, the key issue is whether visible work can be converted into sustainable, well-managed revenue.

Compared with last year, the broad pattern is similar; civil and infrastructure firms remain better placed than residential and commercial businesses. What has changed is the nature of the opportunity. In 2025, the focus was on whether future infrastructure investment would translate into work. In 2026, the question is whether that pipeline can be delivered at pace and at sustainable margins, particularly as cost, funding and procurement risks remain elevated.

"The subsector story is not uniform. For civil and infrastructure firms, changes in government expenditure are critical because public investment has a direct influence on pipeline confidence. In residential construction, inflation continues to weigh heavily, particularly where higher costs are meeting more cautious demand. For commercial firms, the challenge is forward work, with uncertainty around future projects making it harder to plan, price and invest with confidence."

Nick Innes-Jones,
BDO National Construction Sector Leader

% FEELING POSITIVE ABOUT OVERALL BUSINESS PERFORMANCE (LAST 2 WEEKS)

59% feeling positive about overall business performance
CIVIL/ INFRASTRUCTURE

51% feeling positive about overall business performance
COMMERCIAL

56% feeling positive about overall business performance
RESIDENTIAL

% EXPECTING TO FEEL POSITIVE ABOUT OVERALL BUSINESS PERFORMANCE (6 MONTHS' TIME)

55% expecting to feel positive about business performance in six months
CIVIL/ INFRASTRUCTURE

57% expecting to feel positive about business performance in six months
COMMERCIAL

57% expecting to feel positive about business performance in six months
RESIDENTIAL

Civil infrastructure, residential and commercial projects

Civil and infrastructure firms report the strongest current sentiment and forward work position. While their six-month outlook is more cautious, more of these firms expect gross profit margins to improve over the next year.

Budget 2026 has since added further context to this outlook, with the Government announcing a $7 billion capital investment package for hospitals, schools, roads, rail and other public infrastructure. Because our survey closed before this announcement, the results do not yet capture how that investment may affect confidence, work pipelines or construction activity over the year ahead. The key question for civil and infrastructure firms will be how quickly announced funding flows through to funded, consented and deliverable projects.

Read more about what the infrastructure could mean for construction business leaders here.

The stronger civil and infrastructure outlook is consistent with wider market commentary, revealing infrastructure as one of the more resilient parts of the sector. However, resilience does not remove risk. Government funding decisions, procurement timing, fuel costs and civil construction cost inflation can all influence tender pricing and project viability. For firms in this subsector, the opportunity is significant, but so is the need for strong cost control and disciplined contract management.

Survey responses show civil and infrastructure firms are the most positive about their current business performance, although their positive sentiment eases when looking six months ahead. By contrast, residential and commercial respondents are more positive about the next six months than they are today, suggesting some expectation of gradual improvement from a lower base.

Longer pipelines are concentrated in civil and infrastructure

The forward work data reinforces that civil and infrastructure firms have a stronger pipeline than other subsectors. 57% of civil and infrastructure firms surveyed have sufficient confirmed work for more than 12 months.

Residential and commercial recovery remains fragile

Residential construction firms have the highest reported need for more work, at 8%, compared with 5% of commercial businesses. The heightened expectations of positive business performance sentiment in 6 months' time among residential and commercial firms may reflect expectations that lower interest rates, improving economic sentiment or delayed projects will support activity over time. However, the data also suggests these subsectors remain commercially exposed. Residential firms report the greatest need for more work, while both residential and commercial businesses are more likely than civil and infrastructure firms to expect margins to fall. That points to a recovery that may be gradual and uneven, rather than a broad-based rebound.

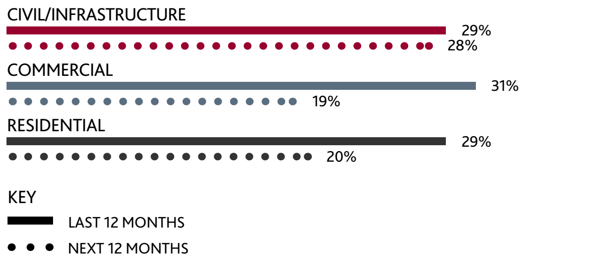
Work secured does not always mean margin protected

The margin data highlights one of the most important messages for 2026; having work secured is not the same as having profitable work secured. Civil and infrastructure firms are the most optimistic about margin growth, with 28% expecting gross profit margins to increase over the next 12 months. By contrast, commercial and residential firms are more likely to expect margins to fall, despite some improvement in forward sentiment. This suggests competitive tendering, cost escalation, scope changes and client affordability are still weighing on profitability.

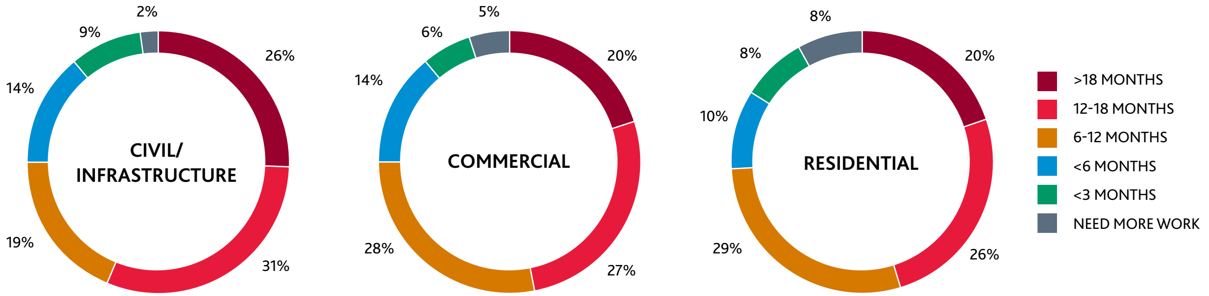
Labour demand follows pipeline visibility

Labour demand is strongest where pipeline visibility is strongest. Civil and infrastructure firms are the most likely to be looking for staff, with 34% expecting to actively recruit over the next 12 months. This reflects stronger forward work, but also creates a challenge: Firms need sufficient capacity to deliver confirmed projects without overcommitting in a market where timing can still shift. Residential firms are less likely to be recruiting, with most saying current staffing levels meet their needs, which aligns with their shorter pipelines and greater need for new work.

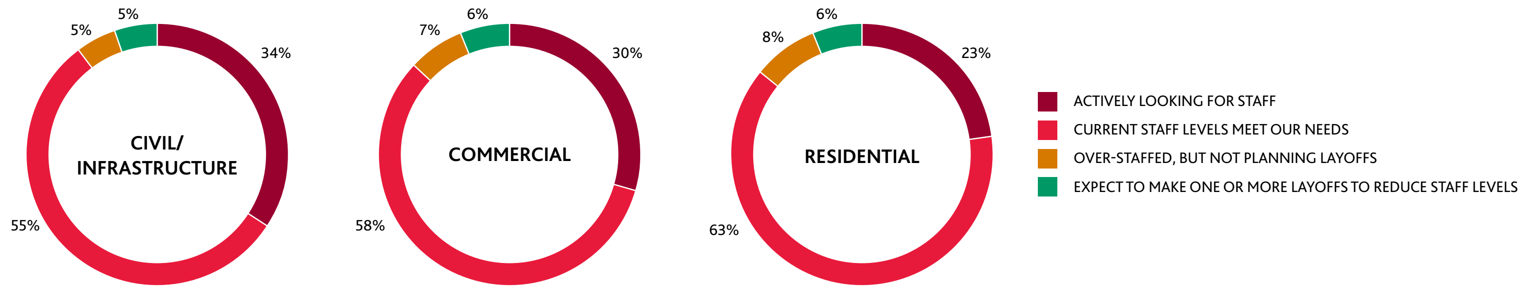
BUSINESSES WITH INCREASED GROSS PROFIT MARGIN (LAST 12 MTHS VS EXPECTATION FOR NEXT 12 MTHS)



BUSINESS FORWARD WORK POSITION



RECRUITMENT INTENTIONS (NEXT 12 MONTHS)



Hot topics by subsector

Across each subsector, there is continued variability in how construction businesses are experiencing the current market. However, consistency is evident in business leaders maintaining focus on the practical issues that will shape resilience over the year ahead; protecting margin, managing cash flow, securing the right people and deciding where technology can genuinely improve productivity.

Civil and infrastructure firms appear better positioned on margin expectations and hiring intentions, reflecting their stronger pipeline visibility. However, they are less likely than other subsectors to identify technology and AI adoption as a priority. That creates an opportunity: As larger and more complex projects move through the pipeline, better use of technology could help improve estimating, project management, procurement, workforce planning and reporting.

By contrast, the residential sector's higher exposure to financial stress and insolvency risk highlights the pressure still facing businesses where demand is more sensitive to household confidence, funding conditions and affordability.

A stabilising market, but not an even one

The subsector picture for 2026 shows a market that is stabilising unevenly. Civil and infrastructure firms appear better placed, but their success will depend on how quickly pipeline turns into deliverable work and whether cost risks can be managed. Residential and commercial firms may be looking ahead with more optimism, but margin pressure remains a clear concern. For subcontractors, the challenge is sharper still; protecting cash flow, securing quality work and maintaining flexibility in a market where visibility can change quickly.

HOT TOPICS - CIVIL/INFRASTRUCTURE

- **41%** Expect net profit to improve (next 12 months)
- **71%** Expect fuel prices to impact net profit (next 12 months)
- **2%** Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)
- **34%** Actively hiring (next 12 months)
- **48%** Expect to feel positive about leveraging new tech and AI (next 12 months)

HOT TOPICS - COMMERCIAL

- **26%** Expect net profit to improve (next 12 months)
- **70%** Expect fuel prices to impact net profit (next 12 months)
- **4%** Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)
- **30%** Actively hiring (next 12 months)
- **52%** Expect to feel positive about leveraging new tech and AI (next 12 months)

HOT TOPICS - RESIDENTIAL

- **34%** Expect net profit to improve (next 12 months)
- **71%** Expect fuel prices to impact net profit (next 12 months)
- **6%** Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)
- **23%** Actively hiring (next 12 months)
- **57%** Expect to feel positive about leveraging new tech and AI (next 12 months)

Head contractors and subcontractors

The decline in business performance positivity among subcontractors this year is significant, and it points to the sharper pressures this part of the sector is facing. 58% of subcontractor business leaders were feeling positive about current business performance in our 2025 report, compared to 36% in this year's survey. Expected future positivity (6 months' time) has also declined from 64% in 2025 to 36% in our latest study.

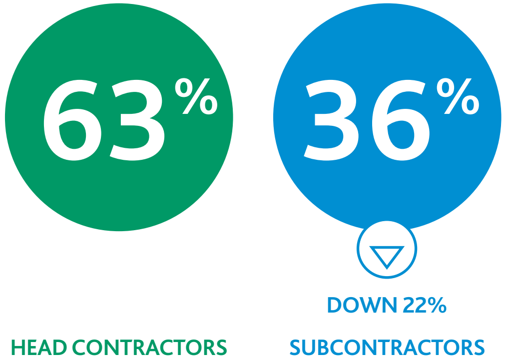
The contrast with head contractors – whose positivity remains similar year on year - is important. Head contractors generally have earlier visibility over project pipelines, stronger relationships with clients and more ability to influence procurement, programme and contract terms. Subcontractors often come into the process later and are more exposed to timing changes, retentions, variation disputes and payment delays. This helps explain why sentiment can weaken quickly among subcontractors, even when there is still activity in the market.

"Subcontractors typically have less visibility over future work than head contractors, with projects often confirmed later in the cycle. Many also operate with less balance sheet resilience, making them more exposed when pipelines soften, costs rise or payment timing becomes less certain."

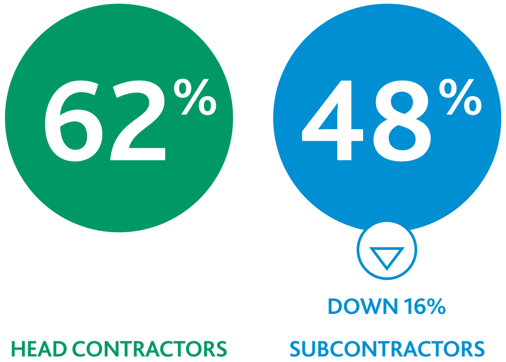
Ruth McGregor,
Construction Partner,
BDO Wellington

This is particularly important given most subcontractor respondents reported annual turnover below $10 million, suggesting many are smaller operators with less capacity to absorb volatility. The result is a more cautious outlook, where outlook can shift quickly even when there is still activity in the broader market.

% FEELING POSITIVE ABOUT OVERALL BUSINESS PERFORMANCE (LAST 2 WEEKS)

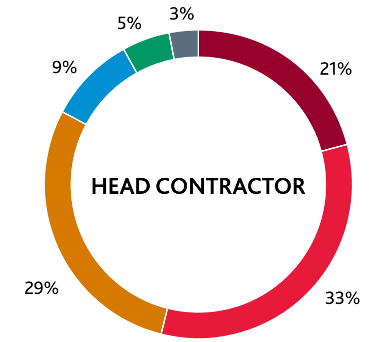


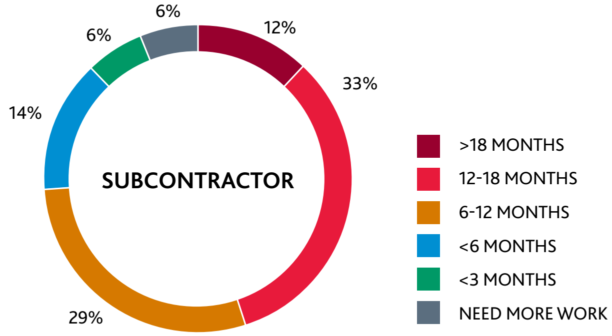
% EXPECTING TO FEEL POSITIVE ABOUT OVERALL BUSINESS PERFORMANCE (6 MONTHS' TIME)



Longer-term work is more visible for head contractors

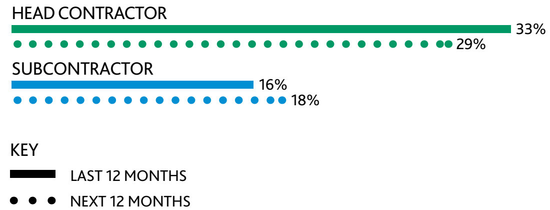
BUSINESS FORWARD WORK POSITION





Head contractors report stronger long-term pipeline visibility, while subcontractors are more likely to say they need additional work. This reinforces the different risk profiles across the contracting chain.

BUSINESSES WITH INCREASED GROSS PROFIT MARGIN (LAST 12 MTHS VS EXPECTATION FOR NEXT 12 MTHS)



Subcontractor positivity is stabilising, but remains fragile

While subcontractor business leaders expect to be somewhat more positive about business performance in six months' time than their current performance, that improvement comes from a much lower base than last year. This suggests positive sentiment may be stabilising, but remains fragile. Any expected margin improvement should also be read carefully, as subcontractors remain exposed to timing changes, payment delays and cost increases that can quickly erode profitability.

Hot topics by contractor type

Head contractors are generally more optimistic than subcontractors across the key measures – a consistent theme across this year's report.

Cost, cash flow and confidence remain the biggest pressure points

Respondents were also asked to identify their greatest challenges over the next 12 months. Cost pressure is the dominant concern across both head contractors and subcontractors, but the nature of that pressure differs. Head contractors are more focused on demand, pipeline confidence and client affordability, while subcontractors appear more exposed to immediate cost, cash flow and labour pressures.

"The survey highlights a sector under sustained pressure. Rising costs, tight margins and cash flow concerns are front of mind, alongside ongoing challenges in attracting and retaining skilled workers. What stands out is the growing uncertainty around pipeline and demand, with many businesses navigating reduced confidence and delayed decision-making from clients. In this environment, managing cost, risk and workforce capability will remain critical to maintaining resilience."

Ruth McGregor,
Construction Partner,
BDO Wellington

For business owners, these findings reinforce the importance of reviewing forward work, cash flow and contract exposure together rather than in isolation. Firms should be stress-testing project margins, checking payment terms, planning workforce needs against confirmed work and identifying where client or supplier risk could affect delivery.

HOT TOPICS - HEAD CONTRACTOR

36%	67%	1%	36%	52%
Expect net profit to improve (next 12 months)	Expect fuel prices to impact net profit (next 12 months)	Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)	Actively hiring (next 12 months)	Expect to feel positive about leveraging new tech and AI (next 12 months)

HOT TOPICS - SUBCONTRACTOR

30%	78%	2%	30%	48%
Expect net profit to improve (next 12 months)	Expect fuel prices to impact net profit (next 12 months)	Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)	Actively hiring (next 12 months)	Expect to feel positive about leveraging new tech and AI (next 12 months)

Regional commentary

New Zealand's construction sector continues to be shaped by highly local conditions. Across the country, regional outlooks are being influenced by different combinations of residential demand, commercial activity, council priorities, infrastructure funding, climate pressures and broader economic confidence.

The 2026 picture is less about whether there is work in the market and more about the quality, timing, duration and profitability of that work. Across the regions, positivity appears strongest where businesses have a clearer pipeline, more resilient demand drivers and greater ability to protect margin. Where projects are delayed, funding is uncertain or feasibility is marginal, business owners are understandably more cautious.

Current workloads are not translating evenly into future positivity

The data shows that businesses in the rest of the North Island are feeling the most positive about their current business performance, but that they are the only region expecting to be less positive in six months' time. This may indicate that local businesses are busy now, but less confident that today's activity will translate into a stable pipeline beyond the near term. Comparatively, businesses in Auckland and the South Island are expecting to feel more positive about their overall business performance in six months' time. In fact, the South Island leads the forward work outlook, with continued development activity and demand in parts of the housing market.

Recent market commentary suggests that Queenstown's property market is emerging as a clear outlier in New Zealand's housing downturn. Strong demand from high-net-worth international and trans-Tasman buyers is sustaining development activity in the area. High price points, limited land supply and tourism-driven demand allow projects to remain financially viable despite elevated costs, supporting pockets of work in the area, even as the broader pipeline weakens. However, the South Island results should not be read as a Queenstown story alone. The region includes a mix of markets, from Canterbury's more diversified construction base to tourism-linked areas where visitor activity and population movement continue to support demand.

% FEELING POSITIVE ABOUT OVERALL BUSINESS PERFORMANCE (LAST 2 WEEKS)

52% feeling positive about overall business performance — AUCKLAND

55% feeling positive about overall business performance — REST OF NORTH ISLAND

50% feeling positive about overall business performance — SOUTH ISLAND

% EXPECTING TO FEEL POSITIVE ABOUT OVERALL BUSINESS PERFORMANCE (6 MONTHS' TIME)

58% expecting to feel positive about business performance in six months — AUCKLAND

52% expecting to feel positive about business performance in six months — REST OF NORTH ISLAND

63% expecting to feel positive about business performance in six months — SOUTH ISLAND

"Queenstown's property boom highlights a twospeed construction market in New Zealand: While national building activity remains subdued, strong investor demand in the Wakatipu region is sustaining development. It offers shortterm relief for parts of the sector but also underlines that this resilience is localised, reliant on niche capital flows, and unlikely to offset broader construction challenges nationwide."

Bjorn de Nijs, Construction Partner, BDO Southern Lakes & Central Otago

Forward work is strongest where demand is most resilient

The South Island has the strongest confirmed work position, with no South Island respondents reporting that they need additional work and 82% have sufficient confirmed work for at least 6 months.

5% of Auckland construction businesses report that they need more work and 74% have sufficient confirmed work for at least 6 months. In addition, a quarter of Auckland construction firms surveyed have sufficient confirmed work for 12 to 18 months, higher than other regions. This suggests there are still meaningful opportunities in the Auckland market, particularly for firms with the capability to compete for larger, more complex or better-funded projects. However, the combination of subdued residential activity, softer commercial conditions and heightened tender competition means business owners need to be selective. In Auckland, resilience may depend on choosing work with strong client funding, realistic programme assumptions and enough margin to absorb delay or scope risk.

"Auckland is still an active market, but it is also a much more selective one. Recent sector commentary points to a subdued residential pipeline, softer commercial conditions and greater competition for work, while civil, infrastructure and industrial projects are providing more resilient pockets of activity. For many construction firms, the challenge is not simply finding opportunities but converting the right work into profitable projects at a time when delays, feasibility pressures and tighter margins are still shaping decision-making."

Nick Innes-Jones,
BDO National Construction Sector Leader

For Auckland firms, this points to the importance of disciplined bid selection, careful client due diligence and realistic pricing for delay risk.

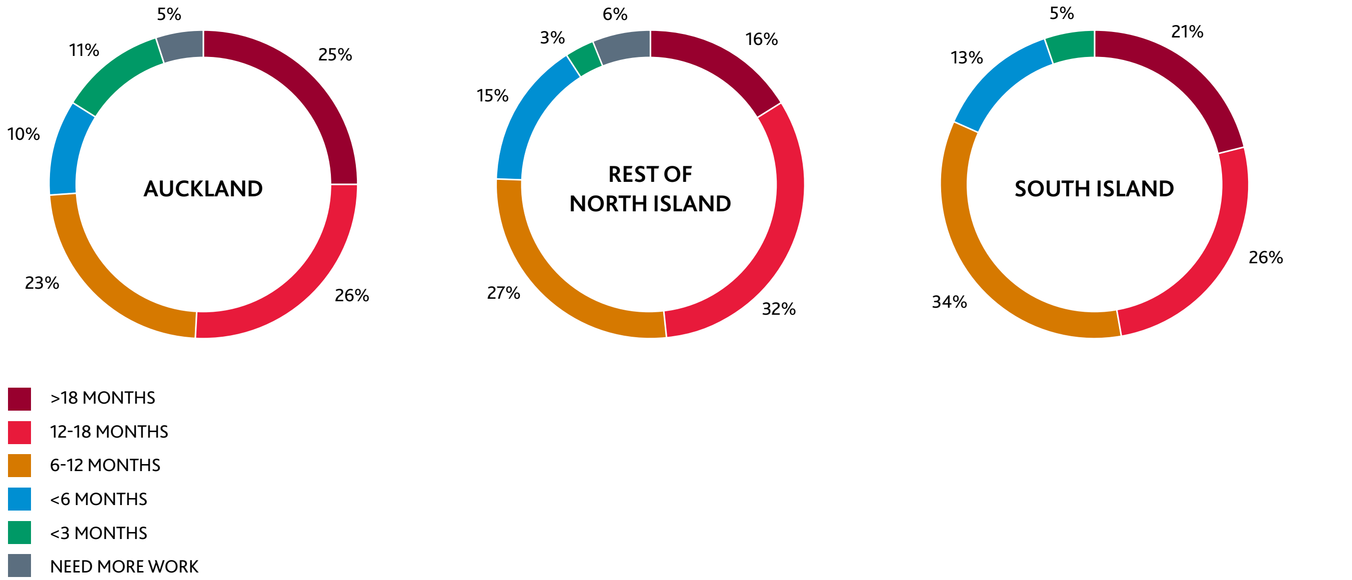
Despite fewer businesses in the rest of the North Island expecting to feel positive about business performance in six months' time, they have the most confirmed work for this period. This suggests sentiment in the rest of the North Island may be shaped less by immediate workload and more by concerns about what comes next. Short-term confirmed work can support activity, but if future demand is uncertain, margins are tight or project timing is unclear, business owners may still take a cautious view of the next six months.

For firms in this position, the priority is likely to be converting near-term activity into reliable cash flow while continuing to build a more resilient medium-term pipeline.

"Central Otago continues to stand out as a high-growth market. Demand remains strong, particularly in residential development driven by population growth and ongoing migration into the region. However, the key constraint is delivery capacity, with labour, infrastructure and consenting all limiting how quickly projects can be brought to market."

Bjorn de Nijs,
Construction Partner,
BDO Southern Lakes
& Central Otago

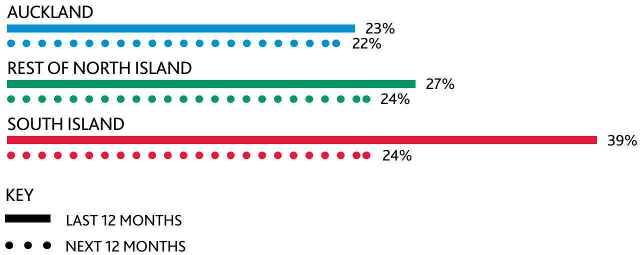
BUSINESS FORWARD WORK POSITION



Activity alone is not enough – margins matter

The South Island also stands out on gross profit margins, with 39% of respondents reporting an increase over the past 12 months, compared with 23% in Auckland and 27% across the rest of the North Island. This may reflect a stronger mix of viable projects, better tender conversion or more disciplined pricing in parts of the region. However, it also reinforces an important point for the wider sector; activity alone is not enough. In the current market, the strongest operators are those converting work into profitable, well-managed projects.

BUSINESSES WITH INCREASED GROSS PROFIT MARGIN (LAST 12 MTHS VS EXPECTATION FOR NEXT 12 MTHS)



"The South Island construction sector is showing resilience, but it is not insulated from risk. Many firms still have work in the pipeline, and tender conversion is strong enough, yet the pressure is shifting from finding work to protecting the quality of that work. With input costs, interest rates and supply-chain cost pressures all weighing heavily, the next 12 months will reward disciplined operators who price risk properly, validate project feasibility early and protect margin at contract level."

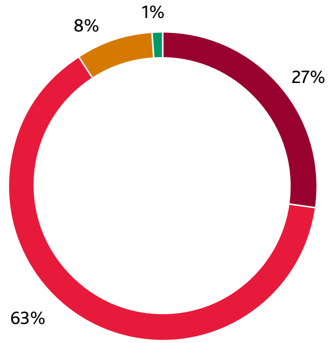
**Martin Veitch,
Construction Partner,
BDO Christchurch**

Labour intentions reveal different regional pressures

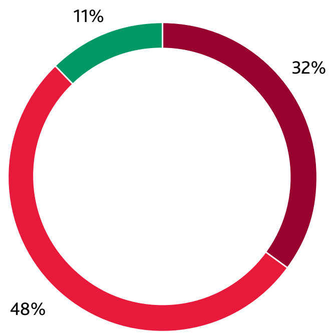
Regionally, Auckland appears to have the most stable labour market. Businesses in the rest of the North Island report the strongest hiring intentions over the next twelve months, with 32% actively looking for staff, but also, the highest potential layoffs (11%). This compares to 5% of businesses in the South Island and just 1% of Auckland businesses.

The rest of the North Island's combination of higher hiring intentions and higher potential layoffs points to a more uncertain operating environment. Some firms may be preparing for growth where work is confirmed, while others are adjusting to softer demand or margin pressure. This reinforces the need for careful workforce planning, particularly in a market where skills remain critical, but overcapacity can quickly put pressure on cash flow.

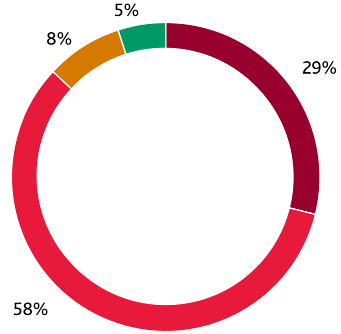
RECRUITMENT ACTIVITY AUCKLAND (NEXT 12 MONTHS)



RECRUITMENT ACTIVITY REST OF NORTH ISLAND (NEXT 12 MONTHS)



RECRUITMENT ACTIVITY SOUTH ISLAND (NEXT 12 MONTHS)



- ACTIVELY LOOKING FOR STAFF
- CURRENT STAFF LEVELS MEET OUR NEEDS
- OVER-STAFFED, BUT NOT PLANNING LAYOFFS
- EXPECT TO MAKE ONE OR MORE LAYOFFS TO REDUCE STAFF LEVELS

Hot topics by region

A range of topical factors stand out as top-of-mind for construction business leaders in successfully navigating the economic landscape over the year ahead. There are a few variations by region, but largely, a similar outlook for all.

Regional resilience depends on profitable, deliverable work

The regional picture for 2026 is therefore one of divergence rather than broad-based recovery. Some markets are supported by stronger pipelines, population growth, tourism, infrastructure or higher-value residential demand. Others are still working through weaker confidence, delayed projects and tighter margins. For construction business owners, the key question is not just where activity exists, but whether that activity can be delivered profitably, funded reliably and resourced sustainably.

HOT TOPICS - AUCKLAND

37%	67%	4%	27%	47%
Expect net profit to improve (next 12 months)	Expect fuel prices to impact net profit (next 12 months)	Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)	Actively hiring (next 12 months)	Expect to feel positive about leveraging new tech and AI (next 12 months)

HOT TOPICS - REST OF NORTH ISLAND

32%	77%	5%	32%	45%
Expect net profit to improve (next 12 months)	Expect fuel prices to impact net profit (next 12 months)	Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)	Actively hiring (next 12 months)	Expect to feel positive about leveraging new tech and AI (next 12 months)

HOT TOPICS - SOUTH ISLAND

34%	66%	3%	29%	61%
Expect net profit to improve (next 12 months)	Expect fuel prices to impact net profit (next 12 months)	Very likely to be unable to meet financial obligations or experience insolvency (next 12 months)	Actively hiring (next 12 months)	Expect to feel positive about leveraging new tech and AI (next 12 months)

Tips

You can't control the economy, but you can control how you prepare for - and react to - changing market conditions. We've put together practical tips based on our observations from working with construction business leaders, to help you navigate the challenges and opportunities in the market currently.

For more practical tips, check out our tips library, or find out more about what business leaders across the sectors are saying in the May 2026 Business Performance Index.

Cash flow and finances

- Cash flow is king. Reduce unnecessary expenditure (both operational and capital expenditure) to have the ability to pay bills on time.
- Look at how you can improve your financing structures by engaging with existing and/or new financiers. You may be able to take advantage of better debt and capital structure options available in the market.
- Monitor your sales pipeline, margins and forward cash flow carefully. If your forward work reduces, consider the adjustments you can make to ensure there's no strain on cash flow.
- Stress-test budgets and cash-flow forecasts against different scenarios and mitigate potential future risks.
- Assess the impact of inflation on your business at a holistic level. Businesses can be hit two-fold in challenging economic conditions, with sales generally being impacted by consumers facing increased costs of living (such as shifting oil prices) along with the increased cost of doing business.
- As OCR levels change, it's important that business leaders understand the environment they are operating in - and adapt accordingly. Ensure fuel price dynamics and other potential cost escalations are factored into your contracts (to protect against a growing inflation risk).

Growth

- Always be looking to work on new client relationships and opportunities. It can be easy to fall into a niche, but exploring different projects and sectors could open up new revenue streams.
- It may be necessary to make staffing cuts to remain competitive, but don't cut your business so much you cut muscle. It's important to have the right staff to be ready for an improvement later in the year.
- Maximise any downtime to work on your business so that you're better prepared to capitalise on opportunities as the market recovers. This includes securing available talent, working on systems and processes, and developing appropriate governance structures.

Workload

- Focus on where your work is coming from and what part of the sector you want to be in – and be prepared to flex according to the market. Diversify to ensure you're not over-reliant on areas such as Government contracts.
- Examine your business and understand your unique selling points. Consider different ways to stand out from your competitors to win tenders.
- Reputation is everything. Make sure you keep your standards and quality high, even in tough conditions, to help win work over competitors.
- Think about your limits on margins. Lower margin work can keep boots on the ground and keep staff motivated, so long as the job is managed efficiently to maintain the margin. Taking jobs at too low a margin can have a big impact on cash flow and take your focus away from other jobs that may be more profitable, so it's important to find the balance.

Staffing

- Focus on retaining key senior staff through providing opportunity for development, ownership, and better pay. Retention of quality people is key in this market – you will need them when conditions improve.
- To retain good employees, take the time to upskill your staff to boost their motivation and plug future talent gaps.

Paperwork and planning

- Stay on top of your compliance. It's a necessary evil that can cost you time and money if you don't get on top of it.
- Have a plan, supported by numbers, showing you different scenarios and what the way forward looks like. Then ensure you know what levers in your business you can pull to navigate different situations.
- Use any downtime to your advantage, especially when it comes to futureproofing against the threats of AI and climate change. Consider how AI could be an opportunity for your business, especially when it comes to maximising efficiencies.

Finally, communication is essential, no matter what stage and environment your construction business is operating in. Keep your business stakeholders (shareholders bankers, creditors, Inland Revenue) abreast of where you're at and if cashflow is tight, communicate with suppliers and other creditors early. It's important to take professional advice, especially if the going gets tough. This includes lawyers, bankers, industry bodies and your accountants.

If you'd like to discuss the report or how we can support your construction business, get in touch with our construction and real estate team or your local BDO adviser.

About the report

The BDO Construction survey took place during April-May 2026 and was completed by 180 construction business owners and leaders from across Aotearoa New Zealand.

The demographic profile of respondents is as follows:

Position

- Owner, CEO or Managing Director: 52%
- General Manager or Other: 48%

Number of employees

- <11: 23%
- 11-30: 22%
- >30: 54%

Average annual turnover (past 3 years)

- <$5m: 31%
- $5m-$9m: 26%
- $10m-$29m: 19%
- $30m-$59m: 9%
- >$60m: 11%
- Prefer not to disclose: 3%

Type of business

- Head contractor: 50%
- Subcontractor: 29%
- Material supplier/supply chain: 9%
- Consultancy: 9%
- Other: 3%

Type of projects

- Civil/infrastructure: 34%
- Commercial: 60%
- Residential: 54%

Note: Some businesses work across multiple project types

Location

- Auckland: 42%
- Rest of North Island: 36%
- South Island: 22%