

## **MEDIA RELEASE**

### **STRICTLY EMBARGOED FOR PUBLICATION** **UNTIL MONDAY 24 OCTOBER 2011**

#### **RESOURCES SECTOR TO BOOST ENGINEERING CONSTRUCTION**

Resource-related projects are expected to significantly boost the engineering and commercial construction sectors over the 2011/12 and 2012/13 financial years, according to Australia's leading construction companies. The latest Australian Industry Group/Australian Constructors Association Outlook Survey anticipates that after lifting 6.3% in 2010/11 (current prices), the total value of engineering and commercial construction work will expand by 10.3% in 2011/12 before lifting a further 12.0% the following year.

This growth will be largely underpinned by engineering construction with total turnover expected to increase by 13.0% in 2011/12 and 14.2% in 2012/13. Significant mining investment and the strong pipeline of heavy industrial projects including oil and gas processing, will drive this growth. Other civil mining-related projects, such as port upgrades, as well as infrastructure projects including expanding roads and railways, will also contribute to the rise in activity.

The growth prospects are not as significant for commercial construction. The total value of commercial construction is forecast to grow by a subdued 2.4% in 2011/12 followed by a stronger 6.2% in 2012/13, largely due to an anticipated step-up in private sector investment. Weak conditions in the apartment building sector are expected to continue with a fall of -1.2% in 2011/12 before picking up 4.8% in 2012/13.

In line with the strengthening in activity, total employment is expected to lift 9.1% in 2011/12.

Despite the overall positive forecast, supply constraints are expected to intensify. Skills shortages remain a key concern with more than two thirds of businesses surveyed (68.8%) reporting moderate or major difficulty in recruiting skilled labour. This is expected to lift to 74.2% over the next six months. Businesses are also facing pressures in the sourcing of capital supplies with 48.4% currently reporting major or moderate difficulty in the sourcing of building materials. The rise in supply-side constraints is being reflected in upward pressure on a range of input costs.

Australian Industry Group Chief Executive, Heather Ridout, said: "The very strong outlook for engineering construction demonstrates that the historic surge in investment in mining and mining-related infrastructure is back in top gear. The Outlook also shows that the broader building and construction industry still faces many challenges. Residential construction remains in the doldrums and while commercial construction shows welcome signs of life, prospects very much depend on the market segment and the location.

"In stark contrast the very strong pipeline of projects in the engineering construction sector related to major resource developments, telecommunications, energy generation transmission and distribution as well as state government infrastructure projects, has a different set of challenges particularly around skill shortages," Mrs Ridout said.

Australian Constructors Association (ACA) President, Peter Brecht, said: "The survey underlines the solid growth prospects for Australia's non-residential construction industry on the back of strong resources investment and significant planned infrastructure work.

"Despite the solid pipeline of work, businesses are clearly facing increased pressures in the procurement of building materials and capital equipment, and more significantly, worsening skill shortage bottlenecks. Pressure will be on the industry to increase productivity and ensure continued investment.

"However, the prospects for the industry are positive underpinned by robust growth in engineering construction work and encouraging signs of recovery in the commercial construction sector," Mr Brecht said.

**Key Findings:**

- Australia's leading construction companies anticipate strong growth, largely driven by the resources sector, during the 2011/12 and 2012/13 financial years.
- The latest Australian Industry Group/Australian Constructors Association Outlook survey predicts that after rising 6.3% in 2010/11 (current prices) the total value of non-residential construction work will rise 10.3% in 2011/12 before lifting a further 12.0% in 2012/13.
- Engineering construction will experience the strongest growth with a lift of 13.0% in 2011/12 and 14.2 in 2012/13.
- Resource-related projects will largely drive engineering growth projects with solid support also coming from transport infrastructure, telecommunications and electrical power generation and supply.
- Commercial construction will continue to lag engineering construction, with the sector expected to lift 2.4% in 2011/12 before gaining some more momentum with a lift of 6.2% in 2012/13.
- Apartment construction is expected to remain lacklustre – dropping -1.2% in 2011/12 before lifting 4.8% in 2012/13.
- Supply construction and input cost pressures remain and are expected to intensify: 68.8% of businesses reported major or moderate difficulty recruiting qualified labour in the six months to September, while 48.4% reported the same level of difficulty when it came to sourcing building materials.
- 74.2% of companies expect moderate to major difficulty when recruiting skilled labour over the next six months.
- Companies are reporting significant rises in input costs with 65.7% citing moderate or major lifts in direct labour costs in the six months to September 2011.
- Total employment is expected to lift 9.1% in 2011/12.

**Link to full report:** <http://www.aigroup.com.au/portal/site/aig/constructionoutlook/>

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**Background:** The Australian Industry Group – Australian Constructors Association Construction Outlook 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 \$30 billion or approximately 30% of total industry activity.