

Construction Outlook

RESOURCES SECTOR TO DRIVE STRONG ENGINEERING CONSTRUCTION GROWTH

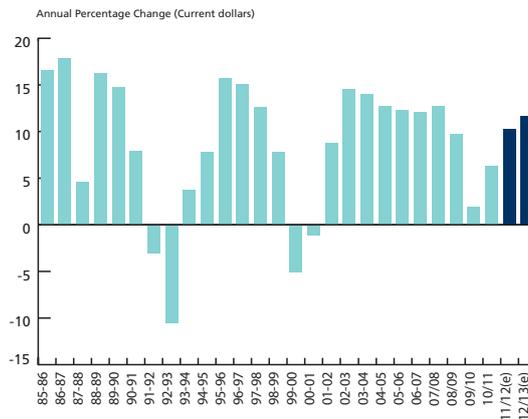
KEY FINDINGS

- Australia's leading construction companies are projecting that the value of total non-residential construction activity will increase strongly over the course of 2011/12 and 2012/13. The key driver will be resource based construction (mining and heavy industry) backed by solid support from telecommunications, electrical power generation, and transport infrastructure projects. However, the survey indicates that supply side constraints loom as a key risk to these projects. In particular, businesses are reporting worsening skill shortage bottlenecks which are exerting further upward pressure on labour costs.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after rising by 6.3% in 2010/11 (current prices), the value of engineering and commercial construction work is forecast to expand by 10.3% in 2011/12, before building to a stronger gain of 12.0% in 2012/13.
- Engineering construction is expected to underpin growth with total turnover increasing by 13.0% in 2011/12 and 14.2% in 2012/13 driven by mining investment and the strong pipeline of heavy industrial projects, led by oil and gas processing. Solid support is also expected from mining-related "other" civil projects, such as port upgrades and terminals to cater for increased mineral exports, as well as non-mining civil infrastructure, including telecommunications, electrical power generation and roads construction.
- While the commercial construction sector is expected to gain momentum over the next two years, activity will continue to lag engineering construction reflecting low levels of work in planning. The total value of commercial work is forecast to increase by a subdued 2.4% in 2011/12. By 2012/13, growth is expected to step-up to a 6.2% pace due mainly to a stronger impetus from private sector investment.

OUTLOOK 2011/12

- Growth in total turnover from construction work is forecast to rise at a rate of 10.3% (current dollars) in 2011/12, following a rise of 6.3% in the previous year.
- Mining infrastructure work is forecast to be the major driver of growth, rising by 15.5% in 2011/12 in line with robust exploration expenditure and the high level of mining projects either under construction or in the development pipeline. The impact of strong resources investment is also underpinning a projected increase of 19.6% in heavy industrial construction, led by the oil and gas processing sector (+18.4%) and "other" downstream mineral processing plants (+25.4%)
- Infrastructure activity is expected to register further expansion with additional rail capacity for the resources sector, along with improvements to passenger rail networks driving a 19.4% increase in the value of rail projects. Other key infrastructure growth areas include telecommunications (+15.9%), electricity generation and supply projects (+23.2%) and other civil projects (+10.7%).
- In contrast, turnover growth from commercial construction in 2011/12 is expected to be modest at 2.4%.

TURNOVER FROM CONSTRUCTION WORK



CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2012/13

SECTOR	% CHANGE		
	2010/11	2011/12 (F)	2012/13 (F)
INFRASTRUCTURE	5.3	11.4	11.6
MINING	12.2	15.5	17.7
HEAVY INDUSTRIAL	12.8	19.6	15.8
TOTAL ENGINEERING	5.5	13.0	14.2
COMMERCIAL CONSTRUCTION (NON-RESIDENTIAL BUILDING)	2.9	2.4	6.2
- PRIVATE SECTOR	1.2	1.7	7.9
- PUBLIC SECTOR	4.8	3.1	4.6
APARTMENTS	2.0	-1.2	4.8
OVERSEAS BUSINESS	6.8	7.3	7.9
TOTAL ENGINEERING AND COMMERCIAL CONSTRUCTION	6.3	10.3	12.0

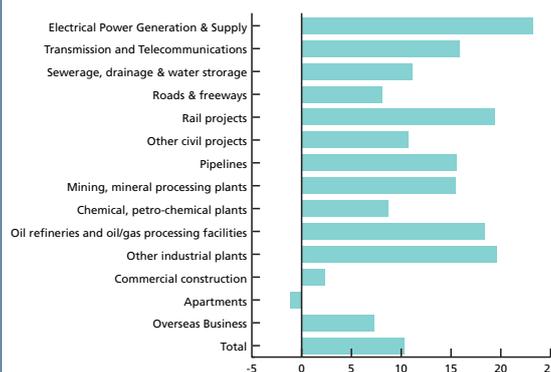
WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in August/September 2011 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 74,000 persons with combined turnover of almost \$30 billion or approximately 30% of total industry activity.

SPONSOR STATEMENT

The Australian Constructors Association (ACA) is delighted to be associated with the Australian Industry Group as the major sponsor of one of the most authoritative surveys of Australian construction activity. The survey, which is conducted on a bi-annual basis, provides an excellent barometer on the state of the engineering and non-residential building sectors – on a national and key market basis. We look forward to our continuing association with the survey and its development as the most credible source of information on construction industry activity.

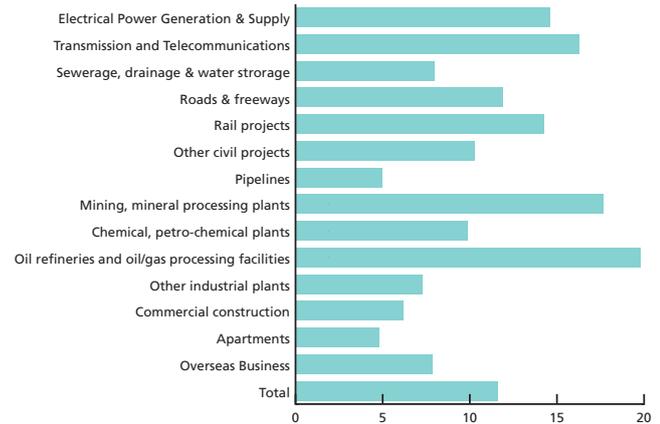
2011 – 2012 Forecast Annual Percentage Change (Current dollars)



OUTLOOK 2012/13

- The total value of construction turnover is forecast to register stronger growth of 12.0% in 2012/13 as a higher volume of major projects move through the development pipeline to the construction stage.
- Reflecting the expected commissioning of new mining capacity, including a strong lift in iron ore expansions, the value of mining construction is projected to maintain solid growth, with a rise of 17.7% expected in 2012/13.
- The outlook for heavy industrial construction in 2012/13 will be underpinned by a high level of growth projected in oil and gas processing projects (+19.8%) consistent with the continued strong medium term growth expected in Australia's LNG exports.
- The infrastructure market is forecast to continue to expand at a solid rate of 11.6% with large transport projects, resources infrastructure and the National Broadband Network (NBN) supporting activity levels. Both road (+13.5%) and rail projects (+14.3%) constitute key prospective growth areas, backed by utilities construction (+10.5%) and transmission and telecommunications (16.3%). Ports/terminals construction is also expected to remain strong, as reflected in continued solid growth in other civil projects of 10.3%.
- Prospects are for an improvement in commercial construction activity of 6.2% with a step-up in support from private sector building activity (+7.9%). Increased investment in new hospitals and other health care facilities is likely to underpin the 4.6% growth outlook for public sector building activity.

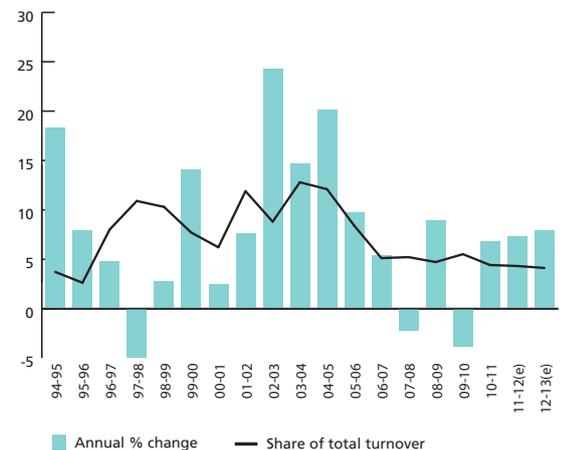
2012 – 2013 Forecast Annual Percentage Change (Current dollars)



OVERSEAS BUSINESS

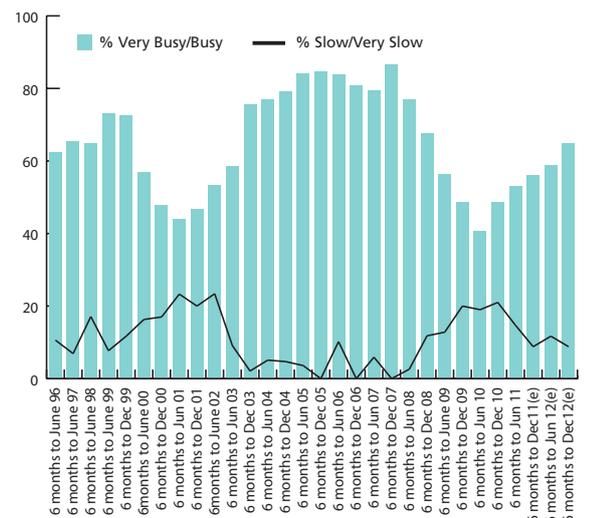
- The overseas business of construction firms accounted for 4.8% of all construction revenue in 2011/12. Whilst this share remained well below the plus 10% peak years of 2002/03 to 2004/05, by size it constituted the sixth largest market sector of respondents (of a total of 16 sectors surveyed).
- Revenue from overseas business rose by 6.8% in 2010/11 following a decline of 3.8% in the previous year. Respondents linked this to new project opportunities arising from a step-up in infrastructure developments in the Asian region.
- Total revenue from export business is expected to grow by 7.3% in 2011/12, followed by a further rise of 7.9% in 2012/13. This equates to approximately \$6.1 billion of overseas revenue to be generated by respondents over this two year period.

Percentage



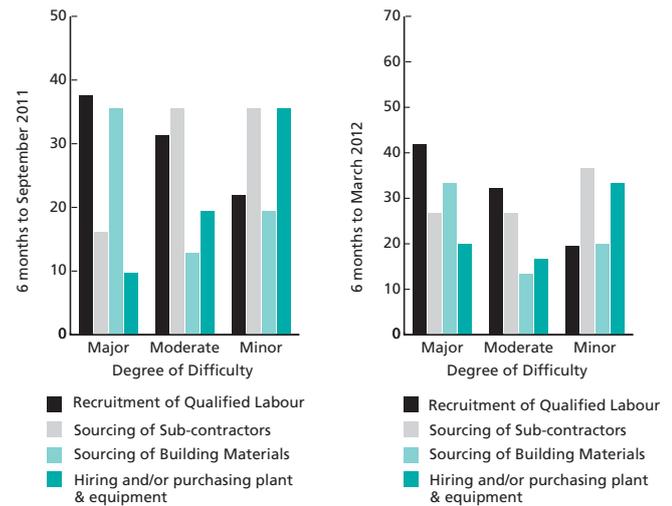
LEVELS OF ACTIVITY

- Reflecting the increasing shift to project re-starts, particularly in the resources sector, levels of activity improved over the first half of 2011. In total, 52.9% of respondents reported operating at busy or very busy levels of activity during this six months period, a rise from 48.5% in the previous six months period.
- During the second half of 2011 activity is expected to register further improvement (55.9% very busy/busy), with this proportion again increasing during the six months to June 2012 (58.8%). By the second half of 2012, close to two thirds of businesses (64.7%) anticipate busy or very busy operating conditions.
- Rising activity during the second half of 2010 and into 2011 saw a slight lift in the average level of industrial/construction capacity in use to 83.7% in August/September 2011 from 82.9% six months earlier.
- This marked the highest capacity utilisation reading over the past 2 ½ years., although it remained down on the most recent peak levels of approximately 90.0% in late 2007 and early 2008 prior to the strong hit to construction demand from the Global Financial Crisis.



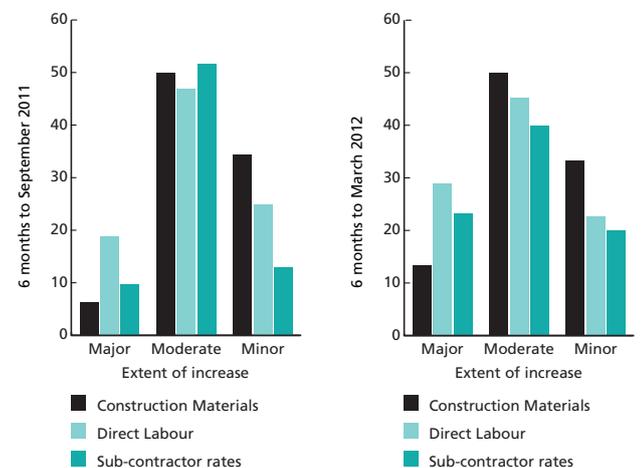
SUPPLY CONSTRAINTS

- Businesses are also facing increased pressures in the procurement of building materials and capital equipment and, more significantly, worsening skill shortage bottlenecks. Reflecting robust resource activity and a solid pipeline of resource/ infrastructure construction projects, more than two thirds of businesses (68.8%) (up from 65.7% six months ago) reported either major or moderate difficulty in the recruitment of qualified labour during the six months to September 2011. This was followed by the sourcing of sub-contractors with 51.6% citing major or moderate difficulty (up from 46.9%).
- For capital supplies, 48.4% (up from 46.9%) reported major or moderate difficulty in the sourcing of building materials, while 29.1% (up from 21.9%) reported major or moderate difficulty in the hiring and purchasing of equipment.
- Supply constraints are expected to continue to exert strong pressures during the coming months. Over the six months to March 2012, a higher proportion of firms expect major or moderate difficulty in the recruitment of qualified labour (74.2%), sourcing of sub-contractors (53.4%) and the hiring and purchasing of equipment (36.7%). A slightly lower proportion of businesses expect major or moderate difficulty in the sourcing of building materials (46.6%).



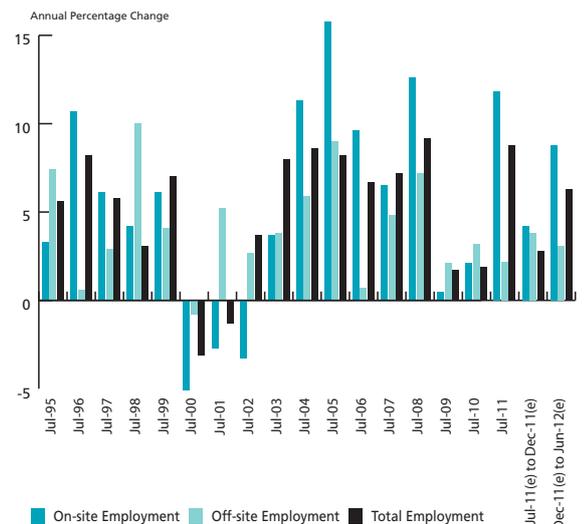
INPUT COSTS

- The rise in supply-side constraints is being reflected in upward pressure on a range of input costs. During the six months to September 2011, 65.7% and 61.3% of businesses cited major or moderate increases in direct labour costs and sub contractor rates respectively. Six months ago, the corresponding proportions were 56.3% and 50.0%.
- Pressures on material costs have remained high, although the proportion of businesses reporting major or moderate increases in construction materials in the six months to September 2011 (56.3%) was lower than the corresponding proportion (62.5%) six months ago.
- The impact of stronger demand requirements, particularly in the infrastructure and the expanding resources sector, is expected to result in increased upward pressure on all costs during the six months to March 2012. Over this period, the proportion of firms anticipating major or moderate increases is forecast to rise to 63.3% for construction materials; 74.2% for direct labour and; 63.3% for sub-contractor rates.



EMPLOYMENT

- In line with strengthening activity total employment increased by 8.8% in the year to July 2011 following growth of 1.9% during the previous 12 months period. Employment increases were more prevalent among employees principally engaged on-site (+11.8%) and sub-contract tradesmen (+8.6%) with the higher volume of work placing the strongest demand on on-site resources.
- Sustained growth in work levels will promote continued job gains over the remainder of 2011 and during the first half of 2012. Over the period July to December 2011, total employment is forecast to rise by a further 2.8%, with increases expected to be at the highest level for on-site workers (+4.2%).
- Thereafter to June 2012, total employment is expected to register a further increase of 6.3%. Over this period the expansion of the workforce is again strongly centered on the increased hiring of on-site employees (+8.8%). The number of off-site employees and sub-contract tradesmen is expected to rise by 3.1% and 5.3% respectively.



VALUE OF TURNOVER IN CONSTRUCTION WORK	PERCENTAGE CHANGE			
	% OF 2010/11 TURNOVER	2010/11 ON 2009/10	2011/12(E) ON 2010/11	2012/13(E) ON 2011/12(E)
UTILITIES INFRASTRUCTURE				
Electrical Power Generation & Supply	1.3	8.7	23.2	14.6
Sewerage, drainage and water storage	2.6	-9.3	5.1	8.0
Sub-total	3.9	-3.9	11.1	10.5
TRANSPORT INFRASTRUCTURE				
Roads and freeways	15.9	14.0	8.1	13.5
Rail projects	6.1	6.2	19.4	14.3
Sub-total	22.0	11.7	11.3	12.6
Transmission and telecommunications Infrastructure	2.7	4.6	15.9	16.3
Other civil projects	16.8	3.0	10.7	10.3
Pipelines	1.4	-22.3	15.6	9.1
Sub-total Infrastructure	46.8	5.3	11.4	11.6
MINING MINERAL PROCESSING ETC	21.0	12.2	15.5	17.7
INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	0.2	-7.9	8.7	9.9
Oil refineries and gas processing facilities	2.3	15.1	18.4	19.8
Other industrial plants	0.9	13.2	25.4	7.3
Sub-total Industrial Construction	3.4	12.8	19.6	15.8
COMMERCIAL CONSTRUCTION				
- Private Sector	10.6	1.2	1.7	7.9
- Public Sector	10.8	4.8	3.1	4.6
Sub-total Commercial Construction	21.4	2.9	2.4	6.2
APARTMENTS	0.6	2.0	0.3	4.8
OVERSEAS BUSINESS	4.8	6.8	7.3	7.9
OTHER	2.0	-2.6	6.5	1.2
TOTAL	100.0	6.3	10.3	12.0

EMPLOYMENT	YEAR TO JULY 2011 (% CHANGE)	EXPECTED JULY TO DEC. '11 (% CHANGE)	EXPECTED DEC '11 TO JUNE '12 (% CHANGE)	EXPECTED JULY '11 TO JUNE '12
On-site employees	11.8	4.2	8.8	13.1
Off-site employees	2.2	3.8	3.1	7.1
Sub-contract labour	8.6	1.1	5.3	6.4
TOTAL	8.8	2.8	6.3	9.3

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to December 2010	12.1	36.4	30.3	21.2	0.0
Six months to June 2011	17.6	35.3	32.4	14.7	0.0
EXPECTED					
Six months to December 2011	20.6	35.3	35.3	8.8	0.0
Six months to June 2012	23.5	35.3	29.4	8.8	2.9
Six months to December 2012	23.5	41.2	26.5	8.8	0.0

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