

# Construction Outlook

## RESOURCES AND INFRASTRUCTURE TO DRIVE CONSTRUCTION UPTURN

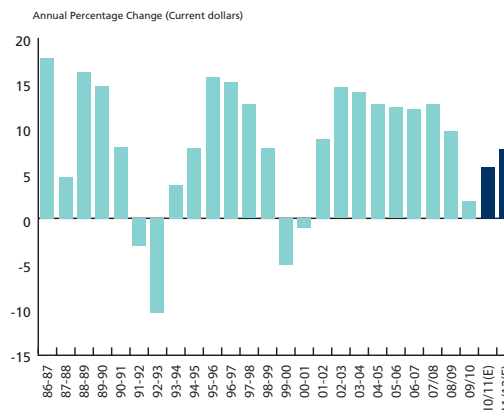
### KEY FINDINGS

- Australia's leading construction companies are projecting that growth in the value of total non-residential building work will strengthen over the course of 2010/11 and 2011/12, driven by resource-based construction and major infrastructure initiatives. However, supply constraints have re-emerged. In particular, businesses are facing increasing difficulties in the sourcing of skilled workers, which is being reflected in upward pressure on labour costs.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after rising by a subdued 1.5% in 2009/10 (current prices), the value of engineering and commercial construction work is forecast to lift by 5.9% in 2010/11 and by 7.9% in 2011/12.
- Higher workloads and increasing investment demand are also expected to lead to further workforce expansion, with total employment forecast to rise by 6.2% in the 12 months to June 2011.
- Engineering construction is expected to lead growth with total turnover increasing by 7.3% in 2010/11 and 9.7% in 2011/12, underpinned by the strong project pipeline in the mining and transport infrastructure sectors. Solid support is also expected from oil and gas processing, telecommunications, power generation and water supply projects.
- Reflecting a low level of work in planning and on-going project funding difficulties, prospects remain subdued for private sector commercial construction. Nevertheless, the rate of contraction in the value of private commercial work is forecast to moderate markedly by 1.6% in 2010/11 (following a contraction of 11.1% in 2009/10) before recovering to grow by 4.4% in 2011/12. The boost to overall commercial construction activity from public sector non-residential building work (including education building) is expected to diminish, with current growth in public works of 10.4% in 2009/10 easing to 6.9% (2010/11) and 2.7% (2011/12).
- The decline in apartment building sector work evident over the past four years is expected to bottom out over the current financial year with the value of work falling by 1.0% in 2010/11, followed by an upturn of 4.1% in 2011/12.

### OUTLOOK 2010/11

- Growth in total turnover from construction work is forecast to rise at a rate of 5.9% (current dollars) in 2010/11, following a rise of 1.5% in the previous year.
- Underlying the improved outlook, mining infrastructure work is forecast to increase by 12.7% driven by strong Asian demand and the gradual recovery of advanced economies.
- The impact of increased resources investment is also underpinning a projected increase of 7.8% in heavy industrial construction, led by the oil and gas processing sector (+8.5%).
- Infrastructure activity is expected to register further expansion, with firm growth in both road (+7.7%) and rail projects (+7.6%), in line with a range of large-scale Government transport initiatives either underway or in the pipeline.
- Turnover from commercial construction is expected to recover modestly by 2.2% while a marked easing is forecast in the rate of decline in apartment building work (-1.0%).

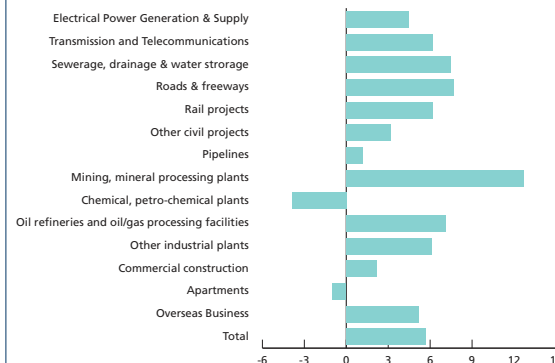
### TURNOVER FROM CONSTRUCTION WORK



### CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2011/12

SECTOR	% CHANGE		
	09/10	10/11 (F)	11/12 (F)
<b>INFRASTRUCTURE</b>	5.0	6.0	8.6
<b>MINING</b>	1.0	12.7	14.3
<b>HEAVY INDUSTRIAL</b>	3.0	7.8	8.7
<b>TOTAL ENGINEERING CONSTRUCTION</b>	3.8	7.3	9.7
<b>NON-RESIDENTIAL BUILDING (COMMERCIAL CONSTRUCTION)</b>	-2.6	2.2	3.6
- PRIVATE SECTOR	-11.1	-1.6	4.4
- PUBLIC SECTOR	10.4	6.9	2.7
<b>APARTMENTS</b>	-17.0	-1.0	4.1
<b>OVERSEAS BUSINESS</b>	-3.8	5.2	5.0
<b>TOTAL CONSTRUCTION</b>	1.5	5.9	7.9

2010/11 Forecast Annual Percentage Change (Current dollars)



### WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in August/September 2010 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 68,000 persons with combined turnover of almost \$30billion or approximately 30% of total industry activity.

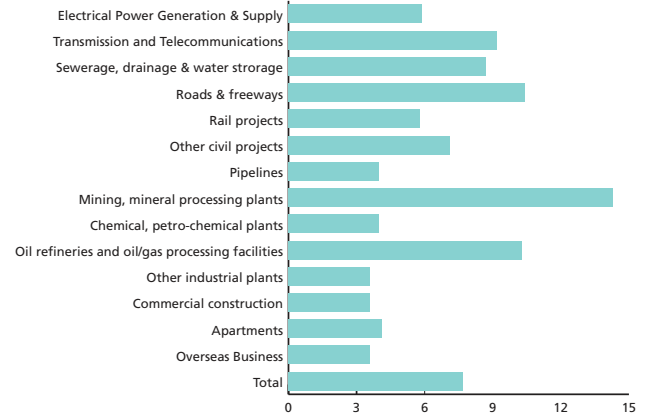
### SPONSOR STATEMENT

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 2011/12

- The total value of construction turnover is forecast to register stronger growth of 7.9% in 2011/12 as a higher level of major projects move through the development pipeline to commencement.
- With new mine capacity expected to be commissioned and infrastructure expansion undertaken, mining construction work is projected to remain a major source of growth, with a rise of 14.3% expected in 2011/12.
- The outlook for heavy industrial construction in 2011/12 is dominated by a high level of growth projected in oil and gas processing projects (+10.3%), with resource-based activity levels also expected to be supported by increased revenue derived from chemical, petro-chemical plants (+4.0%) and "other" downstream processing plants (+3.6%).
- Within the infrastructure market, both roads (+10.4%) and rail (+8.6%) projects are forecast to maintain solid growth. Other civil projects (+7.1%) and transmission and telecommunications (+9.2%), also constitute key areas of infrastructure growth.
- Prospects are for an improvement in commercial construction activity of 3.6% with a step-up in support from private sector building activity (+4.4%) helping to offset a further winding back in work generated from public sector building activity (+2.7%).

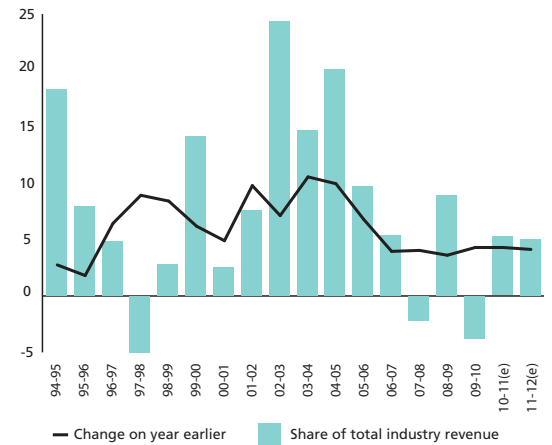
2010/11 Forecast Annual Percentage Change (Current dollars)



## OVERSEAS BUSINESS

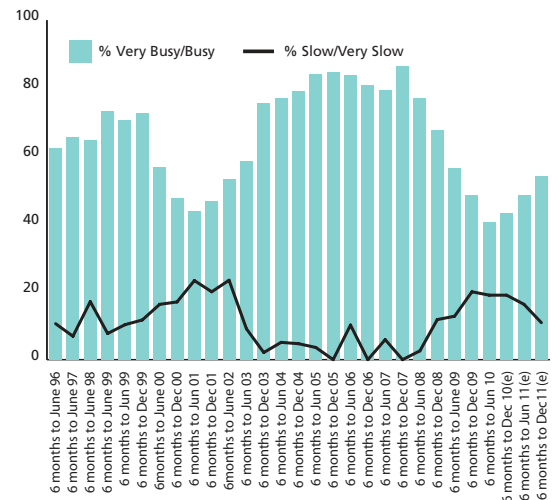
- The overseas business of construction firms accounted for 5.9% of all construction revenue in 2009/10. While this share remained well below the plus 10% peak years of 2002/03 to 2004/05, by size it constituted the eighth largest market sector of respondents (of a total of 16 sectors surveyed).
- Revenue from overseas business in 2009/10 registered a decline of 3.8% following growth of 8.9% in the previous year. Respondents linked this decline to the completion of major projects in key markets, and delays in the commencement of projects amid weaker demand conditions.
- Total revenue from export business is expected to recover to register growth of 5.2% in 2010/11, followed by a further rise of 5.0% in 2011/12. This equates to approximately \$3.6 billion of overseas revenue to be generated by respondents over this two-year period.

Percentage



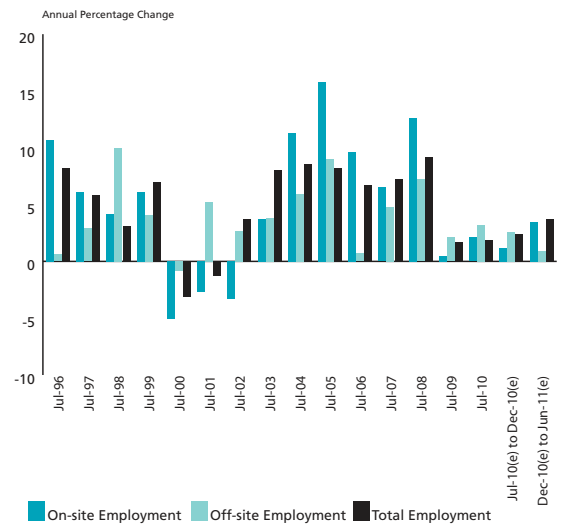
## LEVELS OF ACTIVITY

- With demand for building projects remaining constrained, levels of activity weakened over the first half of 2010. In total, 40.5% of respondents reported operating at busy or very busy levels of activity during this six-months period. This was 8.1 percentage points below the level recorded in the previous six months, and the lowest activity reading by respondents over the past eighteen years.
- Activity is expected to register improvement in the second half of 2010 (43.2% very busy/busy), with this proportion increasing further during the six months to June 2011 (48.6%) and the six months to December 2011 (54.0%).
- Subdued industry growth in 2009/10 also saw the average level of industrial/construction capacity in use at 81.1% in August/September 2010.
- Although this level of capacity utilisation was above the reading of 12 months ago (80.3% in August/September 2009), it was 11.5 percentage points lower than the peak reading of March/April 2008 and the second lowest level recorded over the past eight years.



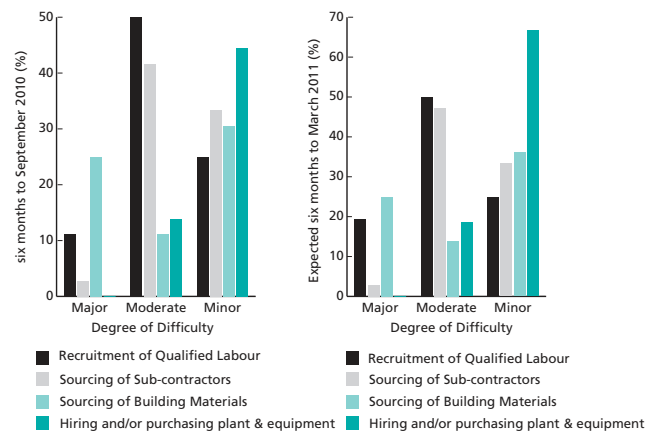
## EMPLOYMENT

- Total employment continued to expand in the year to July 2010, and at a slightly higher rate (1.9%) than during the previous 12 months (1.7%). All employee categories registered increases with strongest growth of 3.2% in off-site employees followed by on-site employees (2.1%) and sub-contract tradesmen (1.1%).
- It is expected that employment will increase at a higher rate over the remainder of 2010 and during the first half of 2011. Over the period July to December 2010 total employment is forecast to rise by 2.4%, with increases expected to be at the highest level for sub-contract tradesmen (4.3%).
- Thereafter to June 2011, total employment is expected to register a further increase of 3.7%. Over this period the expansion of the workforce is centered on the increased hiring of on-site employees (3.5%) and sub-contract tradesmen (5.3%), consistent with the higher level of new project work in 2011 which is set to place the strongest demand on on-site resources.



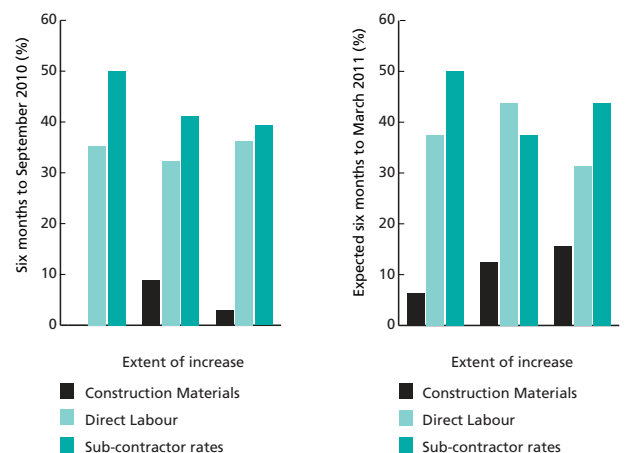
## SUPPLY CONSTRAINTS

- Businesses are reporting worsening skill shortage bottlenecks, and increased 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 the scale of projects in the pipeline. In total, 61.1% of companies (up from 48.5% six months ago) reported either major or moderate difficulty in the recruitment of qualified labour during the six months to September 2010. This was followed by the sourcing of sub-contractors with 44.5% (up from 27.2%) citing major or moderate difficulty.
- For capital supplies, 36.1% (up from 33.3%) reported major or moderate difficulty in the sourcing of building materials, while 13.9% (up from 9.2%) 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 March 2011, a higher proportion of firms expect major or moderate difficulty in the recruitment of qualified labour (69.4%), the sourcing of sub-contractors (50.0%), the sourcing of building materials (38.9%) and the hiring and purchasing of equipment (18.5%).



## INPUT COSTS

- The re-emergence of supply constraints is resulting in upward pressure on input costs. During the six months to September 2010, 53.0% of firms cited major or moderate increases in direct labour costs and 47.1% reported major or moderate difficulties in sub-contractor rates. Six months ago the corresponding proportions were 41.1% and 39.3%.
- Pressures on material costs have also increased. In total, 38.3% of companies reported major or moderate increases in construction materials as compared to 35.3% 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 March 2011. Over this period, the proportion of firms anticipating major or moderate increases is forecast to rise to 53.0% for construction materials, 79.3% for direct labour and; 58.8% for sub-contractor rates.



## VALUE OF TURNOVER IN CONSTRUCTION WORK

	% OF 2009/10 TURNOVER	PERCENTAGE CHANGE (CURRENT DOLLARS)		
		2009/10 ON 2008/09	2010/11(E) ON 2009/10	2011/12(E) ON 2010/11(E)
<b>UTILITIES INFRASTRUCTURE</b>				
Electrical Power Generation & Supply	2.4	1.1	4.5	5.9
Sewerage, drainage and water storage	3.0	13.0	7.5	7.4
<b>Sub-total</b>	<b>5.4</b>	<b>7.3</b>	<b>6.1</b>	<b>5.8</b>
<b>TRANSPORT INFRASTRUCTURE</b>				
Roads and freeways	18.1	-5.2	7.7	10.4
Rail projects	7.8	9.4	7.6	8.6
<b>Sub-total</b>	<b>25.9</b>	<b>-1.3</b>	<b>7.2</b>	<b>9.9</b>
<b>OTHER INFRASTRUCTURE</b>				
Transmission and telecommunications infrastructure	5.1	8.5	6.2	9.2
Other civil projects	13.2	20.4	3.2	7.1
Pipelines	2.2	-8.6	1.2	4.0
<b>Sub-total Infrastructure</b>	<b>51.8</b>	<b>5.0</b>	<b>6.0</b>	<b>8.6</b>
<b>MINING MINERAL PROCESSING ETC</b>	<b>12.4</b>	<b>1.0</b>	<b>12.7</b>	<b>14.3</b>
<b>INDUSTRIAL CONSTRUCTION</b>				
Chemical, petro-chemical plants etc	0.2	6.1	-3.9	4.0
Oil refineries and gas processing facilities	2.7	6.0	8.5	10.3
Other industrial plants	1.0	-6.2	6.1	3.6
<b>Sub-total Industrial Construction</b>	<b>3.9</b>	<b>3.0</b>	<b>7.8</b>	<b>8.7</b>
<b>ENGINEERING CONSTRUCTION</b> (Infrastructure, Mining & Industrial Construction)	<b>68.1</b>	<b>3.8</b>	<b>7.3</b>	<b>9.7</b>
<b>COMMERCIAL CONSTRUCTION</b>				
- Private Sector	13.5	-11.1	-1.6	4.4
- Public Sector	11.0	10.4	6.9	2.7
<b>Sub-total Commercial Construction</b>	<b>24.5</b>	<b>-2.6</b>	<b>2.2</b>	<b>3.6</b>
<b>APARTMENTS</b>	<b>0.9</b>	<b>-17.0</b>	<b>-1.0</b>	<b>4.1</b>
<b>OVERSEAS BUSINESS</b>	<b>5.9</b>	<b>-3.8</b>	<b>5.2</b>	<b>5.0</b>
Other	0.6	7.2	9.3	7.1
<b>TOTAL</b>	<b>100.0</b>	<b>1.5</b>	<b>5.9</b>	<b>7.9</b>

EMPLOYMENT	YEAR TO JULY 2010	EXPECTED JULY '10	EXPECTED DEC '10 -	EXPECTED JULY '10 -
		TO DEC '10 (% CHANGE)	JUNE '11 (% CHANGE)	JUNE '11 (% CHANGE)
On-site employees	2.1	1.2	3.5	4.7
Off-site employees	3.2	2.6	0.9	3.5
Sub-contract labour	1.1	4.3	5.3	9.8
<b>TOTAL</b>	<b>1.9</b>	<b>2.4</b>	<b>3.7</b>	<b>6.2</b>

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
	Six months to December 2009	20.0	28.6	31.4	17.1
Six months to June 2010	8.1	32.4	40.5	16.2	2.8
<b>EXPECTED</b>					
Six months to December 2010	5.4	37.8	37.8	16.2	2.8
Six months to June 2011	8.1	40.5	35.1	13.5	2.8
Six months to December 2011	10.8	43.2	35.1	8.1	2.8

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