

Outlook

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MAJOR CONSTRUCTION SET FOR INFRASTRUCTURE LIFT

Major construction value
2014/15: -4.1% p.a.

Major construction value
2015/16: -2.4% p.a.

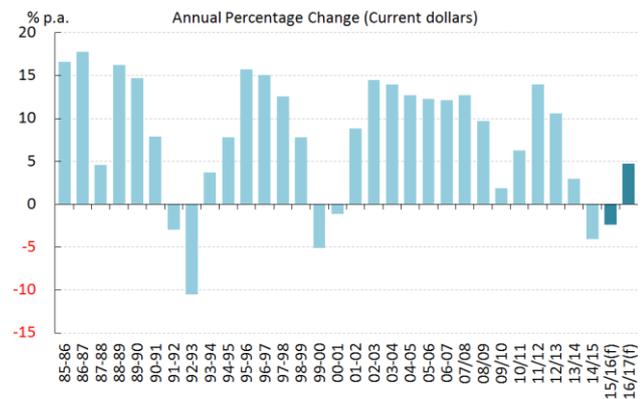
Major construction value
2016/17: +4.7%

Major construction jobs
2015/16: +0.1%

KEY FINDINGS

- The nation's leading construction companies are bracing for a further contraction in major project work through the financial year 2015/16. However, a recovery is expected in 2016/17 as a bigger pipeline of infrastructure activity helps to soften the impact of the downturn in mining and heavy industry investment. The outlook also points to a gradual recovery in commercial construction over the next two years, largely on the back of stronger private sector building activity.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that following a fall of 4.1% in financial year 2014/15 (current prices), the value of turnover from major project work is projected to decline by a further 2.4% in 2015/16, before recovering to rise by 4.7% in 2016/17.
- Total employment in non-residential construction is also forecast to fall through to December 2015 in response to the decline in mining-related work. However, a recovery in employment is expected during the first half of 2016 as rising infrastructure work leads to an increase in labour demand.
- Engineering construction is expected to fall by 5.2% in 2015/16 following a 5.3% decline in 2014/15. This mainly reflects continued falls in mining related engineering construction. The outlook is also negative across the heavy industrial sectors. In particular, the oil and gas processing sector is expected to significantly reduce its demand for major construction activity in 2015/16 and 2016/17 as current projects move to completion and prospects for new investment in the sector weaken.
- A key positive for the industry in 2016/17 is the boost expected from non-resources engineering work. The value of road and rail projects is forecast to grow strongly in 2016/17 in line with the emerging growth cycle in major urban transport infrastructure. Other notable increases are expected in telecommunications infrastructure work and "other" civil projects in 2016/17.
- Commercial construction activity (e.g. offices, retail and industrial premises) is expected to recover over the outlook period. Following a contraction in 2014/15, the total value of commercial construction work is expected to increase by 2.3% through 2015/16 and then accelerate to +4.3% in 2016/17. Private sector building work will be the main driver of growth in both years.
- For multi-level apartment developments, solid growth of 13.7% is expected in 2015/16, followed by a further 8.1% rise in 2016/17. This reflects the continuation of high numbers of apartment building approvals in recent months, particularly in Sydney, Melbourne and Brisbane, which will support further activity in this sector.

TURNOVER FROM CONSTRUCTION WORK



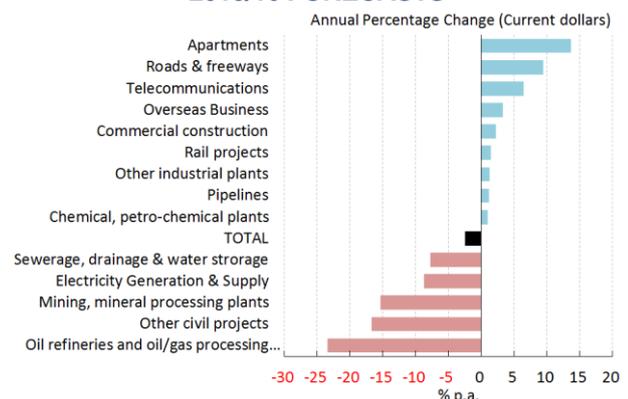
TURNOVER FROM CONSTRUCTION WORK: OUTLOOK AT A GLANCE

SECTOR	2014/15 % p.a.	2015/16f % p.a.	2016/17f % p.a.
Engineering	-5.3	-5.2	4.8
Commercial construction	-2.0	2.3	4.3
Apartments	15.9	13.7	8.1
Overseas business	-0.8	3.3	3.6
Total construction	-4.1	-2.4	4.7

OUTLOOK 2015/16

- For the 2015/16 financial year, the total value of turnover from major construction work is forecast to decline by 2.4% (current dollars). This comes after a 4.1% reduction in 2014/15.
- Largely in response to the shrinking pipeline of new mining-related projects, engineering construction is expected to decline by 5.2% in 2015/16. The outlook is also negative across the heavy industrial sectors. In particular, the value of work undertaken for the oil and gas processing sector is set to fall by 23.4% in 2015/16, as current large scale LNG and other projects move to completion and low gas prices curtail further investment.
- The value of infrastructure work (a sub-set of engineering construction in these data) is expected to hold steady in 2015/16. A key positive for this segment is the next round of major transport projects which will see the value of road construction rise by 9.5% in 2015/16. Telecommunications infrastructure is also set to expand further in 2015/16 (+6.5%). In contrast, the value of construction work is expected to contract in sewerage, drainage & water supply (-7.7%), electricity supply (-8.7%) and other civil projects (-16.7%).
- The value of commercial construction work is expected recover by a modest 2.3% in 2015/16. Although soft conditions continue to weigh on the commercial property market, the forward pipeline is being boosted by increased investment in tourism-related sectors such as accommodation, sport and recreational facilities.

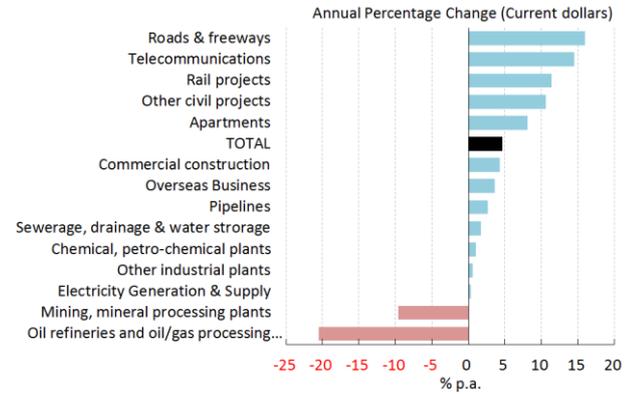
2015/16 FORECASTS



OUTLOOK 2016/17

- Turnover from major construction projects is forecast to recover by 4.7% in 2016/17 as public sector capital works programs support a higher level of infrastructure activity.
- Engineering construction** is expected to grow in value by 4.8%, in response to a solid upturn in infrastructure projects. Within engineering construction, the value of infrastructure work is expected to grow by 11.9% during 2016/17. This increase will be driven by the next phase of investment in urban transport infrastructure with projected rises in revenue from both road (16.0%) and rail projects (11.4%). The outlook is also strongly positive in the telecommunications sector (14.5%), in line with the roll out of the NBN and 4G networks. A recovery in revenue from other civil projects (10.6%) will come from various port expansions in the pipeline.
- In contrast, the value of resources-related projects within the engineering construction category will continue to reduce in 2016/17. This will be most evident in the large declines in in mine construction (-9.6%) and heavy industrial construction (-13.8%). This will include the value of work for the oil and gas processing sector (LNG processing and other facilities), which is set to fall by 20.5% in 2016/17.
- Commercial construction** is projected to make a further recovery in 2016/17 (+4.3%), led by private sector building activity (+6.0%). Public sector building work is expected to grow more slowly (+2.5%) reflecting a thinner project pipeline. In the longer term, demographic trends will support increased public-sector health and aged care facilities.

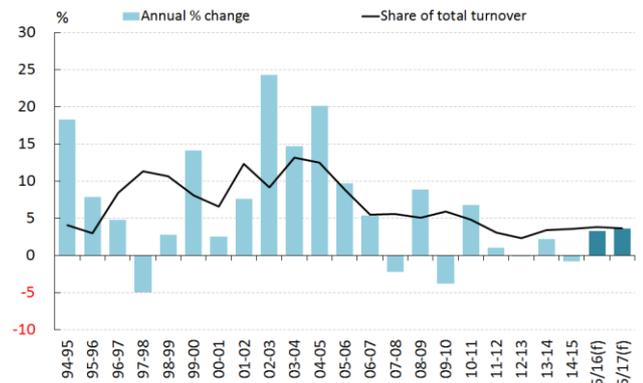
2016-17 FORECASTS



OVERSEAS BUSINESS

- The overseas business of construction businesses accounted for approximately 3.6% of all construction revenue in 2014/15, a share which is well below the 13.2% peak achieved ten years ago.
- Revenue from overseas business was broadly stable in 2014/15, reflecting a relatively subdued number of off-shore projects among respondents. Overseas revenue fell by 0.8% in nominal Australian dollar terms in 2014/15, following a rise of 2.2% in 2013/14.
- The outlook is for a moderate recovery over the next two years, with revenue from overseas business expected to rise by 3.3% in 2015/16, followed by a further increase of 3.6% in 2016/17. The lower Australian dollar is likely to have a positive influence, by raising the local currency value of overseas generated revenue and by improving the price competitiveness and attractiveness of Australian construction services to overseas buyers, in foreign currency terms.

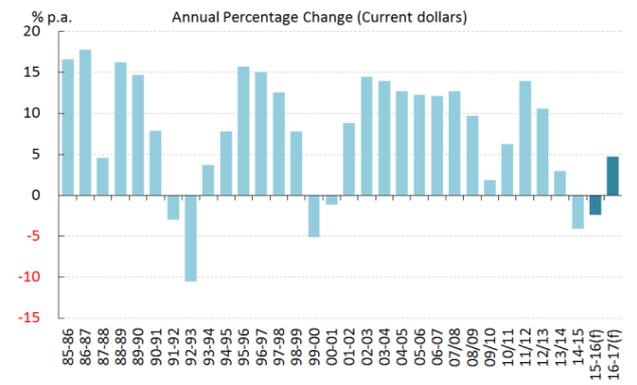
OVERSEAS BUSINESS



LEVELS OF ACTIVITY

- Levels of activity in the first half of 2015 were consistent with recent reductions in mining and resource-related construction projects. 43.8% of respondents reported 'very busy' or 'busy' activity during the six months to June 2015, down a touch from 44.4% in the previous six months. This was the lowest proportion of respondents reporting 'busy' or 'very busy' activity in the past five years.
- Over the second half of 2015, activity is expected to strengthen slightly, with 46.9% of businesses anticipating very busy or busy conditions.
- Further improvement is expected through the first half of 2016 (50.0% expecting to be very busy/busy) and during the financial year 2016/17, by which time 53.1% of respondents expect to be very busy or busy. This reflects the projected lift in commercial and infrastructure construction, cushioning the impact of reduced resources construction.
- The average level of industrial/construction capacity in use was 84.2% in September 2015, a rise of 1.4 percentage points from (82.8%) a year earlier.
- The current level of capacity utilisation is broadly in line with the average level recorded over the past five years, although it remains well below the peak of 90% in 2007-08.

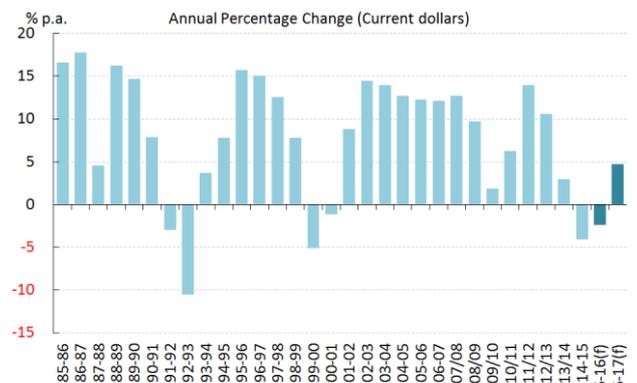
LEVEL OF ACTIVITY



EMPLOYMENT

- Labour demand intentions indicate that the current drop in non-residential construction employment is expected to continue through the second half of 2015.
- Reflecting the smaller pipeline of major projects, employment in non-residential construction contracted by 2.9% in the year to July 2015, following growth of 1.1% during the previous 12 months. Cutbacks and deferrals in resources investment plus project completions have led to reductions in sub-contract tradesmen (-6.2%) and employees engaged on-site (-1.2%). Off-site employment remained broadly unchanged during the twelve months to July 2015 (+0.6%).
- Total employment is expected to continue to contract over the remainder of 2015 (-1.5%). The number of sub-contract tradesmen and on-site employees are forecast to fall by 2.3% and 1.3% respectively. Off-site employment is expected to remain broadly stable (+0.6% expected).
- Looking further ahead, labour demand is expected to recover by 1.7% in non-residential construction in the six months to June 2016, in response to rising infrastructure work. Growth will be boosted by a 4.2% increase in the number of on-site employees, although a small decline is expected in sub-contract tradesmen (-1.0%). The number of off-site employees is predicted to stay broadly steady over the first six months of 2016 (-0.5%).

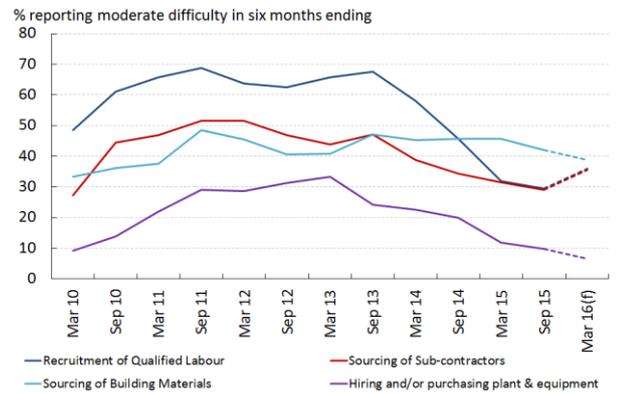
EMPLOYMENT



SUPPLY CONSTRAINTS

- Consistent with weaker labour demand and fewer mining-related projects, labour supply constraints have continued to moderate. 29.0% of respondents reported either major or moderate difficulty in the recruitment of skilled labour in the six months to September 2015, down slightly from 31.4% in the previous six months. Sourcing sub-contractors was also of less concern in the six months to September 2015, with 29.0% citing major or moderate difficulty, down from 31.4% in the previous six months.
- Sourcing building materials remains of widespread concern for the industry, with 41.9% of respondents reporting major or moderate difficulty in the six months to September 2015, down from 45.7% six months earlier.
- A lower proportion of businesses (9.8%) reported major or moderate difficulty with hiring and purchasing equipment in the six months to September 2015, down from 11.8% six months earlier and the lowest such proportion recorded.
- Looking ahead, a lift in workforce demand is expected to lead to increased difficulty in the recruiting of skilled labour (35.4% major or moderate) and sub-contractors (35.4%) in the six months to March 2016. Difficulties in the sourcing of building materials are expected to be only slightly less widespread (38.8%). A lower proportion of businesses also expect difficulties in the hiring and purchasing of equipment (6.5%).

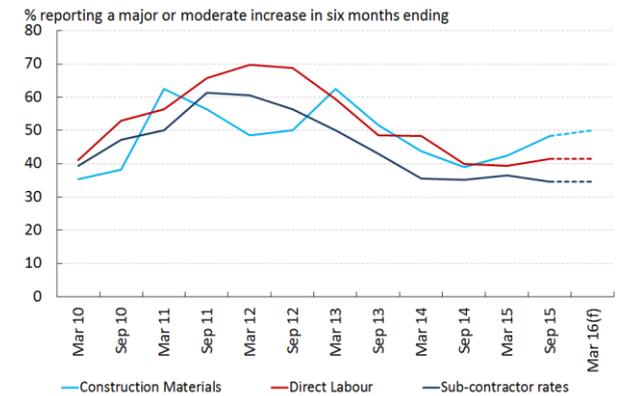
SUPPLY CONSTRAINTS: LABOUR AND CAPITAL



INPUT COSTS

- Despite a slower construction market, cost pressures persist in the construction and delivery of major infrastructure and building projects.
- Reflecting widespread concerns about sourcing building materials, 48.3% of respondents reported major or moderate increases in material costs in the six months to September 2015, up from 42.4% citing major or moderate cost increases six months ago. This is likely reflecting higher prices for imported materials due to the lower Australian dollar.
- Labour cost pressures remained relatively high over the six months to September. 41.4% of respondents reported major or moderate increases in direct labour costs (compared to 39.4% in the previous six months period) while 34.4% reported major or moderate increases for subcontractor rates (compared to 36.4% previously). This is a likely reflection of wages growth flowing from existing EBA's as well as difficulties filling various skilled vacancies.
- The outlook points to further pressure on building material prices over the six months to March 2016, with the proportion of businesses anticipating major or moderate increases rising to 50.0%. Unchanged pressures are expected for direct labour costs (41.4% major or moderate increase) and sub-contractor rates (34.4%).

INPUT COSTS



Value of turnover in construction work	Share of turnover, 2014/15 % of total	2014/15 % change p.a.	2015/16(f) % change p.a.	2016/17(f) % change p.a.
Engineering Construction*	66.6	-5.3	-5.2	4.8
(A) Infrastructure	43.0	-0.5	0.6	11.9
Utilities Infrastructure	5.4	-12.6	-8.3	0.9
- Electricity generation and gas supply	3.1	-10.0	-8.7	0.3
- Sewerage, drainage and water storage	2.3	-15.8	-7.7	1.7
Transport infrastructure	23.6	0.4	6.6	14.5
- Roads and freeways	15.2	-1.1	9.5	16.0
- Rail projects	8.4	3.3	1.5	11.4
Telecommunications infrastructure	5.6	1.8	6.5	14.5
Other civil projects	7.5	7.0	-16.7	10.6
Pipelines	0.9	-13.1	1.2	2.7
(B) Mining & mineral processing construction	15.5	-17.4	-15.3	-9.6
(C) Heavy Industrial construction	8.1	-2.3	-17.0	-13.8
Chemical, petrochemical plants	0.4	0.0	1.0	1.0
Oil refineries and gas processing facilities	5.9	1.6	-23.4	-20.5
Other industrial plants	1.8	-13.3	1.3	0.6
Commercial construction	27.0	-2.0	2.3	4.3
Private sector	13.7	1.8	4.8	6.0
Public sector	13.3	-5.6	-0.3	2.5
Multi-Apartment Complexes	2.2	15.9	13.7	8.1
Overseas Business	3.6	-0.8	3.3	3.6
Other	0.6	-27.3	5.1	1.4
Total value of turnover in construction work	100.0	-4.1	-2.4	4.7

* Infrastructure, Mining and Industrial Construction

Employment	Share of employment, July 2015		Exp. July 15 – Dec 15		Exp. Dec 15 – Jun 16	
	% of total	% change	% change	% change	% change	
On-site employees	49.7	-1.2	-1.3	4.2	2.9	
Off-site employees	15.4	-0.6	-0.6	-0.5	-1.1	
Sub-contract labour	34.9	-6.2	-2.3	-1.0	-3.3	
Total employment	100.0	-2.9	-1.5	1.7	0.1	

Level of activity	Very busy	Busy	Moderate	Slow	Very slow
	% of companies				
Six months to Dec 2014	8.3	36.1	27.8	16.7	11.1
Six months to Jun 2015	6.3	37.5	37.5	12.5	6.3
Expected six months to Dec 2015	12.5	34.4	37.5	9.4	6.3
Expected six months to Jun 2016	9.4	40.6	34.4	9.4	6.3
Expected 2016/17 (fiscal year)	15.6	37.5	34.4	9.4	9.4

WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group Construction Outlook survey was conducted in August/ September in conjunction with the Australian Constructors Association (ACA), the peak industry body representing the nation's major construction contractors. The survey covered the responses of 100 companies employing approximately 45,000 persons with combined turnover of almost \$29 billion.

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.

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