

Outlook

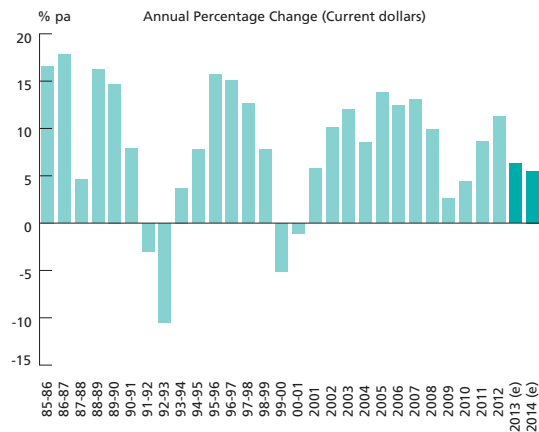
MAY 2013

GROWTH IN MAJOR CONSTRUCTION WORK TO SLOW MARKEDLY

KEY FINDINGS

- Australia's leading construction companies are forecasting a marked slowdown in the growth of non-residential construction work through 2013 and 2014. Slower mining-related construction and a weaker phase of growth across key infrastructure construction categories will lead to an easing in engineering construction activity. In addition, conditions in commercial construction will remain subdued due to on-going weakness in the sector's project pipeline.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after growth of 11.3% p.a. in 2012 (current prices), the rate of increase in the total value of engineering and commercial construction work is expected to almost halve to 6.3% p.a. in 2013 followed by a further easing to 5.5% p.a. in 2014.
- The moderating growth outlook is emerging against the backdrop of persistent difficulties in the sourcing of labour and capital requirements. This is being reflected in increases in input costs which are adding to the pressure on businesses typically tendering on tight margins.
- While activity in engineering construction is expected to be maintained at a high level over the next two years, growth is expected to moderate driven by slower growth in the key areas of road construction, water and electricity projects and mining construction work. However, transmission & telecommunications is forecast to continue to rise solidly as a result of NBN and related investment. Growth is also expected to remain at a high level in the oil and gas processing sector consistent with the various major LNG developments underway.
- Commercial construction activity is expected to remain constrained by overall weak approvals and building commencements. Following growth of just 2.4% p.a. in 2012, turnover from commercial construction work is forecast to rise by around 2% p.a. through 2013 and 2014.

TURNOVER FROM CONSTRUCTION WORK



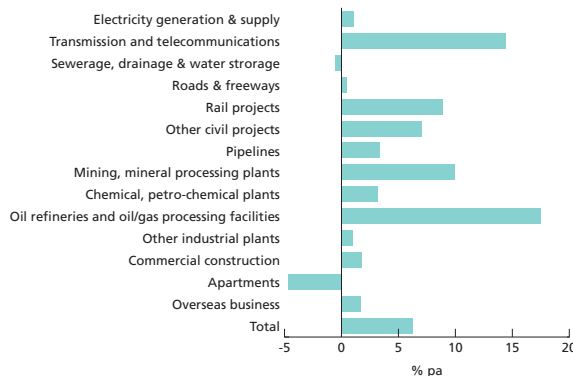
CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2014

Sector	% Change p.a.		
	2012	2013 (F)	2014 (F)
Infrastructure	8.9	4.8	4.5
Mining	18.6	10.0	7.8
Heavy Industrial Construction	23.8	13.4	11.8
Total Engineering	13.9	7.6	6.4
Non-Residential Building (Commercial Construction)	2.4	1.8	1.7
- Private sector	1.4	0.2	4.6
- Public sector	3.4	3.4	-1.0
Apartments	-4.4	-4.7	0.0
Overseas Business	2.2	1.7	1.7
Total Construction	11.3	6.3	5.5

OUTLOOK 2013

- Growth in total turnover from construction work is forecast to rise at a slower rate of 6.3% p.a. (current dollars) in 2013, following an increase of 11.3% p.a. in the previous year.
- The outlook is for infrastructure construction to remain at solid levels in 2013, although the overall increase in the value of work done is expected to moderate. Other civil projects such as ports/terminals construction (+7.1% p.a.) and transport infrastructure (+4.1% p.a.) are forecast to show slower growth while work on utilities infrastructure (electricity and water supply projects) is expected to remain unchanged.
- Revenue from mining related construction work is expected to moderate from growth of 18.6% p.a. in 2012 to 10.0% p.a. in 2013 as the peak in mining investment approaches.
- Heavy industrial construction in 2013 will continue to be driven by a high level of growth (17.5% p.a.) projected in oil and gas processing projects.
- The value of commercial construction work is expected to expand by 1.8% p.a. in 2013.

2013 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in March/April 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 87,000 persons with combined turnover of almost \$30 billion or approximately 30% of total industry activity.

SPONSOR STATEMENT

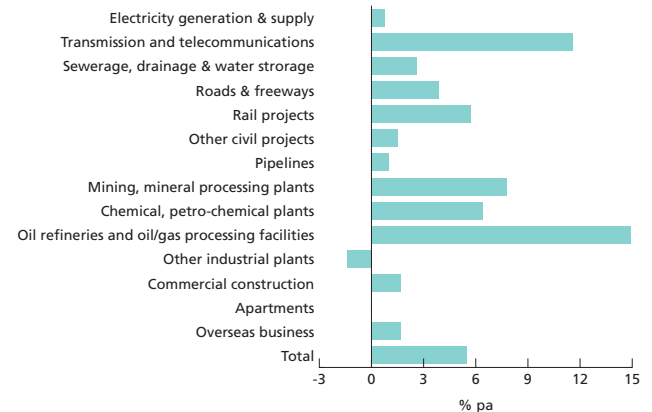
The Australian Constructors Association (ACA) is delighted to be associated with the Australian Industry Group as the major sponsor of one of the most authoritative surveys of Australian construction activity. The survey, which is conducted on a bi-annual basis, provides an excellent barometer on the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



OUTLOOK 2014

- The total value of construction turnover is forecast to show a further easing in 2014 with growth of 5.5% p.a. forecast.
- The value of infrastructure work is expected to record overall growth of 4.5% p.a. in 2014. Within the infrastructure sector, subdued growth is forecast in a range of sectors, including those with strong links to resource investment including roads (3.9% p.a.), rail (5.7% p.a.) and other civil projects (1.5% p.a.). Businesses also anticipate soft growth to continue in electricity generation & supply (+1.0% p.a.) projects.
- Consistent with a moderating pipeline of work yet to be done, a further easing in growth of mining related construction work is forecast with a rise of 7.8% p.a. expected in 2014.
- Turnover from commercial construction activity is expected to rise by 1.7% p.a. in 2014. Private sector building activity is forecast to show a step-up in growth to 4.6% p.a. while a decline of 1.0% p.a. is forecast for public building activity.

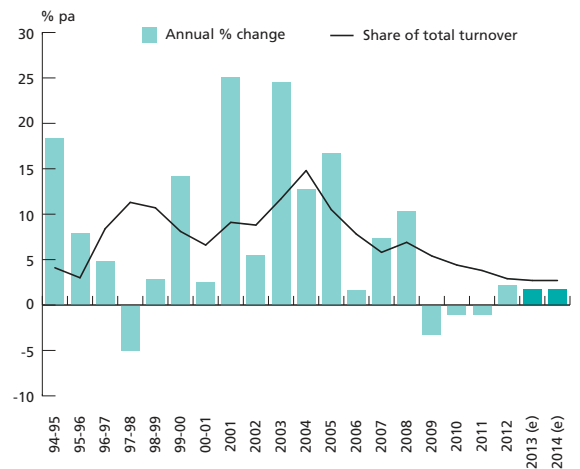
2014 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



OVERSEAS BUSINESS

- The overseas business of construction companies accounted for approximately 3.0% of all construction revenue in 2012, well below the plus 10% peak years of 2002/03 to 2004/05.
- Revenue from overseas business rose by just 2.2% p.a. in 2012 following a decline of 1.0% p.a. in the previous year. Respondents linked this subdued growth to a 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 increase at a rate of 1.7% p.a. in both 2013 and 2014.

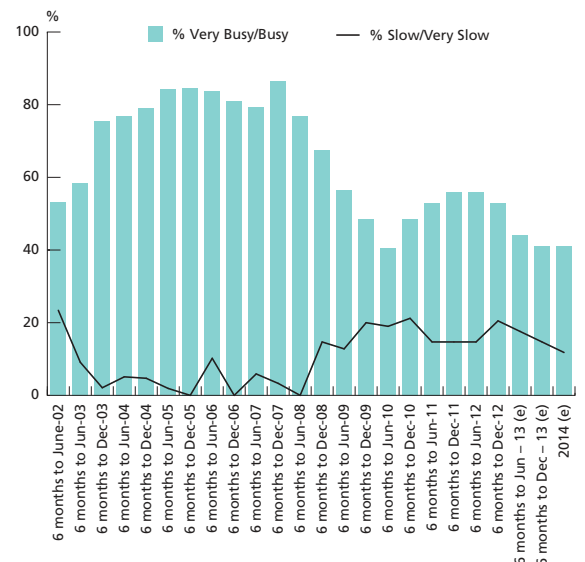
OVERSEAS BUSINESS



LEVELS OF ACTIVITY

- With work generated from the resources and infrastructure sectors remaining solid over the second half of 2012, levels of activity continued to exhibit strength. In total, 52.9% of respondents reported operating at busy or very busy levels of activity during this six month period, slightly down from the 55.9% in the previous six months.
- However, in 2013 a notable easing in activity is expected. During the first half of 2013, the proportion of businesses anticipating busy or very busy activity falls to 44.2% followed by a further moderation to 41.2% during the six months to December 2013. This level of activity is expected to be broadly sustained during 2014.
- The average level of industrial/construction capacity in use was 82.6% in February/March 2013, a decline of 2.1 percentage points from the level six months earlier.
- Despite this easing, capacity utilisation in early 2013 remained close to a three-year high level. However, from a longer term perspective, it is below the peak levels of approximately 90.0% recorded in late 2007 and early 2008 prior to the strong hit to construction demand from the Global Financial Crisis.

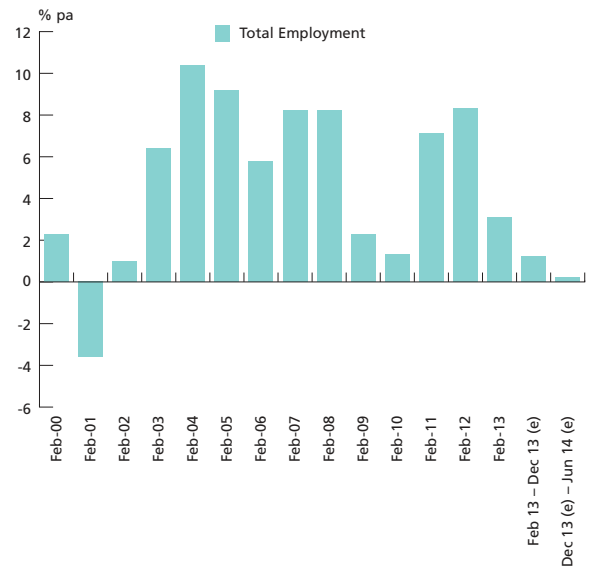
LEVELS OF ACTIVITY



EMPLOYMENT

- Total employment continued to expand in the year to February 2013, although the rate of growth (3.1% p.a.) was well below the increase of 8.2% p.a. recorded during the previous 12 months. Across the industry, the number of on-site and sub-contract tradesmen increased by 4.0% p.a. and 3.2% p.a. respectively, while the number of off-site employees declined by 4.5% p.a. over this period.
- With project demand moderating, a slower pace of job growth is forecast over the remainder of 2013. Total employment is forecast to rise by 1.2% between February and December 2013 with increases confined to on-site (+0.8%) and sub-contract (+2.2%) workers. Off-site employee numbers are expected to decline by 1.5% over this period.
- Thereafter to June 2014, labour market conditions are expected to stabilise. Over this period, numbers employed of sub-contract tradesmen is forecast to rise by 1.0% while the number of on-site and off-site employees is expected to remain broadly unchanged.

EMPLOYMENT

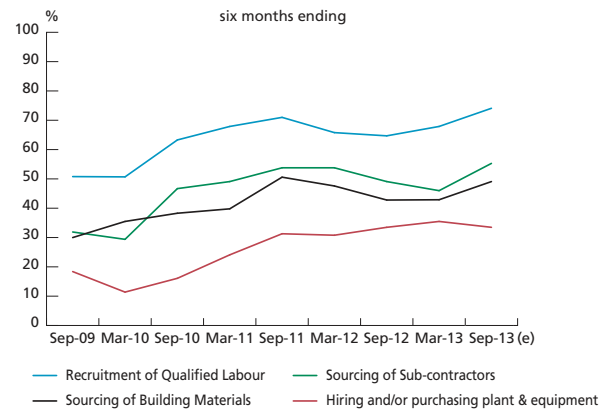


SUPPLY CONSTRAINTS

- Businesses are facing strong pressures in the procurement of building materials and capital equipment and, more significantly, worsening skill shortage bottlenecks. Despite an easing in the pipeline of work, a range of large-scale projects continue to draw heavily on labour and capital requirements. During the six months to March 2013, a high 65.7% of businesses reported either major or moderate difficulty in the recruitment of qualified labour (as compared to 62.5% six months ago). The sourcing of sub-contractors was also a dominant supply constraint with 43.8% citing major or moderate difficulty (down slightly from 46.9%).
- For capital supplies, 40.7% (down from 45.4%) reported major or moderate difficulty in the sourcing of building materials while businesses reporting major or moderate difficulty in the hiring and purchasing of equipment was broadly unchanged at 33.3%.
- Supply constraints are expected to exert increased pressures during the coming months. Over the six months to September 2013, a higher proportion of firms expect major or moderate difficulty in the recruitment of qualified labour (71.9%), sourcing of sub-contractors (53.1%) and the sourcing of building materials (46.9%). However, the degree of difficulty in hiring or purchasing equipment is expected to ease to 31.3%.

SUPPLY CONSTRAINTS - LABOUR AND CAPITAL SUPPLIES

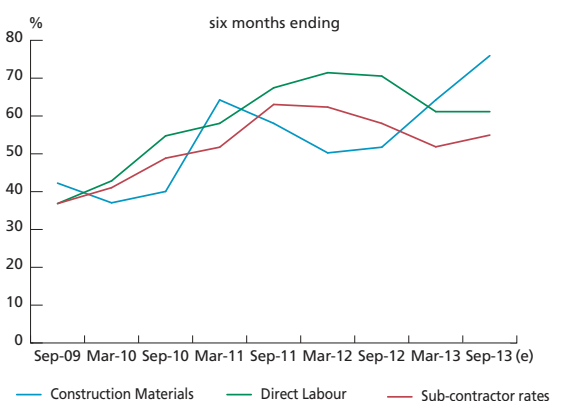
(% reporting major/moderate difficulty)



INPUT COSTS

- The rise in supply-side constraints continues to be reflected in upward pressure on a range of input costs. During the six months to March 2013, 62.5% of businesses cited major or moderate increases in material costs, up from 50.0% citing this level of difficulty six months ago.
- As a consequence of widespread skilled labour shortages, a majority of businesses (59.4%) reported major or moderate increases in direct labour costs in the six months to March 2013. This was, however, down from 68.8% six months ago. For subcontractor rates, 50.1% reported major or moderate increases as compared to 56.3% six months ago.
- The shortage of resources in meeting demand is expected to lead to further cost pressures. Over the six months to September 2013, the proportion of businesses anticipating major or moderate increases is forecast to rise to 74.2% for construction materials and 53.2% for sub-contractor rates. An unchanged 59.4% of businesses expect a major or moderate increases in direct labour costs.

INPUT COSTS (% reporting major/moderate increase)



VALUE OF TURNOVER IN CONSTRUCTION WORK	PERCENTAGE CHANGE			
	% OF 2012 TURNOVER	2012 ON 2011	2013(E) ON 2012	2014(E) ON 2013(E)
UTILITIES INFRASTRUCTURE				
Electricity generation & supply	1.9	-7.2	1.1	1.0
Sewerage, drainage and water storage	5.7	12.2	-0.6	2.6
Sub-total	7.6	6.7	0.2	2.2
TRANSPORT INFRASTRUCTURE				
Roads and freeways	12.5	5.2	0.5	3.9
Rail projects	9.7	13.1	8.9	5.7
Sub-total	22.2	8.5	4.1	4.7
Transmission and telecommunications infrastructure	4.0	17.6	14.4	11.6
Other civil projects	6.3	10.4	7.1	1.5
Pipelines	0.4	-16.8	3.4	1.0
Sub-total Infrastructure	40.5	8.9	4.8	4.5
MINING MINERAL PROCESSING ETC	34.2	18.6	10.0	7.8
HEAVY INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	0.5	18.6	3.2	6.4
Oil refineries and gas processing facilities	4.2	28.7	17.5	14.9
Other industrial plants	1.0	8.1	1.0	-1.4
Sub-total Industrial Construction	5.7	23.8	13.4	11.8
ENGINEERING CONSTRUCTION (INFRASTRUCTURE, MINING & INDUSTRIAL CONSTRUCTION)	80.3	13.9	7.6	6.4
COMMERCIAL CONSTRUCTION				
– Private Sector	7.3	1.4	0.2	4.6
– Public Sector	7.4	3.4	3.4	-1.0
Sub-total Commercial Construction	14.7	2.4	1.8	1.7
APARTMENTS	1.0	-4.4	-4.7	0.0
OVERSEAS BUSINESS	2.9	2.2	1.7	1.7
OTHER	1.0	3.1	2.5	-7.7
TOTAL	100.0	11.3	6.3	5.5

EMPLOYMENT	Year to February 2013 (% Change)	Expected Feb '13 to Dec '13 (% Change)	Expected Dec '13- Jun '14 (% Change)
On-site employees	4.0	0.8	-0.3
Off-site employees	-4.5	-1.5	-0.3
Sub-contract labour	3.2	2.2	1.0
TOTAL	3.1	1.2	0.2

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to June 2012	20.6	35.3	29.4	11.8	2.9
Six months to December 2012	20.5	32.4	23.5	17.6	2.9
EXPECTED					
Six months to June 2013	11.8	32.4	35.3	17.6	0.0
Six months to December 2013	11.8	29.4	41.2	14.7	0.0
During 2014	11.8	29.4	44.1	11.8	0.0

CONTACTS

Innes Willox
Chief Executive, Ai Group
Tel: 03 9867 0111

Lindsay Le Compte
Executive Director, ACA
Tel: 02 9466 5522
M: 0417 481 500

© The Australian Industry Group, 2013

This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group.

Disclaimer – The opinions, advices and information contained in this publication are provided by way of information only and no person should rely on the contents of this publication without first obtaining advice from a qualified professional. The publisher and its officers and agents and the authors expressly disclaim all and any liability and responsibility to any person in respect of any act, matter or thing done or omitted to be done by any person in reliance upon any of the contents of this publication.



AUSTRALIAN
INDUSTRY
GROUP



AUSTRALIAN
CONSTRUCTORS
ASSOCIATION

CONTACT DETAILS

SYDNEY

51 Walker Street
North Sydney
NSW 2060
PO Box 289
North Sydney
NSW 2059
Tel: 02 9466 5566
Fax: 02 9466 5599

CANBERRA

L2, 44 Sydney Avenue
Forrest ACT 2603
PO Box 4986
Kingston ACT 2604
Tel: 02 6233 0700
Fax: 02 6233 0799

MELBOURNE

20 Queens Road
Melbourne VIC 3004
PO Box 7622
Melbourne VIC 8004
Tel: 03 9867 0111
Fax: 03 9867 0199

BRISBANE

202 Boundary Street
Spring Hill QLD 4004
PO Box 128
Spring Hill QLD 4004
Tel: 07 3244 1777
Fax: 07 3244 1799

ADELAIDE

L1, 45 Greenhill Road
Wayville SA 5034
Tel: 08 8394 0000
Fax: 08 8394 0099

ALBURY/WODONGA

Tel: 02 6041 0600
Fax: 02 6021 5117

BALLARAT

Tel: 03 5331 7688
Fax: 03 5332 3858

BENDIGO

Tel: 03 5440 3900
Fax: 03 5444 5940

NEWCASTLE

Tel: 02 4925 8300
Fax: 02 4929 3429

WOLLONGONG

Tel: 02 4254 2500
Fax: 02 4228 1898

AFFILIATE

PERTH
Tel: 08 9365 7555
Fax: 08 9365 7550

For all your workplace
related questions, please
call BIZassistInfoline
Tel: 1300 78 38 44

www.aigroup.com.au