

MEDIA RELEASE
Thursday 22 October 2009

EMBARGOED FOR PUBLICATION 0930 22 OCTOBER 2009

**TOUGH CONDITIONS FORECAST FOR ENGINEERING AND COMMERCIAL
CONSTRUCTION**

Tough operating conditions are forecast to continue for the next two years for Australia's construction companies with expected falls in commercial construction and a decline in mining and heavy industrial projects driving down the construction outlook for 2009/10 and 2010/11.

According to the latest Australian Industry Group/Australian Constructors Association Construction Outlook survey, Australia's leading construction companies are predicting an 8.0% fall in the total value of engineering and commercial construction work for 2009/10 followed by a further decline of 1.5% for 2010/11. This is driven largely by a marked reduction in investment in the resources and private commercial building sectors.

After rising by 9.7% in 2008/09 (current prices), the total value of engineering and commercial construction work is expected to dip to \$87.3 billion for 2010/11, an estimated \$9 billion below 2008/09.

Australian Constructors Association (ACA) President, Wal King, said: "The survey highlights the pressures confronting building firms through to 2010/11 as a consequence of ongoing tight funding for development and the fall-out from the contraction in global industrial production.

"Encouragingly, the survey results indicate that the Government's infrastructure stimulus measures and the number of large Government supported programs in the pipeline have avoided a larger downturn in activity. Importantly, the results indicate that infrastructure work will remain at high levels, while public building activity and the oil and gas sector would boost work for contractors.

"A critical priority, however, given the long lead times on major infrastructure projects, will be to ensure that high priority projects identified by Infrastructure Australia are now followed through and that any unnecessary delays in their delivery are avoided," Mr King said.

Ai Group Chief Executive, Heather Ridout, said: "The survey findings reflect both the realities of the current state of the market and caution about conditions during this financial year and into 2010/11. The industry is coming off a high base and the speed of recovery will very much depend on the lifting of project financing constraints and the speedy reinstatement of capital works programs, particularly in the mining and industrial sectors.

"The Federal Government's stimulus spending has provided a welcome boost for the non-residential building sector, although its impact has been far from uniform. There are many contractors with good order books while many others are scratching around for quality work.

"In the ongoing debate about whether the fiscal stimulus should be wound back, there should be no confusion about the need to proceed with the big planned economic infrastructure investments. They are independent of the fiscal stimulus strategy and are essential capacity building and productivity enhancing

investments which are critical to supporting our export industries and economic growth in the future. We should also not be frightened about taking on a modest amount of national debt to finance these projects given their benefit to future generations and their potential impact on productivity," Mrs Ridout said.

Key Findings:

- The total value of engineering and commercial construction work is forecast to fall by 8.0% in 2009/10 and then by a further 1.5% in 2010/11. That amounts to an estimated \$9 billion drop in work done by the private sector.
- A weak outlook for engineering construction, due to a sizeable reduction (particularly in 2009/10) in mining and heavy industrial projects, reflects the ongoing lack of funding availability and the global downturn in industrial production.
- Ongoing transport infrastructure projects will remain a key support for the engineering construction sector.
- Commercial construction is forecast to contract in 2009/10 and 2010/11 by 16.7% and 7.4% respectively.

Media enquiries: Tony Melville

02 6233 0700 or 0419 190 347

Link to full Construction Outlook survey: <http://www.aigroup.com.au/economicindicators>

Background: The Australian Industry Group – Australian Constructors Association Construction Outlook survey was conducted in September / October 2009 in association with the Australian Constructors Association, the peak industry body representing the nation's major construction contractors. The survey covered the responses of 100 companies employing almost 60,000 persons with combined turnover of almost \$29 billion or approximately 30% of total industry activity. This survey provides an estimate of the dollar value of turnover in 2010 /11 for the engineering and non-residential building industry. This estimate has been derived by applying the survey forecasts (2009 /10 and 2010 /11 % changes) to Australian Bureau of Statistics Value of Work Done – Australia (original series data). The estimate of the total value of construction by the private sector excludes the value of overseas business. This estimate may include a small proportion of work undertaken by the public sector.