

MEDIA RELEASE

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Decline in mining construction work to weigh on major project activity

With mining-related construction investment easing from peak levels, Australia's leading construction companies are anticipating that the value of total construction activity will fall in real terms over the next couple of years. The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after solid growth of 10.6% p.a. in 2012/13, the total value of engineering and commercial construction work is expected to rise by just 2.0% p.a. in 2013/14 and by 1.0% p.a. in 2014/15 in nominal terms - representing a fall in real terms.

Growth in the value of engineering construction work is set to significantly drop from 12.9% in 2012/13 to 1.9% p.a. in 2013/14 before plateauing in 2014/15. This reflects weaker conditions across a range of infrastructure categories and resource-based heavy industrial sectors. However, telecommunications work is forecast to remain robust in line with the NBN roll-out and related investment. Levels of construction activity are also expected to hold up reasonably well in the oil and gas sector (despite a slower growth outlook) while civil projects (such as terminals and ports) are expected to still generate solid work in 2013/14 before weakening the following year.

Prospects for commercial construction remain subdued consistent with the soft and patchy nature of project activity within the sector. The survey points to growth in commercial work of 1.0% p.a. in 2013/14 followed by a mild pick-up in 2014/15 with growth of 4.4% p.a. anticipated.

Australian Industry Group Chief Executive, Innes Willox, said: "The Ai Group/Australian Constructors Association Construction Outlook Report highlights a central question facing the Australian economy: what will drive economic growth and increased living standards as mining investment eases? While some areas of engineering and commercial construction - notably telecommunications work and construction related to oil and gas projects - are expected to expand, these bright spots are not anticipated to compensate for the reduction in mining work over the next couple of years. With the flat outlook for other key parts of the economy on the back of weak non-mining investment in recent years; the dampening impacts of a strong domestic currency; and a legacy of an extended period of low productivity growth, there is no hiding from the extent of the challenges to be faced over the next couple of years," Mr Willox said.

Australian Constructors Association (ACA) Executive Director, Lindsay Le Compte, said: "The projected drop in the value of work highlights the need for public and private sector clients to engage with the industry to identify more effective strategies to support greater reliability of the construction pipeline. Issues such as the financing of projects, the cost of construction - including the cost of tendering - and how projects are incorporated within an overall sustainability framework, are important discussions that need to occur," Mr Le Compte said.

Key Findings:

Turnover from Construction work (% change per annum, current prices)

Sector	2012/13	2013/14(f)	2014/15(f)
TOTAL ENGINEERING	12.9%	1.9%	0.4%

COMMERCIAL CONSTRUCTION	3.1%	1.0%	4.5%
TOTAL CONSTRUCTION	10.6%	2.0%	1.0%

- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after solid growth of 10.6% p.a. in 2012/13 (current prices), the rate of increase in the total value of engineering and commercial construction work is expected to moderate markedly to 2.0% p.a. in 2013/14 followed by similar subdued growth of 1.0% p.a. in 2014/15.
- A decline in mining-related construction projects is expected to heavily impact on engineering construction over the next two years. Total engineering construction work is expected to grow by 1.9% p.a. in 2013/14 and remain broadly unchanged in 2014/15 with forecast growth of 0.4% p.a.
- Total employment weakened in the year to July 2013 with the rate of growth (0.9% p.a.) well below the increase of 6.5% p.a. recorded during the previous 12 months. With softer project demand, a decline in employment is forecast over the remainder of 2013 (-2.0% between July and December 2013). Thereafter to June 2014, workforce numbers fall at a slightly slower pace of 1.4%. Despite a weakening project pipeline, various large-scale projects continue to draw heavily on labour and capital requirements. Over the six months to March 2014, 59% of respondents expect major or moderate difficulty in the recruitment of skilled labour, as well as the sourcing of sub-contractors. This is followed by 47% of respondents expecting difficulties in the sourcing of building materials.
- Although the rate of input cost inflation is showing signs of moderating, pressures from cost increases continue to pose problems for a number of construction companies. Of note, over the past six months, the proportion of businesses citing moderate to major increases in their material costs and direct labour costs was 51.5% and 48.6% respectively.

Link to full report: <http://www.aigroup.com.au/link/g2>

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Background: The Australian Industry Group – Australian Constructors Association Construction Outlook survey was conducted in August/September 2013 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.

