

# Outlook

MAY 2012

## RESOURCE CONSTRUCTION POISED FOR FURTHER STRONG GROWTH

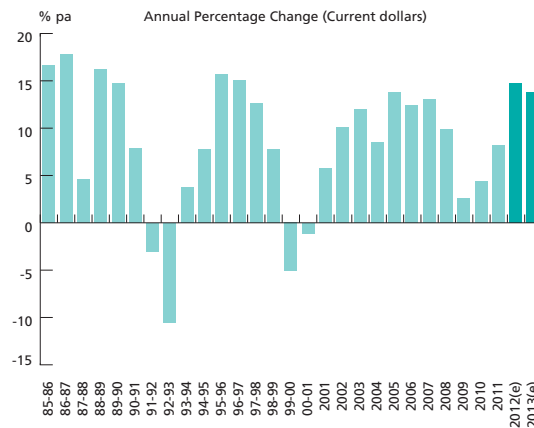
### KEY FINDINGS

- Australia's leading construction companies are projecting strong growth in the value of total non-residential building activity over the course of 2012 and 2013. The main driver of growth will be the resources sector. Both mining and heavy industrial resource based construction are forecast to expand at annual rates of plus 20% in 2012 and 2013. However, businesses are facing increased pressures in the procurement of building materials and capital equipment and, more significantly, widespread skill shortage bottlenecks. These supply constraints are exerting upward pressure on input costs.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after experiencing growth of 8.2% in 2011 (current prices), businesses expect the value of total engineering and commercial construction work to expand by 14.7% in 2012, with similarly solid growth (13.8%) forecast in 2013.
- Engineering construction is expected to drive growth with total turnover increasing by 17.1% in 2012 and 15.4% in 2013 underpinned by mining investment and the strong pipeline of heavy industrial projects, led by oil and gas processing. This will be backed by strong support from transport infrastructure, electrical power generation projects and mining-related "other" civil projects, such as port upgrades and terminals. Telecommunications is also set to increase solidly due to the roll-out of the National Broadband Network (NBN).
- While commercial construction is expected to continue to struggle, activity is forecast to gain some momentum over the next two years. With more projects starting to receive the go ahead, the total value of commercial work is forecast to recover moderately from a 6.0% decline in 2011 to increase by 6.1% in 2012 and a further 7.2% in 2013.

### OUTLOOK 2012

- Growth in total turnover from construction work is forecast to rise at a rate of 14.7% (current dollars) in 2012, following an increase of 8.2% in the previous year.
- Mining infrastructure work is forecast to underpin the industry's solid growth outlook with an increase of 25.5% expected in 2012. The impact of strong resources investment is further reflected in a projected increase of 19.9% in heavy industrial construction, led by "other" downstream mineral processing plants (+29.2%) and the oil and gas processing sector (+14.8%).
- Infrastructure activity is also expected to be a major driver of growth with large transport projects, resources infrastructure and the NBN supporting higher activity levels. Solid increases are expected in both road (+10.9%) and rail projects (+31.7%). Other key infrastructure growth areas include telecommunications (13.8%), electricity generation and supply projects (10.3%) and other civil projects (+11.0%), the latter category reflecting construction on port projects to boost commodity export capacity.
- After declining in 2011, the value of commercial construction work is expected to expand by 6.1% in 2012.

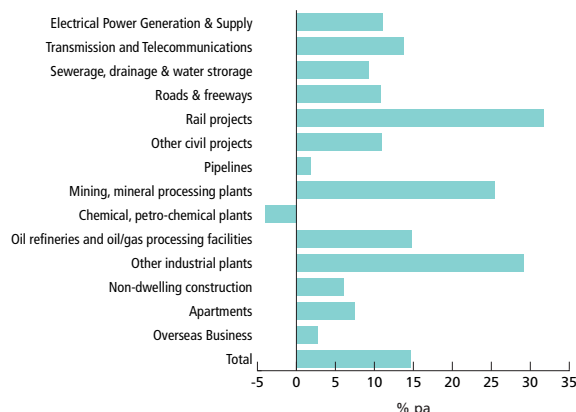
### TURNOVER FROM CONSTRUCTION WORK



### CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2013

SECTOR	% CHANGE		
	2011	2012 (F)	2013 (F)
<b>INFRASTRUCTURE</b>	11.4	13.0	9.5
<b>MINING</b>	16.5	25.5	24.7
<b>HEAVY INDUSTRIAL</b>	30.1	19.9	30.2
<b>TOTAL ENGINEERING</b>	13.6	17.1	15.4
<b>NON-RESIDENTIAL BUILDING (COMMERCIAL CONSTRUCTION)</b>	-6.0	6.1	7.2
- PRIVATE SECTOR	0.0	6.7	7.1
- PUBLIC SECTOR	-12.2	5.5	7.4
<b>APARTMENTS</b>	-4.7	7.5	4.0
<b>OVERSEAS BUSINESS</b>	-1.0	2.7	6.3
<b>TOTAL CONSTRUCTION</b>	8.2	14.7	13.8

### 2012 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



### WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in March/April 2012 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.

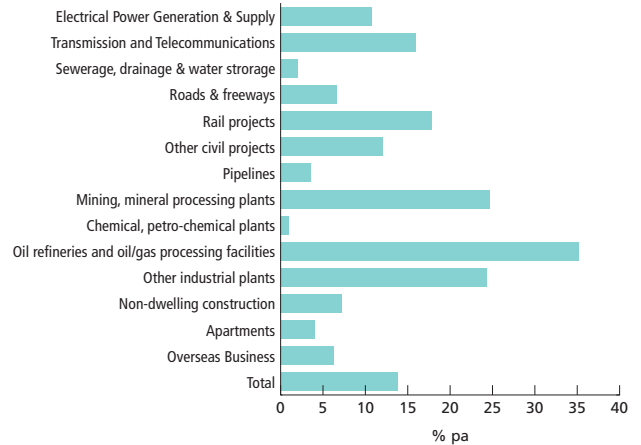
### SPONSOR STATEMENT

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.

## OUTLOOK 2013

- The total value of construction turnover is forecast to register further solid growth of 13.8% in 2013 as a high volume of major projects continue to progress through the development pipeline to the construction stage.
- With strong investment in new mine capacity set to continue, the value of mining construction is projected to maintain strong growth, with a rise of 24.7% expected in 2013.
- The outlook for heavy industrial construction in 2013 will be again be dominated by a high level of growth (35.2%) projected in oil and gas processing projects (consistent with the continued strong medium term growth expected in Australia's LNG exports) and "other" downstream mineral processing plants (+24.3%).
- The infrastructure market is forecast to continue expand at a solid rate of 9.5%. Rail projects (+17.9%) constitute a key prospective growth area, backed by electricity generation & supply (+10.8%) and transmission and telecommunications (16.0%). Ports/terminals construction is also expected to remain strong, as reflected in the solid growth in other civil projects of 12.1%.
- Prospects are for a slight step up in growth to 7.2% in turnover generated from commercial construction activity. Private sector building activity is expected to rise by 7.1% while investment in new hospitals and other health care facilities is likely to underpin the 7.4% growth outlook for public sector building activity.

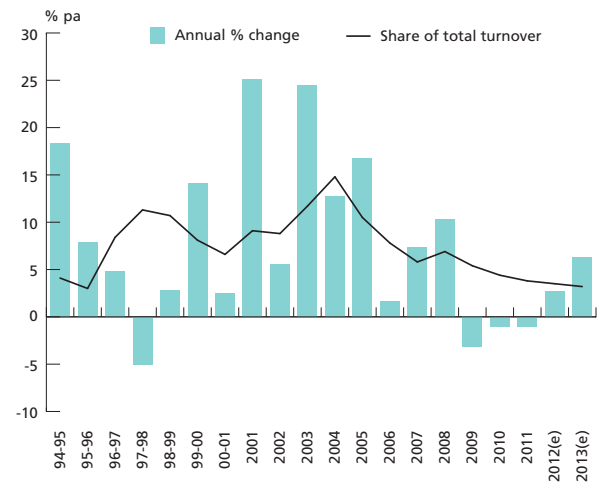
## 2013 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



## OVERSEAS BUSINESS

- The overseas business of construction businesses accounted for 3.8% of all construction revenue in 2011. Whilst this share remained well below the plus 10% peak years of 2002/03 to 2004/05, by size it constituted the eighth largest market sector of respondents (of a total of 16 sectors surveyed).
- Revenue from overseas business fell by 1.0% in 2011 following a similar decline in the previous year. Respondents linked this to the slow uptake of new projects, with the strong Australian dollar also cited as having a negative influence on growth in revenue from overseas projects.
- Total revenue from export business is expected to grow by 2.7% in 2012, followed by a further rise of 6.3% in 2013. This equates to approximately \$2.2 billion of overseas revenue to be generated by respondents over this two year period.

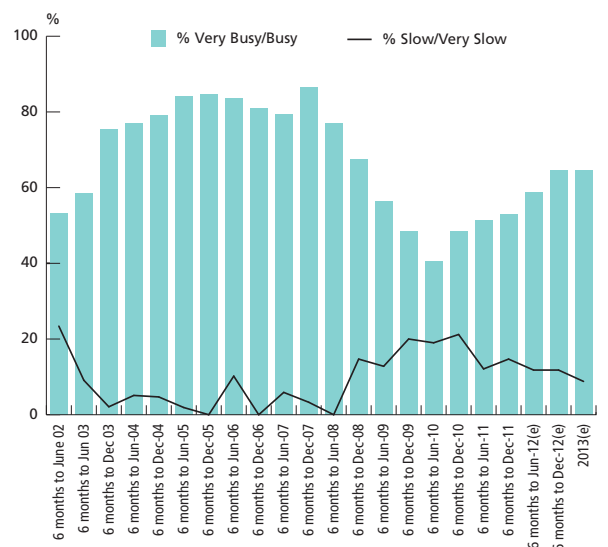
## OVERSEAS BUSINESS



## LEVELS OF ACTIVITY

- In line with rising infrastructure and resource related construction, levels of activity improved over the second half of 2011. In total, 55.8% of respondents reported operating at busy or very busy levels of activity during this six months period, a rise from 52.9% in the previous six months period.
- During the first half of 2012 activity is expected to register further improvement (58.8% very busy/busy), with this proportion again increasing during the six months to December 2012 during which time almost two thirds of businesses (64.7%) anticipate busy or very busy operating conditions. This level of activity is expected to be sustained during 2013.
- Rising activity during the second half of 2011 and into 2012 saw a slight lift in the average level of industrial/construction capacity in use to 84.9% in February/March 2012 from 83.7% six months earlier.
- This marked the highest capacity utilisation reading over the past three 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.

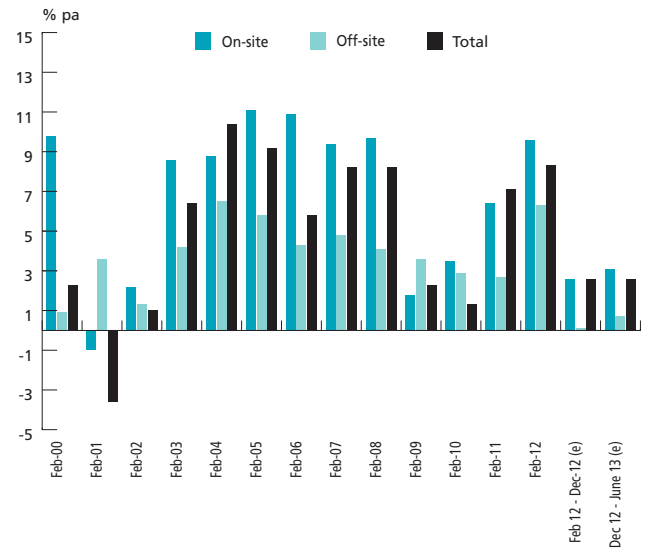
## LEVELS OF ACTIVITY



## EMPLOYMENT

- Strengthening activity has underpinned solid jobs creation with total employment increasing by 8.2% in the year to February 2012 following growth of 7.1% during the previous 12 months period. Employment increases were more prevalent among employees principally engaged on-site (+9.6%) and sub-contract tradesmen (+6.3%) with the higher volume of work placing the strongest demand on on-site resources.
- The strength in activity projected in the year ahead is expected to underwrite continued job gains. Over the period February 2012 to December 2012, total employment is forecast to rise by a further 2.6%, with increases confined to on-site (+2.6%) and sub-contract (+2.9%) workers. Off-site employee numbers are expected to remain unchanged over this period.
- Thereafter to June 2013, total employment is expected to register a further increase of 2.6%. Over this period the expansion of the workforce is centered on the increased hiring of on-site employees (+3.1%). The number of off-site employees and sub-contract tradesmen is expected to rise by 0.7% and 2.2% respectively.

## EMPLOYMENT

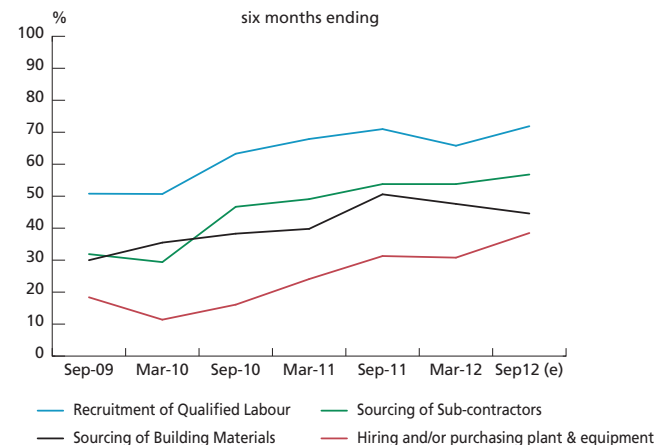


## SUPPLY CONSTRAINTS

- Reflecting robust resource activity and a solid pipeline of resource/infrastructure construction projects, businesses are continuing to face widespread difficulties in the sourcing of skilled labour. This is despite evidence of a slight easing in the past six months. During the six months to March 2012, a high 63.6% of businesses reported either major or moderate difficulty in the recruitment of qualified labour (as compared to 68.8% six months ago). The sourcing of sub-contractors was also a dominant supply constraint with 51.6% citing major or moderate difficulty (unchanged from the proportion six months ago).
- For capital supplies, 45.4% (down slightly from 48.4%) reported major or moderate difficulty in the sourcing of building materials, while 27.3% (unchanged) 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 September 2012, a higher proportion of firms expect major or moderate difficulty in the recruitment of qualified labour (69.7%), sourcing of sub-contractors (54.5%) and the hiring and purchasing of equipment (36.3%). A slightly lower proportion of businesses expect major or moderate difficulty in the sourcing of building materials (42.4%).

## SUPPLY CONSTRAINTS - LABOUR AND CAPITAL SUPPLIES

(% reporting major/moderate difficulty)

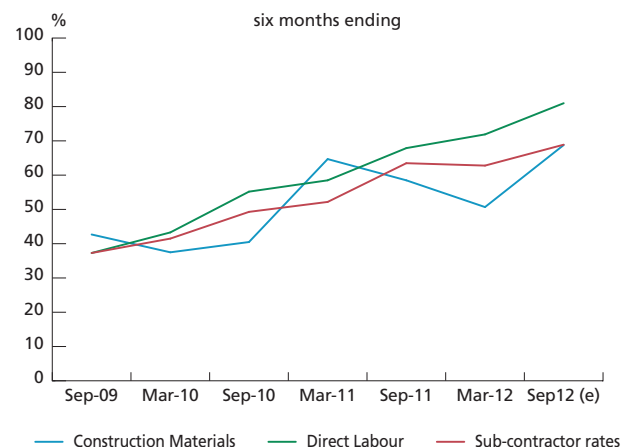


## INPUT COSTS

- The rise in supply-side constraints is being reflected in upward pressure on a range of input costs. During the six months to March 2012, 69.7% of businesses cited major or moderate increases in direct labour costs. Six months ago, this proportion was 65.7%. For sub-contractor rates, 60.6% reported major or moderate increases (broadly unchanged from 61.3% six months ago)
- 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 March 2012 (48.5%) was lower than the corresponding proportion (56.3%) 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 September 2012. Over this period, the proportion of firms anticipating major or moderate increases is forecast to rise to 66.6% for construction materials, 78.8% for direct labour and; 66.7% for sub-contractor rates.

## INPUT COSTS

(% reporting major/moderate increase)



## VALUE OF TURNOVER IN CONSTRUCTION WORK

	PERCENTAGE CHANGE			
	% OF 2011 TURNOVER	2011 ON 2010	2012(E) ON 2011	20113(E) ON 2012(E)
<b>UTILITIES INFRASTRUCTURE</b>				
Electrical Power Generation & Supply	0.7	5.9	10.3	10.8
Sewerage, drainage and water storage	4.3	6.5	9.3	2.0
<b>Sub-total</b>	<b>5.0</b>	<b>-3.9</b>	<b>11.1</b>	<b>10.5</b>
<b>TRANSPORT INFRASTRUCTURE</b>				
Roads and freeways	24.0	10.6	10.9	6.6
Rail projects	5.7	14.2	31.7	17.9
<b>Sub-total</b>	<b>29.7</b>	<b>11.2</b>	<b>14.8</b>	<b>9.1</b>
Transmission and telecommunications Infrastructure	4.7	1.7	13.8	16.0
Other civil projects	8.8	17.2	11.0	12.1
Pipelines	2.0	7.3	1.8	3.6
<b>Sub-total Infrastructure</b>	<b>50.2</b>	<b>11.4</b>	<b>13.0</b>	<b>9.5</b>
<b>MINING MINERAL PROCESSING, ETC</b>	23.5	16.5	25.5	24.7
<b>INDUSTRIAL CONSTRUCTION</b>				
Chemical, petro-chemical plants etc	0.2	11.8	-4.0	1.0
Oil refineries and gas processing facilities	2.0	6.0	14.8	35.2
Other industrial plants	1.3	3.7	29.2	24.3
<b>Sub-total Industrial Construction</b>	<b>3.5</b>	<b>30.1</b>	<b>19.9</b>	<b>30.2</b>
<b>NON DWELLING CONSTRUCTION</b>				
- Private Sector	9.0	0.0	6.7	7.1
- Public Sector	7.9	-12.2	5.5	7.4
<b>Sub-total Non-Dwelling Construction</b>	<b>16.9</b>	<b>6.1</b>	<b>6.1</b>	<b>7.2</b>
<b>APARTMENTS</b>	1.4	-4.7	7.5	4.0
<b>OVERSEAS BUSINESS</b>	3.8	-1.0	2.7	6.3
<b>OTHER</b>	0.7	-10.7	6.2	7.5
<b>TOTAL</b>	<b>100.0</b>	<b>8.2</b>	<b>14.7</b>	<b>13.8</b>

EMPLOYMENT	YEAR TO FEBRUARY 2012 (% CHANGE)	EXPECTED FEB TO DEC '12 (% CHANGE)	EXPECTED DEC '12 - JUNE '13 (% CHANGE)
On-site employees	9.6	2.6	3.1
Off-site employees	6.3	0.1	0.7
Sub-contract labour	7.1	2.9	2.2
<b>TOTAL</b>	<b>8.2</b>	<b>2.6</b>	<b>2.6</b>

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to June 2011	17.6	35.3	32.4	14.7	0.0
Six months to December 2011	17.6	38.2	29.4	11.8	2.9
<b>EXPECTED</b>					
Six months to June 2012	17.6	41.2	29.4	11.8	0.0
Six months to December 2012	23.5	41.2	23.5	11.8	0.0
During 2013	23.5	41.2	26.5	8.8	0.0

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