

Construction Outlook

MAY 2011

STRONG ENGINEERING CONSTRUCTION PIPELINE ALTHOUGH COST PRESSURES TO INTENSIFY

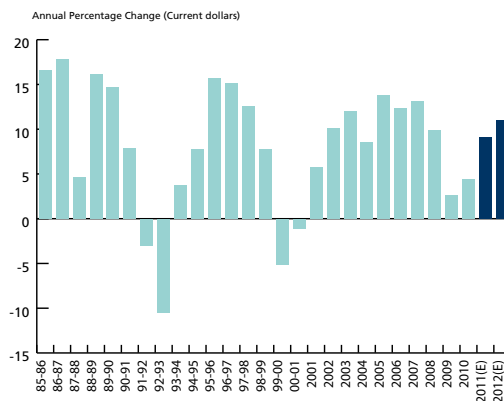
KEY FINDINGS

- Australia's leading construction companies are projecting strong growth in the value of total non-residential building activity over the course of 2011 and 2012, driven by a solid inflow of infrastructure and resource based construction work. Despite the positive growth outlook, supply side constraints are increasing. In particular, businesses are facing increased difficulties in the recruitment of skilled workers which is set to exert further upward pressure on labour costs.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after rising by 4.4% in calendar year 2010 (current prices), the value of engineering and commercial construction work is forecast to expand by 9.1% in 2011, before rising at a stronger rate of 11.0% in 2012.
- Engineering construction is expected to drive growth with total turnover increasing by 12.5% in 2011 and 13.1% in 2012, reflecting the strong project pipeline in the mining, oil and gas processing, transport infrastructure and telecommunications sectors. Solid support is also expected from power generation and "other" civil projects, including port upgrades and terminals to cater for increased mineral exports.
- Based on these forecasts, the total value of engineering construction (by the private sector) is forecast to reach a record high of \$82.5 billion in 2012, which is more than double the level of six years ago.
- However, prospects remain subdued for commercial construction. The total value of commercial work (retail, offices, education building projects, etc) is forecast to moderate to a 1.2% pace of growth in 2011 following a rise of 4.3% in 2010. This reflects the unwinding of fiscal stimulus with public building work easing to 4.7% annual growth in 2011 (from 7.6% in 2010) and on-going weakness in private sector investment as signaled by a contraction in private building work in 2011 of 2.1%. In 2012, commercial construction is expected to recover modestly with growth of 6.0% reflecting a stronger impetus from turnover generated from private building activity (+8.4%).
- The apartment building sector work is expected to regain ground in 2011 following declines over the past four years with the value of work rising by 7.8% in 2011 and 8.2% in 2012.

OUTLOOK 2011

- Growth in total turnover from construction work is forecast to rise at a rate of 9.1% (current dollars) in 2011, following a rise of 4.4% in the previous year.
- Underlying the improved outlook, mining infrastructure work is forecast to increase by 14.4% driven by the on-going strength of Asian demand and the gradual recovery of advanced economies. This follows growth of 6.9% in 2010.
- Strong resources-driven demand is also reflected in a projected increase of 14.4% in heavy industrial construction, led by the oil and gas processing sector (+17.7%) and in line with the large number of LNG projects either under construction or in the development pipeline.
- Infrastructure activity is also expected to be a major driver of growth with solid increases expected in both road (+10.4%) and rail projects (+16.2%), consistent with a range of large-scale Government transport initiatives underway and in planning.

TURNOVER FROM CONSTRUCTION WORK



CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2012

SECTOR	% CHANGE		
	2010	2011 (E)	2012 (E)
INFRASTRUCTURE	3.9	11.7	11.5
MINING	6.9	14.4	15.8
HEAVY INDUSTRIAL	17.8	14.4	20.1
TOTAL ENGINEERING CONSTRUCTION	5.5	12.5	13.1
NON-RESIDENTIAL BUILDING (COMMERCIAL CONSTRUCTION)	4.3	1.2	6.0
- PRIVATE SECTOR	1.2	-2.1	8.4
- PUBLIC SECTOR	7.6	4.7	3.7
APARTMENTS	-16.1	7.8	8.2
OVERSEAS BUSINESS	1.0	4.1	4.3
TOTAL CONSTRUCTION	4.4	9.1	11.0

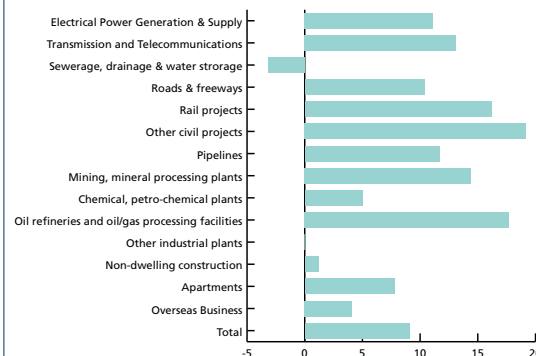
WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in February/March 2011 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 60,000 persons with combined turnover of almost \$34 billion or approximately 30% of total industry activity.

SPONSOR STATEMENT

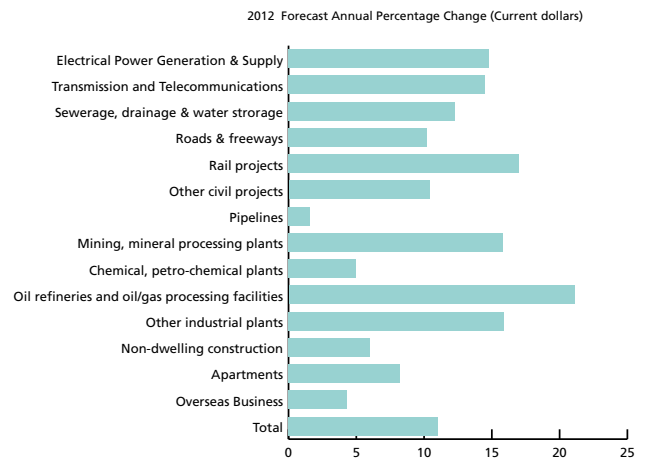
The Australian Constructors Association (ACA) is delighted to be associated with the Australian Industry Group as the major sponsor of one of the most authoritative surveys of Australian construction activity. The survey, which is conducted on a bi-annual basis, provides an excellent barometer on the 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.

2011 Forecast Annual Percentage Change (Current dollars)



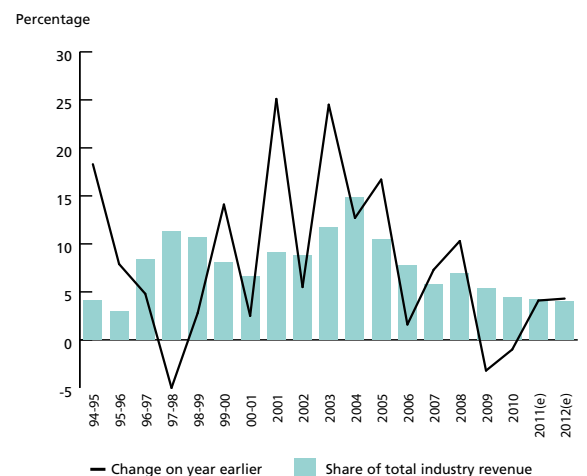
OUTLOOK 2012

- The total value of construction turnover is forecast to register stronger growth of 11.0% in 2012 as a higher level of major projects move through the development pipeline to the commencement stage.
- With robust investment expected in new mine capacity on the back of continued strength in commodities demand, work generated from mining construction is projected to remain a major source of growth, with a rise of 15.8% expected in 2012.
- The outlook for heavy industrial construction in 2012 is dominated by a high level of growth projected in oil and gas processing projects (+21.1%) consistent with the continued strong growth expected in Australia's LNG exports which is being facilitated by a number of large scale projects and expansions.
- The infrastructure market is forecast to expand at a further solid rate of 11.5%. Within the infrastructure market, both rail (+17.0%) and roads (+10.2%) projects are expected to be key drivers of growth, backed by utilities construction (+12.3%) and transmission and telecommunications (14.5%). Port construction is also expected to remain strong, as reflected in continued solid growth in other civil projects of 10.4%.
- Prospects are for an improvement in commercial construction activity of 6.0% with a step-up in support from private sector building activity (+8.4%) helping to offset a further winding back in work generated from public sector building activity (+3.6%).



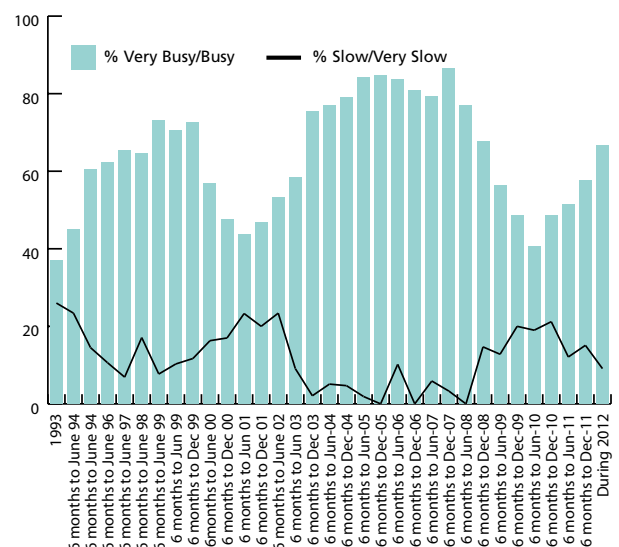
OVERSEAS BUSINESS

- The overseas business of construction firms accounted for 4.4% of all construction revenue in 2011. Whilst this share remained well below the plus 10% peak years of 2003 to 2005, by size it constituted the seventh largest market sector of respondents (of a total of 16 sectors surveyed).
- Revenue from overseas business fell by 1.0% in 2010 following a decline of 3.0% 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 recover modestly with growth of 4.1% in 2011, followed by a further rise of 4.3% in 2012. This equates to approximately \$3.2 billion of overseas revenue to be generated by respondents over this two year period.



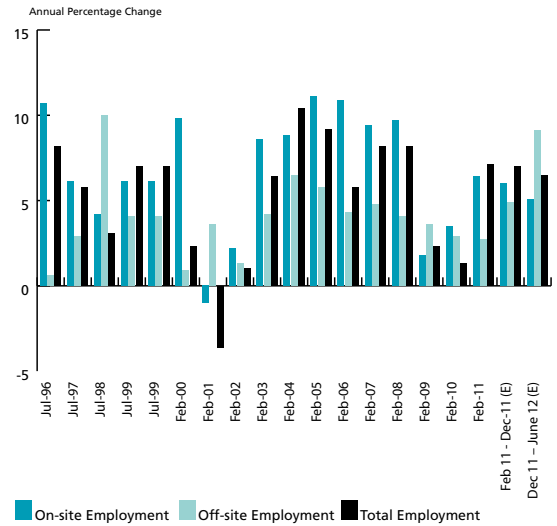
LEVELS OF ACTIVITY

- In line with rising infrastructure and resource related construction, levels of activity improved over the second half of 2010. In total, 48.5% of respondents reported operating at busy or very busy levels of activity during this six months period. This was 8.0 percentage points above the level recorded in the previous six months, although subdued conditions in the commercial and apartment building sectors limited the extent of the upturn.
- Activity is expected to again improve in the first half of 2011 (51.5% very busy/busy), with this proportion increasing further during the second half of 2011 (57.6%). By 2012, two thirds of businesses (66.7%) anticipate busy or very busy operating conditions.
- Rising activity during the second half of 2010 and into 2011 saw a lift in the average level of industrial/construction capacity in use to 82.9% in February/March 2011 from 81.1% six months earlier.
- This marked the highest capacity utilisation reading over the past two years, although it remained well 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.



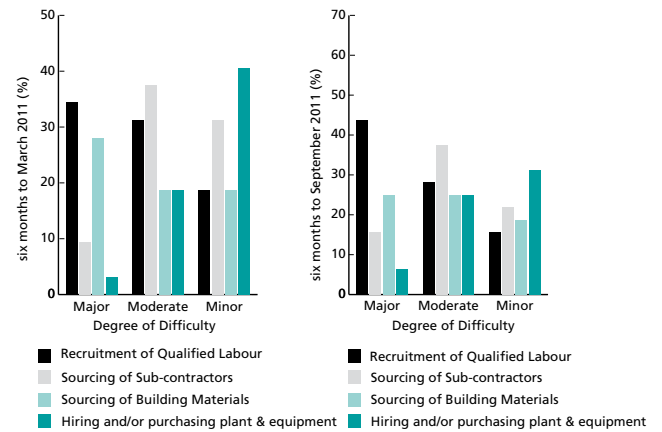
EMPLOYMENT

- Strengthening activity has underpinned jobs creation with total employment rising by 7.1% in the year to February 2011. This follows growth of 1.3% during the previous 12 months period. Employment increases were more prevalent among employees principally engaged on-site (6.4%) and sub-contract tradesmen (+9.1%) 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 to December 2011 total employment is forecast to rise by a further 7.0%, with increases expected to be at the highest level for sub-contract tradesmen (9.0%). On-site employee numbers are expected to increase by an additional 6.0% with the rate of growth in off-site employees rising to 4.9% (up from 2.7% in the year to February 2011).
- Thereafter to June 2012, total employment growth is expected to remain solid at 6.5%. Over this period the expansion of the workforce is more strongly centered on the increased hiring of sub-contract tradesmen (+8.0%) and off-site employees (+9.1%).



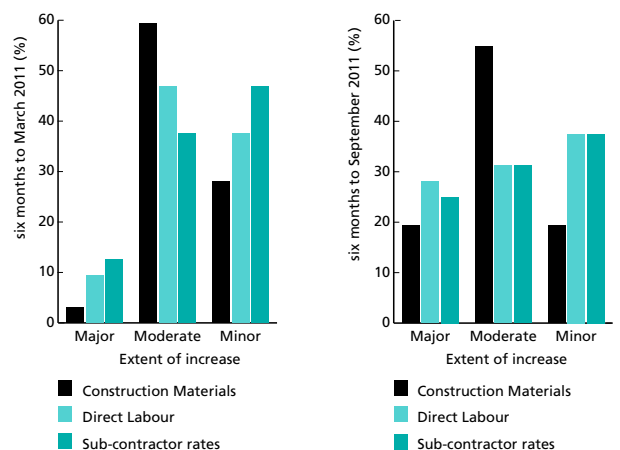
SUPPLY CONSTRAINTS

- Businesses are reporting worsening skill shortage bottlenecks, and intensifying pressures in the procurement of building materials and equipment. In particular, demand for labour remains high due mainly to the lift in resource related construction and scale of projects in the pipeline. In total, two thirds of businesses (65.7%), up from 61.1% six months ago, reported either major or moderate difficulty in the recruitment of qualified labour during the six months to February 2011. This was followed by the sourcing of sub-contractors with 46.9% citing major or moderate difficulty (up from 44.5%).
- For capital supplies, 46.9% (up from 36.1%) reported major or moderate difficulty in the sourcing of building materials, while 21.9% (up from 13.9%) reported major or moderate difficulty in the hiring and purchasing of equipment.
- Supply constraints are expected to exert increased pressures during the coming months. Over the six months to September 2011, a higher proportion of businesses expect major or moderate difficulty in the recruitment of qualified labour (71.9%), the sourcing of sub-contractors (53.1%), the sourcing of building materials (50.0%) and the hiring and purchasing of equipment (31.3%).



INPUT COSTS

- The rise in supply-side constraints is resulting in upward pressure on a range of input costs. During the six months to February 2011, 56.3% and 50.0% of businesses cited major or moderate increases in direct labour costs and sub contractor rates respectively. Six months ago, the corresponding proportions were 53.0% and 47.1%.
- Pressures on material costs have also increased. In total, 62.5% of companies reported major or moderate increases in construction materials as compared to 38.3% 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 2011. Over this period, the proportion of firms anticipating major or moderate increases is forecast to rise to 74.2% for construction materials, 59.3% for direct labour and; 56.3% for sub-contractor rates.



VALUE OF TURNOVER IN CONSTRUCTION WORK

PERCENTAGE CHANGE (CURRENT DOLLARS)

	% OF 2010 TURNOVER	2010 ON 2009	2011(E) ON 2010	2012(E) ON 2011(E)
UTILITIES INFRASTRUCTURE				
Electrical Power Generation & Supply	1.0	-3.7	11.1	14.8
Sewerage, drainage and water storage	6.7	17.6	-3.2	11.9
Sub-total	7.6	14.4	-1.4	12.3
TRANSPORT INFRASTRUCTURE				
Roads and freeways	17.7	2.4	10.4	10.2
Rail projects	7.1	20.3	16.2	17.0
Sub-total	24.8	6.9	12.0	12.2
OTHER INFRASTRUCTURE				
Transmission and telecommunications infrastructure	2.3	10.1	13.1	14.5
Other civil projects	11.5	-4.0	19.2	10.4
Pipelines	1.6	-22.4	11.7	1.6
Sub-total Infrastructure	47.8	3.9	11.7	11.5
MINING MINERAL PROCESSING ETC				
INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	0.1	11.1	5.0	5.0
Oil refineries and gas processing facilities	3.0	17.6	17.7	21.1
Other industrial plants	0.7	19.1	0.0	15.9
Sub-total Industrial Construction	3.7	17.8	14.4	20.1
NON DWELLING CONSTRUCTION				
- Private Sector	12.5	1.2	-2.2	8.4
- Public Sector	12.2	7.6	4.7	3.6
Sub-total Commercial Construction	24.7	4.3	1.2	6.0
APARTMENTS				
OVERSEAS BUSINESS				
Other	1.7	-7.0	1.0	8.7
TOTAL	100.0	4.4	9.1	11.0

EMPLOYMENT	YEAR TO FEBRUARY 2011 (% CHANGE)	EXPECTED FEB TO DEC '11 (% CHANGE)	EXPECTED DEC '11 TO JUNE '12 (% CHANGE)
On-site employees	6.4	6.0	5.1
Off-site employees	2.7	4.9	9.1
Sub-contract labour	9.1	9.0	8.0
TOTAL	7.1	7.0	6.5

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to June 2010	8.1	32.4	40.5	16.2	2.8
Six months to December 2010	12.1	36.4	30.3	21.2	0.0
EXPECTED					
Six months to June 2011	12.1	39.4	36.4	12.1	0.0
Six months to December 2011	12.1	45.5	27.3	15.1	0.0
During 2012	18.2	48.5	24.2	9.1	0.0

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