

## **MEDIA RELEASE**

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### **Resource sector to continue to drive construction growth**

The resources sector will remain the main driver of growth across the non-residential construction sector for 2012 and 2013 according to the latest Australian Industry Group/Australian Constructors Association Construction Outlook survey. The latest forecast shows construction businesses expect the total value of engineering and commercial construction to expand by 14.7% in 2012 and 13.8% in 2013. This comes on top of growth of 8.2% in 2011.

Engineering construction will underpin growth with turnover from the sector expected to increase by 17.1% in 2012 and 15.4% in 2013. Mining investment and the strong pipeline of heavy industrial projects, led by oil and gas processing will drive this growth. It will be strongly supported by transport infrastructure, power generation projects and other civil mining-related projects including port upgrades. Telecommunications is also set to increase solidly due to the roll-out of the National Broadband Network.

The outlook for commercial construction is not anywhere near as strong although it will build some momentum with more projects getting approval. The total value of commercial construction is expected to increase by 6.1% in 2012 and 7.2% in 2013.

Despite the strong overall growth forecast, the industry is facing ongoing skills shortages. A higher proportion of businesses (69.7%) expect moderate to major difficulty when recruiting skilled labour over the next six months. This is a real concern as many major commercial and engineering projects are due to get underway over the next two years. Businesses are also facing significant difficulties in the procurement of capital supplies including building materials and equipment.

Australian Industry Group Chief Executive, Innes Willox, said: "Australia's engineering construction sector is powering ahead by virtue of its role in the massive scaling-up of Australia's mining capacity. This part of the industry is bursting at the seams with skill shortages widely anticipated and rising expectations of shortages of raw materials and equipment. There are risks that wage and price pressures will spill over into the broader economy at a time when much of the non-mining economy is already under considerable pressure. The Construction Outlook Report also points to a tentative, although very welcome recovery in commercial construction after a particularly tough period since the Global Financial Crisis," Mr Willox said.

Australian Constructors Association (ACA) President, Peter Brecht, said: "The survey underlines the continuing strong growth phase in Australia's non-residential construction industry driven by the resources sector and backed by the sustained expansion of a range of non-mining infrastructure projects.

"However, a clear theme emerging from the survey is the widespread difficulties faced by businesses in the sourcing of both skilled labour and capital supplies, including building materials and equipment. These supply constraints are being reflected in increases on a range of input costs which is adding to the pressure on margins and heightening the exposure of businesses to project cost overruns.

"Nevertheless, the growth outlook remains robust and there are encouraging signs of the commercial construction sector will start to recover, albeit modestly, over the next two years," Mr Brecht said.

### **Key Findings:**

- After a growth of 8.2% in 2011 (current prices), the latest Australian Industry Group/Australian Constructors Association Construction Outlook survey forecasts growth in the total value of engineering and commercial construction work of 14.7% in 2012 and 13.8% in 2013.
- This growth will be driven by engineering construction which is expected to increase by 17.1% in 2012 and 15.4% in 2013.
- Within engineering construction, the value of mining infrastructure work and heavy industrial resource based construction is forecast to expand at annual rates of 20% plus in 2012 and 2013.
- Other key growth areas include telecommunications, electricity generation and supply projects and other civil projects such as port upgrades and terminals.
- Supply constraints and input cost pressures are at high levels within the industry: Almost two-thirds (63.6%) of businesses reported major or moderate difficulty recruiting qualified labour in the six months to March 2012 while 45.4% reported the same level of difficulty when it came to sourcing building materials.
- A higher proportion of businesses (69.7%) expect moderate to major difficulty when recruiting skilled labour over the next six months.
- These supply constraints are being reflected in upward pressures on costs. 78.8% of businesses expect moderate or major lifts in direct labour costs in the six months to September 2012.

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

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**Background:** 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.

