

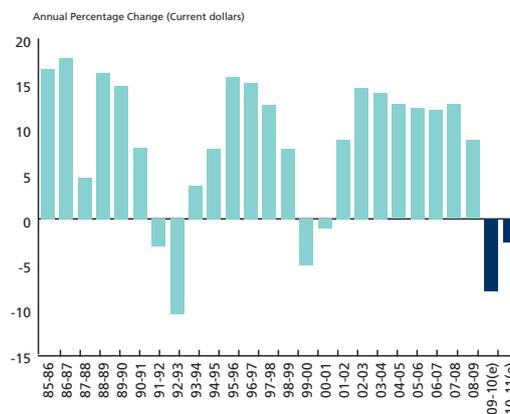
Construction Outlook

TOUGH CONDITIONS FORECAST FOR ENGINEERING AND COMMERCIAL CONSTRUCTION

KEY FINDINGS

- Australia's leading construction companies are forecasting a continuation of tough operating conditions with a contraction in non-residential building work through 2009/10 and 2010/11, driven mainly by a marked decline in project investment in the resources and private commercial building sectors.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after rising by 9.7% in 2008/09 (current prices), the total value of engineering and commercial construction work is forecast to fall by 8.0% in 2009/10 and then by a further 1.5% in 2010/11. This will see the total value of work done at \$87.3 billion in 2010/11, some \$9.0 billion below the level for 2008/09.
- Declining workloads and reduced investment demand are also expected to result in a cutback in employment of 5.1% in the year to June 2010.
- Weakness in the outlook for engineering construction is underlined by a sizeable reduction (particularly in 2009/10) in mining and heavy industrial construction, reflecting the ongoing lack of funding availability and the global downturn in industrial production. Engineering construction, is however, expected to gain key support from transport infrastructure work, which is forecast to be maintained at high levels. Continued growth is also expected in the value of work generated from the oil and gas sector and pipelines.
- Due to a lack of finance and a continuation of weak investor sentiment across the property market, private sector commercial construction (eg offices, retail building, hotels, and manufacturing facilities) is forecast to contract sharply in 2009/10 and 2010/11 by 32.9% and 20.8% respectively. However, growth in public sector non-residential building activity is expected to cushion the overall fall in the property and building sector. This mainly reflects increases in health and education sector construction supported by the Federal Government's stimulus packages.

TURNOVER FROM CONSTRUCTION WORK



CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2010/2011

SECTOR	% CHANGE		
	08/09	09/10 (F)	10/11 (F)
INFRASTRUCTURE	15.8	-1.3	3.8
MINING	13.0	-15.3	-6.8
HEAVY INDUSTRIAL	6.2	-12.0	-5.0
TOTAL ENGINEERING	14.3	-6.3	-0.5
COMMERCIAL CONSTRUCTION	-2.6	-16.7	-7.4
APARTMENTS	-7.7	-25.7	-10.3
OVERSEAS BUSINESS	9.0	2.1	2.2
TOTAL CONSTRUCTION	9.7	-8.0	-1.5

OUTLOOK 2009/2010

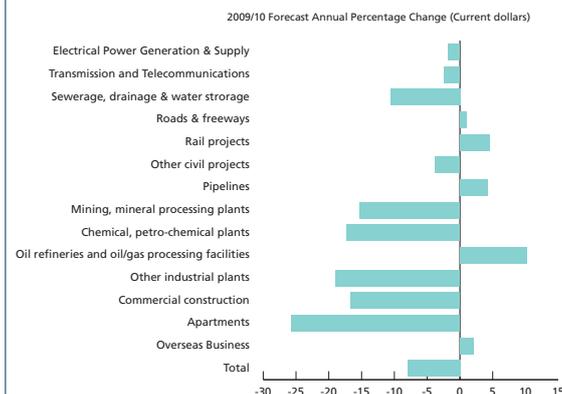
- Following a moderation in growth in 2008/09, turnover from construction work is forecast to contract by 8.0% (current dollars) in 2009/10.
- Underlying the weakening outlook, mining infrastructure work is forecast to decline by 15.3% 2009/10 in line with weaker mineral demand. This downturn follows solid average growth of 20.3% over the previous three years.
- The impact of reduced resources investment is also underpinning a predicted decline of 12.0% in heavy industrial construction, led by marked falls in chemical and petro-chemical plants (-17.3%) and other (downstream processing) industrial plants (-19.0%). Nevertheless, solid growth is forecast to continue in the oil and gas processing sector (10.2%) consistent with increased export demand and a number of large scale projects either under construction or in various stages of planning and development.
- Within the infrastructure market, transport work is expected to be sustained at current high levels with a number of major government supported projects commencing earlier than previously forecast.

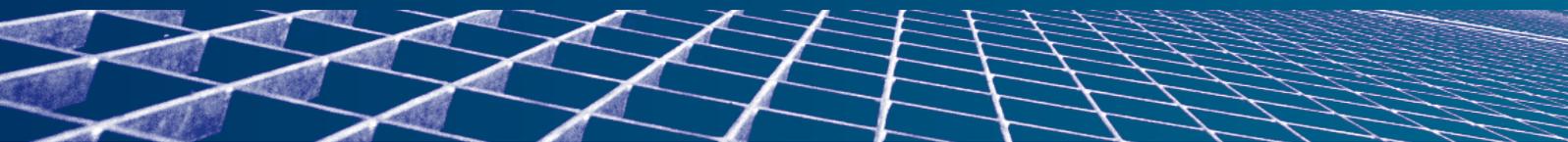
WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in September/October 2009 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 \$29 billion or approximately 30% of total industry activity. This survey provides an estimate of the dollar value of turnover in 2010/11 for the engineering and non-residential building industry. This estimate has been derived by applying the survey forecasts (2009/10 and 2010/11 % changes) to Australian Bureau of Statistics Value of Work Done - Australia (original series data). The estimate of the total value of construction by the private sector excludes the value of overseas business. This estimate may include a small proportion of work undertaken by the public sector.

SPONSOR STATEMENT

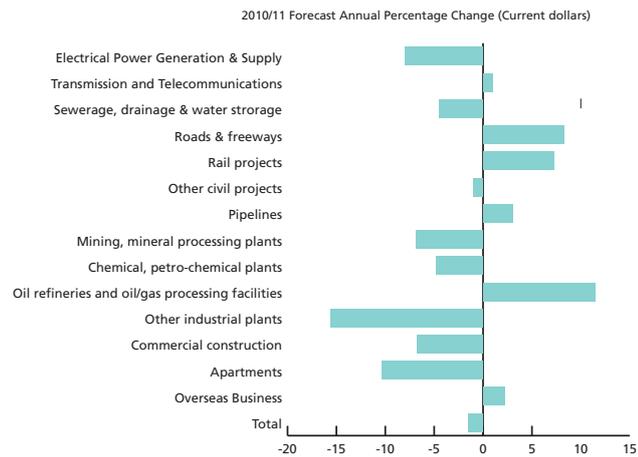
The Australian Constructors Association (ACA) is delighted to be associated with the Australian Industry Group as the major sponsor of one of the most authoritative surveys of Australian construction activity. The survey, which is conducted on a bi-annual basis, provides an excellent barometer on the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





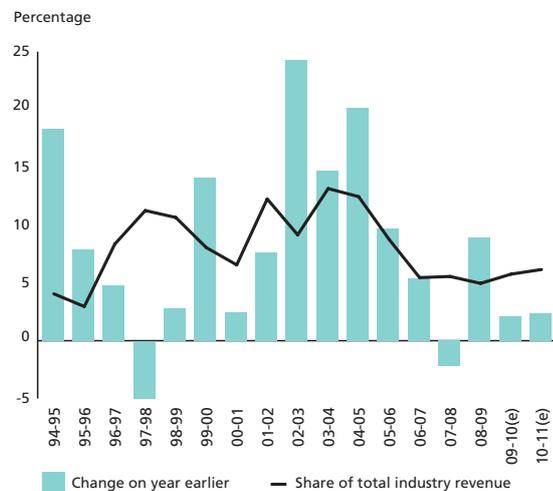
OUTLOOK 2010/11

- The total value of construction work is forecast to decline further in 2010/11, although at lesser rate of 1.5%.
- Prospects are for a continued decline in mining construction work of 6.8% with firms anticipating that capital expenditure in the sector will remain under pressure due to project financing constraints and delays in commencements.
- The outlook for heavy industrial construction in 2010/11 remains mixed with continued growth in oil and gas processing projects (11.5%) contrasting with deteriorating conditions in chemical and petro-chemical plants (-4.8%), and other industrial plants (-15.6%).
- Within the infrastructure market, transport infrastructure expenditure is forecast to maintain growth with rises expected in both roads (8.3%) and rail (7.2%) projects, consistent with the current large pipeline of transport projects. A further decline is expected in "other" civil projects of 1.0%, while work levels for survey respondents are expected to continue to come off recent peaks in electricity generation and supply (-8.0%), and sewerage and water supply projects (-4.5%)
- Commercial construction is expected to contract by a further 7.4%, reflecting a forecast decline of 20.8% in private building activity. Continued support is expected from public sector new build with an expected lift in activity of 6.2%.



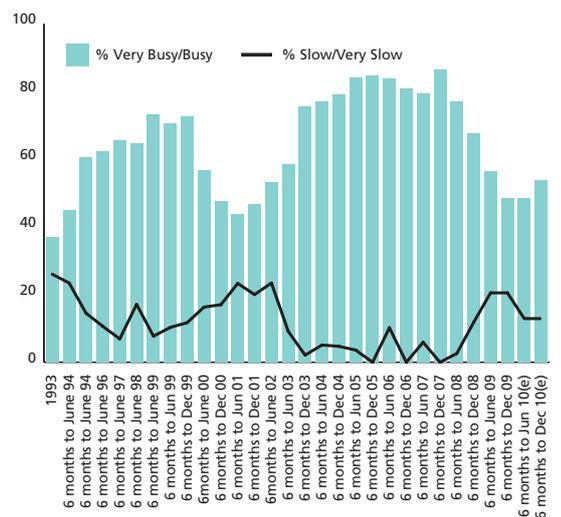
OVERSEAS BUSINESS

- The overseas business of construction firms accounted for 5.0% of all construction revenue in 2009/10. Whilst this share remained well below the peak years of 2002/03 and 2004/05, it constituted the sixth largest market segment in 2009/10.
- Revenue from overseas business in 2008/09 registered solid growth of 9.0%. This represented the 10th year of growth over the past eleven years (with the average rate of increase over the past five years averaging 9.7%), and is in line with the trend of construction activity in becoming increasingly globalised.
- Total revenue from export business is expected to increase at a moderate rate of 2.1% in 2009/10, followed by a further rise of 2.2% in 2010/11. Nevertheless, this slower growth is off a high base and equates to approximately \$3.0 billion of overseas revenue to be generated by respondents over the next two years.



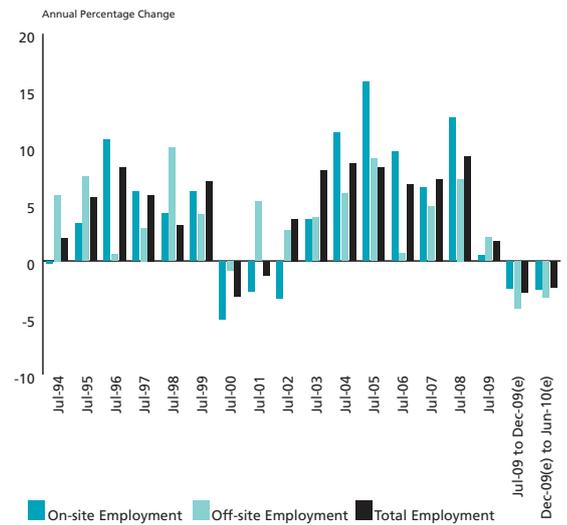
LEVELS OF ACTIVITY

- Consistent with the contraction in world growth and the fall-off in demand for new projects, levels of construction activity declined over the first half of 2009. In total, 56.4% of respondents reported operating at busy or very busy levels of activity during this six period. This was 11.3 percentage points below the level recorded in the previous six months, and the lowest activity reading by respondents in the past six years.
- Activity is expected to be at a more subdued level during the remainder of 2009 and the first half of 2010. In total, 43.6% of firms anticipate very busy/busy activity levels during the six months to December 2009, with this proportion remaining unchanged during the six months to June 2010. Thereafter, through the six months to December 2010, activity is expected improve, although at 53.8% very busy/busy it will remain below the current level
- Weaker project demand also saw the average level of industrial/construction capacity in use at 80.3% in August/September 2009.
- Whilst this level of capacity utilisation was broadly in line with the reading of six months ago (79.6% in March/April 2009), it was 12.3 percentage points lower than the peak reading of March/April 2008 and the lowest level recorded since October 2002.



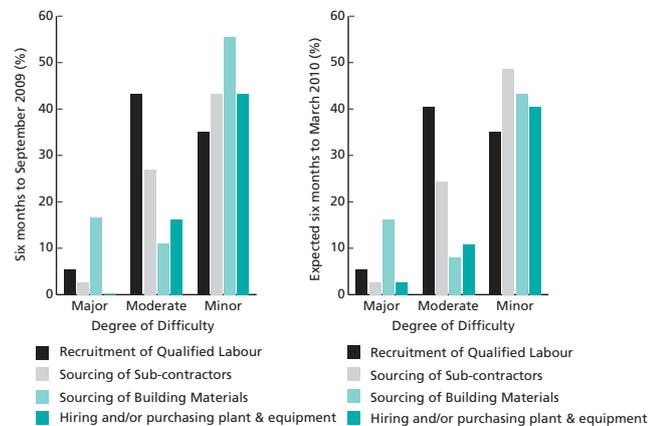
EMPLOYMENT

- Total employment continued to expand in the year to July 2009, although the rate of growth (1.7%) was well below the increase of 9.2% recorded during the previous 12 months. Across the industry, the number of off-site and sub-contract tradesmen increased by 2.1% and 3.3% respectively, while the number of on-site employees (comprising two-thirds of all persons employed) increased at a lesser rate of 0.5%.
- It is expected, however, that employment will decline through the remainder of 2009 and during the first half of 2010. Over the period July to December 2009 total employment is forecast to fall by 2.8%, with reductions highest among off-site employees (-4.2%) and sub-contract tradesmen (-2.7%)
- Thereafter to June 2010, total employment is expected to register a further decline of 2.3%. Over this period reductions in employment are expected to occur at a higher rate among off-site workers (-3.2%), with declines of 2.5% and 1.9% expected for on-site and sub-contract workers respectively.



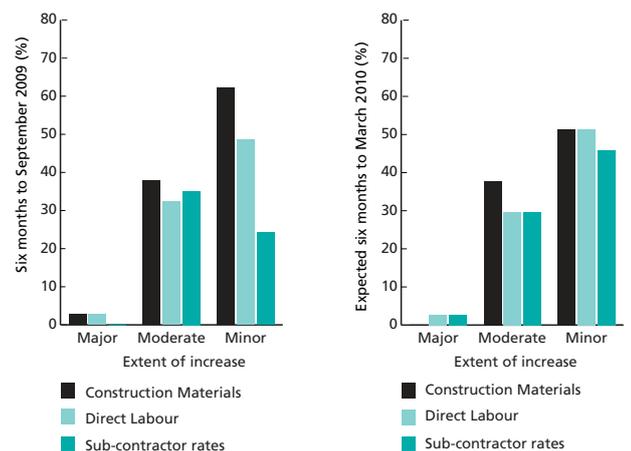
SUPPLY CONSTRAINTS

- While supply constraints have eased in line with the reduction in activity levels, demand for labour still remains high given the scale of projects in the pipeline. Reflecting this, almost one in every two companies surveyed (48.6%) reported either major or moderate difficulty in the recruitment of qualified labour during the six months to September 2009. This was, however, down from 58.8% in the previous six months period. With respect to the sourcing of sub-contractors, 29.7% (down from 32.4%) cited either major or moderate difficulty.
- For capital supplies, 27.8% (down from 29.4%) reported major or moderate difficulty in the sourcing of building materials, while 16.2% (down from 20.5%) reported major or moderate difficulty in the hiring and purchasing of equipment.
- Supply constraints are expected to ease further in the short term. Over the six months to March 2010, a slightly lower proportion of firms expect major or moderate difficulty in the recruitment of qualified labour (45.9%), the sourcing of sub-contractors (27.0%), the sourcing of building materials (24.3%) and the hiring and purchasing of equipment (13.5%).



INPUT COSTS

- Weaker demand and falls in commodity prices were reflected in an easing in cost pressures for construction firms. During the six months to September 2009, 40.5% of firms cited major or moderate increases in construction material costs, (down from 71.5% during the previous six months period).
- Pressures on labour costs have also moderated. In total, less than 40% of firms reported major or moderate increases in direct labour costs (35.1%) and sub-contractor rates (35.1%) as against 38.3% and 35.3% respectively in the previous six months period.
- Cost pressures are expected to moderate further during the six months to March 2010. The proportion of firms anticipating major or moderate increases stood at 37.8% for construction materials, and 32.4% for both direct labour and sub-contractor rates.



VALUE OF TURNOVER IN CONSTRUCTION WORK

PERCENTAGE CHANGE (CURRENT DOLLARS)

	% OF 2008/09 TURNOVER	2008/09 ON 2007/08	2009/10(E) ON 2008/09	2010/11(E) ON 2009/10(E)
UTILITIES INFRASTRUCTURE				
Electrical Power Generation & Supply	1.6	1.0	-1.8	-8.0
Sewerage, drainage and water storage	6.1	35.3	-10.6	-4.5
Sub-total	7.7	-26.3	-8.8	-5.3
TRANSPORT INFRASTRUCTURE				
Roads and freeways	21.0	15.9	1.0	8.3
Rail projects	4.6	24.2	4.5	7.2
Sub-total	25.6	17.3	1.4	8.1
OTHER INFRASTRUCTURE				
Transmission and telecommunications Infrastructure	2.2	8.6	-2.4	1.0
Other civil projects	8.2	12.7	-3.8	-1.0
Pipelines	1.9	-12.6	4.2	3.0
Sub-total Infrastructure	46.6	15.8	-1.3	3.8
MINING MINERAL PROCESSING ETC	22.9	13.0	-15.3	-6.8
INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	1.3	21.0	-17.3	-4.8
Oil refineries and gas processing facilities	1.0	4.1	10.2	11.5
Other industrial plants	1.8	-1.9	-19.0	-15.6
Sub-total Industrial Construction	4.1	6.2	-12.0	-5.0
COMMERCIAL CONSTRUCTION				
- Private Sector	11.4	-5.7	-32.9	-20.8
- Public Sector	6.9	3.1	9.9	6.2
Sub-total Commercial Construction	18.3	-2.6	-16.7	-7.4
APARTMENTS	1.6	-7.7	-25.7	-10.3
OVERSEAS BUSINESS				
Other	2.5	-2.0	0.0	-4.7
TOTAL	100.0	9.7	-8.0	-1.5

EMPLOYMENT	YEAR TO JULY 2009 (% CHANGE)	EXPECTED JULY TO DEC '09 (% CHANGE)	EXPECTED DEC '09 - JUNE '10 (% CHANGE)
On-site employees	0.5	-2.4	-2.5
Off-site employees	2.1	-4.2	-3.2
Sub-contract labour	3.3	-2.7	-1.9
TOTAL	1.7	-2.8	-2.3

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to December 2008	26.5	41.2	20.5	11.8	0.0
Six months to June 2009	20.5	35.9	30.8	10.3	2.5
EXPECTED					
Six months to December 2009	15.4	28.2	35.9	15.4	5.1
Six months to June 2010	12.8	30.8	38.5	15.4	2.5
Six months to December 2010	12.8	41.0	33.3	5.1	7.8

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