

## MEDIA RELEASE

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### RESOURCES AND INFRASTRUCTURE CONSTRUCTION GROWTH TO SLOW

The nation's leading construction companies are forecasting slower growth in resources and infrastructure construction activity in the 2012/13 and 2013/14 financial years. Largely on the back of slower growth, the latest Australian Industry Group/Australian Constructors Association Outlook Survey anticipates that growth in the total value of construction work will slow from 14% in 2011/12 to the still robust levels of 10.3% in 2012/13 and to 8.0% in 2013/14.

This deceleration in growth in total activity also reflects an anticipated slump in apartment building and a fall off in the growth of heavy industrial projects while commercial construction is expected to pick up only slightly from recent flat levels. The easing in growth in resources and infrastructure construction includes major road and mining construction projects while growth is expected to remain solid in the oil and gas sector. The ongoing roll-out of the National Broadband Network (NBN) will drive work in telecommunications.

Across the non-residential construction sectors (industrial, commercial and engineering), engineering construction is expected to again experience the strongest growth over the next two financial years with a forecast lift of 11.7% in 2012/13 and 9.0% in 2013/14.

Supply constraints including significant difficulties in the sourcing of skilled labour and capital are expected to continue to negatively impact the non-residential sector. For example, 56% of businesses expect major or moderate difficulty in the recruitment of skilled labour during the six months to March 2013. Rising input costs – including labour and construction materials – are also putting more pressure on already tight margins.

Australian Industry Group Chief Executive, Innes Willox, said: "While the construction sector is set to continue to provide a source of growth in the economy, our latest Construction Outlook Survey highlights the difficult conditions continuing to face the non-residential construction industry nationally. Costs are rising and margins have been compressed. The expected deceleration of growth in the engineering construction sector will have ramifications up and down the supply chain. It is also an early warning of the need to build new sources of growth as the mining investment boom subsides," Mr Willox said.

Australian Constructors Association (ACA) Vice-President, John Flecker, said: "This survey reflects the potential growth still evident in Australia's non-residential construction sector. But any increases in supply side costs or industrial disharmony will disadvantage industry participants as the major companies reassess the viability of specific projects. The industry will need to address current and potential cost pressures to maintain its competitive advantage in the resources sector and improve its productivity in local infrastructure construction," Mr Flecker said.

#### Key Findings:

- Growth in the total value of activity in the non-residential construction sector is expected to decelerate in 2012/13 and 2013/14 financial years according to the latest Australian Industry Group/Australian Constructors Association Construction Outlook survey.
- The survey forecasts that after increasing by 14% in 2011/12 (current prices), growth in the total value of non-residential construction work will ease to 10% in 2012/13 and 8.0% in 2013/14.
- In 2012/13, the growth is expected to be particularly solid in oil and gas processing projects (33.5%). Transmission and telecommunications work is also expected to grow strongly (+13.0%).
- A further easing in mining and heavy industrial construction growth is forecast for 2013/14. Growth in infrastructure work is expected to be mainly generated from transmission and telecommunication work (+15.3%), rail (+12.1%) and electricity generation and supply projects (+9.7%).

- Recruitment of skilled labour remains a major concern and is expected to worsen as activity increases. 56% of businesses anticipate major or moderate difficulty in the recruitment of skilled labour during the six months to March 2013.
- Related to these labour supply concerns, 50% of businesses expect the sourcing of sub-contractors to be a major or moderate supply constraint in the six months to March 2013. This is followed by concerns about hiring and purchasing equipment (36.3%) and sourcing building materials (43.8%).
- Input costs continue to pose problems for construction companies. Of note, 68.8% of businesses cited moderate to major increases in their direct labour costs over the past six months.

**Link to full report:** <http://www.aigroup.com.au/link/dV>

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**Background:** The Australian Industry Group – Australian Constructors Association Construction Outlook survey was conducted in August/September 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 \$30 billion or approximately 30% of total industry activity.

