

Outlook

OCTOBER 2012

RESOURCES AND INFRASTRUCTURE CONSTRUCTION TO MODERATE

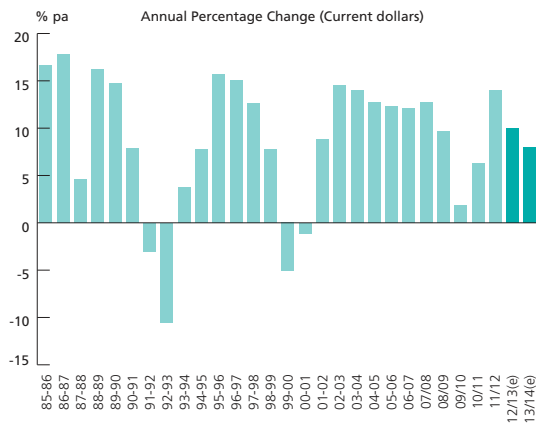
KEY FINDINGS

- The nation's leading construction companies are forecasting that growth in the value of total non-residential building activity will moderate over the course of 2012/13 and 2013/14, although overall work levels are expected to remain solid. This outlook largely reflects the impact of slower growth in resource related construction and infrastructure activity. Commercial construction is expected to show only subdued growth over the next two years.
- Supply constraints are a major concern for the industry with businesses facing significant difficulties in the sourcing of skilled labour and capital requirements. This is being reflected in increases in input costs which is adding to the pressure on margins and heightening the exposure of businesses to project cost overruns.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after experiencing growth of 14.0% in 2011/12 (current prices), the rate of increase in the total value of engineering and commercial construction work is expected to moderate to 10.0% in 2012/13 and 8.0% in 2013/14.
- While engineering construction is poised to build on its current high base of activity over the next two years, an easing in growth is expected across a range of key project areas, including road construction and mining construction work. Nevertheless, growth is expected to be particularly solid in the oil and gas processing sector while the roll-out of the National Broadband Network (NBN) will drive further strong growth in transmission and telecommunications.
- Reflecting the softness of work in planning, activity in the commercial construction sector is expected to remain subdued. Following growth of just 3.1% in 2011/12, turnover from commercial construction work is forecast to rise in the range of 4-5% per annum through 2012/13 and 2013/14.

OUTLOOK 2012/13

- Growth in total turnover from construction work is forecast to rise at a rate of 10.0% (current dollars) in 2012/13, following an increase of 14.0% in the previous year.
- The outlook for infrastructure construction remains positive, although overall growth is expected to soften. Transmission and telecommunications (+13.0%) constitutes a key prospective growth area backed by rail (+12.3%) and electricity generation and supply (+10.6%) projects.
- The resources sector is forecast to remain a solid growth contributor with a rise of 12.8% expected in the value of mining construction work. This is, however, down on the 22.7% growth in 2011/12 suggesting that lower commodity prices and cost pressures are impacting on the pipeline of work in the mining sector.
- The outlook for heavy industrial construction in 2012/13 will be dominated by a high level of growth (33.5%) projected in oil and gas processing projects consistent with the various major LNG developments underway.
- The value of commercial construction work is expected to expand by 5.0% in 2012/13.

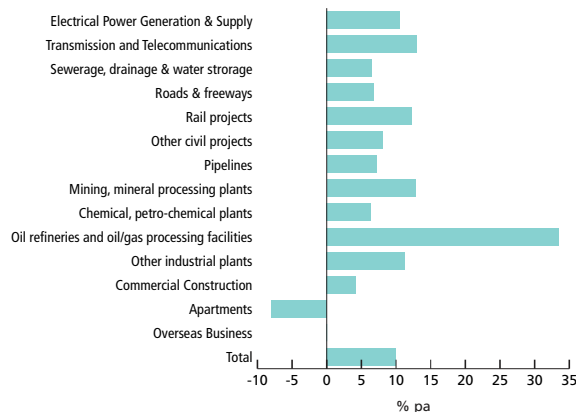
TURNOVER FROM CONSTRUCTION WORK



CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2013/14

SECTOR	% CHANGE		
	2011/12	2012/13 (F)	2013/14 (F)
INFRASTRUCTURE	13.9	7.6	7.8
MINING	22.7	12.8	8.3
HEAVY INDUSTRIAL	35.7	27.7	14.7
TOTAL ENGINEERING	18.8	11.7	9.0
NON-RESIDENTIAL BUILDING (COMMERCIAL CONSTRUCTION)	3.1	5.0	4.0
- PRIVATE SECTOR	4.3	4.2	5.6
- PUBLIC SECTOR	1.1	6.2	1.6
APARTMENTS	8.7	-8.0	-2.3
OVERSEAS BUSINESS	1.0	0.0	0.0
TOTAL CONSTRUCTION	14.0	10.0	8.0

2012/13 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in August/September 2012 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 64,000 persons with combined turnover of almost \$39 billion or approximately 30% of total industry activity.

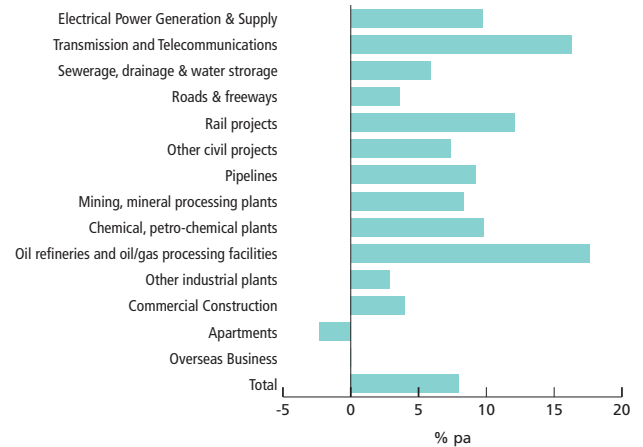
SPONSOR STATEMENT

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 2013/14

- The total value of construction turnover is forecast to moderate further in 2013/14, mainly reflecting an easing in mining and heavy industrial construction.
- The value of infrastructure work is expected to expand at a 7.8% pace in 2013/14. Businesses anticipate that work levels will again receive solid support from transmission and telecommunications (+15.3%), rail (+12.1%) and electricity generation & supply (+9.7%) projects. In addition, ports/terminals construction work is expected to rise to a higher level as reflected in a pick-up to 9.6% in the growth forecast for other civil projects. The more subdued growth forecasts are in roads (+3.6%) and sewerage, drainage & water supply projects (+5.9%).
- Businesses see a further moderation in revenue growth from mining related construction work as mine investment and production approach peak levels, with a forecast rise of 8.3% in 2013/14.
- Heavy industrial construction prospects are mixed with firm growth in oil and gas processing projects (+17.6%) and chemical and petro-chemical plants (+9.8%) offset by a weaker growth outlook for "other" downstream mineral processing plants (+2.9%).
- Growth in turnover from commercial construction activity is expected to be slightly slower (than forecast in 2012/13) at around 4.0% per annum. Private sector building activity is forecast to show a slight step-up in growth to 5.6% while public sector building activity is forecast to moderate to 1.6%.

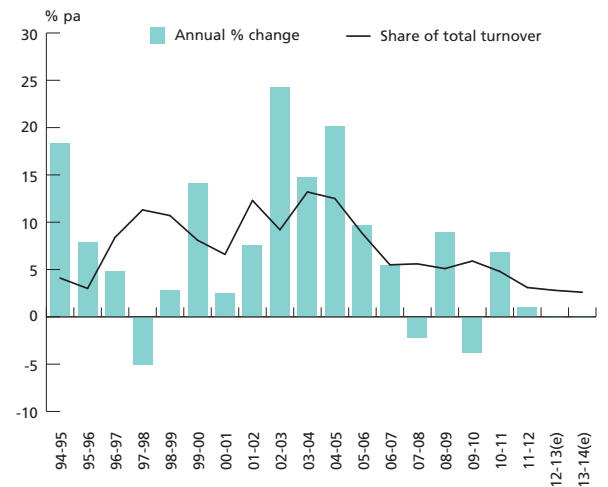
2013/14 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



OVERSEAS BUSINESS

- The overseas business of construction businesses accounted for 3.1% of all construction revenue in 2011/12. Whilst this share remained well below the plus 10% peak years of 2002/03 to 2004/05, by size it constituted the tenth largest market sector of respondents (of a total of 16 sectors surveyed).
- Revenue from overseas business rose by just 1.0% in 2011/12 following growth of 6.8% in the previous year. Respondents linked this to a slower 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 remain flat through 2012/13 and 2013/14.

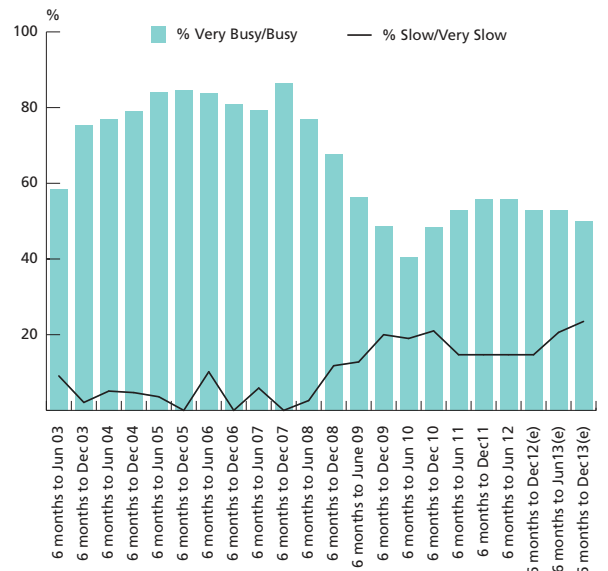
OVERSEAS BUSINESS



LEVELS OF ACTIVITY

- Consistent with continued strength across the resources and infrastructure sectors, levels of activity remained solid over the first half of 2012. In total, 55.9% of respondents reported operating at busy or very busy levels of activity during this six months period, unchanged from the previous six months period.
- During the second half of 2012 activity is expected to moderate slightly (52.9% very busy/busy), with this proportion holding steady during the six months to June 2013. Thereafter, respondents expect a further slight easing in activity by which time 50.0% anticipate busy or very busy operating conditions.
- The average level of industrial/construction capacity in use was 84.7% in August/September 2012, broadly unchanged from six months earlier.
- As a consequence, capacity utilisation was sustained at close to three-year high level, although it remained 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.

LEVELS OF ACTIVITY

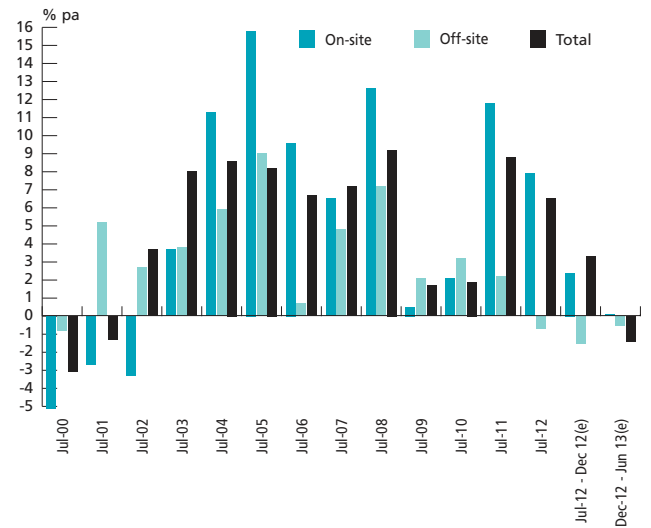




EMPLOYMENT

- Solid activity and strong investment has underpinned continued jobs creation with total employment increasing by 6.5% in the year to July 2012. This follows growth of 8.8% during the previous 12 months period and maintains the upward trend of the past years.
- With a high level of projects coming on stream, employment increases were more prevalent among employees principally engaged on-site (+7.9%) and sub-contract tradesmen (+6.4%). Off-site employment fell slightly by 0.7%.
- The strength in overall work levels will support further job gains in 2012. Total employment is forecast to rise by 3.3% over the second half of 2012 with increases confined to on-site (+2.4%) and sub-contract (+5.2%) workers. Off-site employee numbers are expected to decline by 1.5% over this period.
- Thereafter to June 2013, labour market conditions are expected to weaken. Over this period, the number of sub-contract tradesmen is forecast to decline by 1.4% while the number of on-site and off-site employees is expected to remain broadly unchanged.

EMPLOYMENT

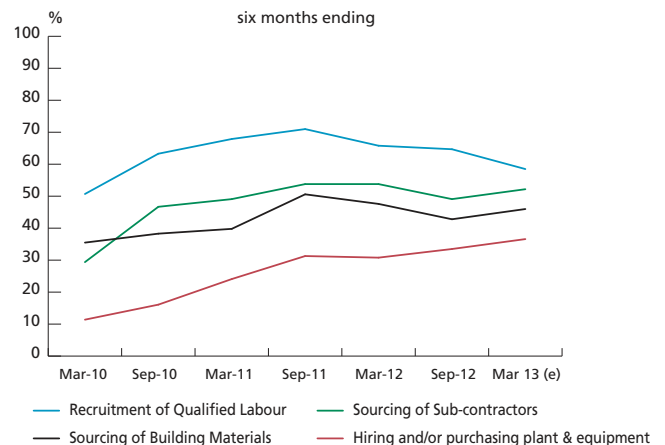


SUPPLY CONSTRAINTS

- Demand pressures on labour inputs, materials and equipment remain strong. During the six months to September 2012, a high 62.5% of businesses reported either major or moderate difficulty in the recruitment of qualified labour (as compared to 63.6% six months ago). The sourcing of sub-contractors was also a dominant supply constraint with 46.9% citing major or moderate difficulty (down slightly from 51.6%).
- For capital supplies, 31.3% (up from 27.3%) reported major or moderate difficulty in the hiring and purchasing of equipment, while 40.6% (down from 45.4%) reported major or moderate difficulty in the sourcing of building materials.
- Supply constraints are expected to continue to exert strong pressures during the coming months. Over the six months to March 2013, a higher proportion of firms expect major or moderate difficulty in the sourcing of sub-contractors (50.0%) and the hiring and purchasing of equipment (36.3%) and the sourcing of building materials (43.8%). However, the degree of difficulty in recruiting qualified labour is expected to ease to 56.3%.

SUPPLY CONSTRAINTS - LABOUR AND CAPITAL SUPPLIES

(% reporting major/moderate difficulty)

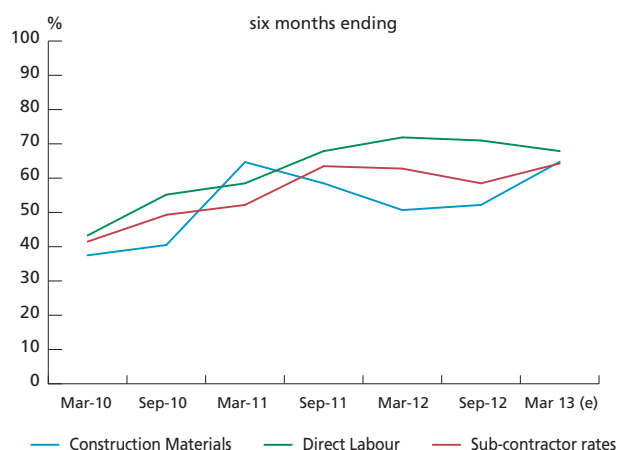


INPUT COSTS

- The shortage of resources in meeting demand has seen further rises in construction costs, placing additional pressure on businesses typically tendering on tight margins. During the six months to September 2012, 68.8% of businesses cited major or moderate increases in direct labour costs (broadly unchanged from 69.7% six months ago). For sub-contractor rates, 56.3% reported major or moderate increases (down slightly from 60.6%).
- Pressures on material costs have also continued. In total, 50.0% of businesses reported major or moderate increases in construction materials in the six months to September 2012 as compared to 48.5% six months ago.
- The sustained expansion in industry work levels is expected to result in further upward pressure on costs during the six months to March 2013. Over this period, the proportion of firms anticipating major or moderate increases is forecast to rise to 62.6% for construction materials and 62.1% for sub-contractor rates and ease only slightly to 65.7% for direct labour costs.

INPUT COSTS

(% reporting major/moderate increase)



VALUE OF TURNOVER IN CONSTRUCTION WORK	PERCENTAGE CHANGE			
	% OF 2011/12 TURNOVER	2011/12 ON 2010/11	2012/13(E) ON 2011/12	20013/14(E) ON 2012/13(E)
UTILITIES INFRASTRUCTURE				
Electrical Power Generation & Supply	0.9	8.9	10.6	9.7
Sewerage, drainage and water storage	3.9	11.4	6.5	5.9
Sub-total	4.7	10.9	7.2	6.6
TRANSPORT INFRASTRUCTURE				
Roads and freeways	16.7	12.4	6.8	3.6
Rail projects	9.1	25.9	12.3	12.1
Sub-total	25.8	16.8	8.7	6.7
Transmission and telecommunications Infrastructure	4.0	12.1	13.0	15.3
Other civil projects	8.6	12.8	8.1	9.6
Pipelines	1.6	6.2	7.2	9.2
Sub-total Infrastructure	44.7	13.9	7.6	7.8
MINING MINERAL PROCESSING ETC	27.3	22.7	12.8	8.3
INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	0.4	19.5	6.4	9.8
Oil refineries and gas processing facilities	6.3	42.9	33.5	17.6
Other industrial plants	1.6	17.2	11.3	2.9
Sub-total Industrial Construction	8.3	35.7	27.7	14.7
ENGINEERING CONSTRUCTION (Infrastructure, Mining & Industrial Construction)	80.3	18.8	11.7	9.0
COMMERCIAL CONSTRUCTION				
- Private Sector	8.9	4.3	4.2	5.6
- Public Sector	6.0	1.1	6.2	1.6
Sub-total Commercial construction	14.9	3.1	5.0	4.0
APARTMENTS	0.5	8.7	-8.0	-2.3
OVERSEAS BUSINESS	3.1	1.0	0.0	0.0
OTHER	1.2	4.3	14.1	7.3
TOTAL	100.0	14.0	10.0	8.0

EMPLOYMENT	YEAR TO JULY 2012 (% CHANGE)	EXPECTED JULY TO DEC '12 (% CHANGE)	EXPECTED DEC '12 - JUNE '13 (% CHANGE)
On-site employees	7.9	2.4	0.1
Off-site employees	-0.7	-1.5	-0.5
Sub-contract labour	6.4	5.2	-3.3
TOTAL	6.5	3.3	-1.4

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to June 2011	17.6	38.2	29.4	11.8	2.9
Six months to December 2011	20.6	35.3	29.4	11.8	2.9
EXPECTED					
Six months to June 2012	17.6	35.3	32.4	14.7	0.0
Six months to December 2012	17.6	35.3	26.5	20.6	0.0
Six months to December 2013	14.7	35.3	26.5	23.5	0.0

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