

Outlook

OCTOBER 2013

DECLINE IN MINING CONSTRUCTION TO WEIGH ON MAJOR PROJECT ACTIVITY

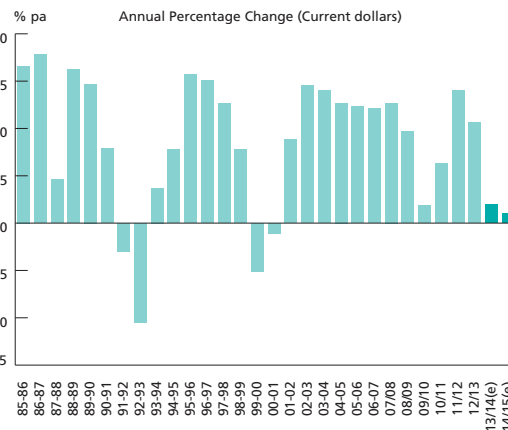
KEY FINDINGS

- Australia's leading construction companies are forecasting a much weaker phase of growth in non-residential construction work through 2013/14 and 2014/15. A decline in the level of mining-related construction and more subdued conditions across a range of key infrastructure sectors is expected to lead to a marked slowing in engineering construction activity. In addition, commercial construction is expected to continue to exhibit soft conditions with a subdued project pipeline constraining the sector's growth outlook, particularly in 2013/14.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after solid growth of 10.6% p.a. in 2012/13 (current prices), the rate of increase in the total value of engineering and commercial construction work is expected to moderate markedly to 2.0% p.a. in 2013/14 followed by similar subdued growth of 1.0% p.a. in 2014/15.
- Despite the weaker outlook, supply constraints remain a major concern for the industry. Businesses continue to face widespread difficulties in the sourcing of skilled labour and capital requirements. This is being reflected in rising input costs which are exerting further pressure on margins.
- While the actual level of engineering construction work is expected to be sustained at a high level over the next two years, weaker conditions are expected in a range of key project areas. In particular, mining related construction is forecast to turn down in response to project completions and deferrals. However, continued strong growth is forecast in transmission & telecommunications in line with the NBN roll-out and related investment. Levels of construction activity are also expected to hold up reasonably well in the oil and gas sector (despite a slower growth outlook) while further solid growth is forecast in "other" civil projects (such as terminals and ports) in 2013/14.

OUTLOOK 2013/14

- Growth in total turnover from construction work is forecast to rise at a slower rate of 2.0% p.a. (current dollars) in 2013/14, following an increase of 10.6% p.a. in the previous year.
- Total infrastructure construction is expected to moderate. This largely reflects slower growth of 4.7% p.a. in revenue from transport construction in 2013/14 (down from 12.7% p.a. in 2012/13) due to the time lag between the completion of some significant projects and the start of new ones. Weaker growth is also expected in electricity generation & supply projects (+8.5% p.a.) while a decline of -9.6% p.a. is projected in sewerage, drainage & water supply projects.
- The value of mining sector work is expected to contract by 9.9% p.a. as mining investment winds back from peak levels. However, heavy industrial resource-based construction will be sustained at a high level due to the solid (albeit moderating) growth projected in oil and gas processing projects (+12.0% p.a.).
- The value of commercial construction work is expected to remain broadly unchanged with growth of 1.0% p.a.

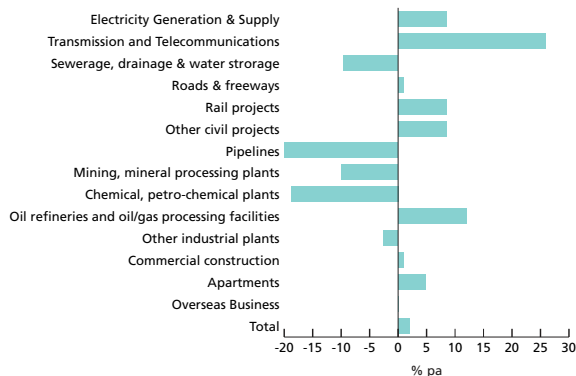
TURNOVER FROM CONSTRUCTION WORK



CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2014/15

Sector	% Change p.a.		
	2012/13	2013/14 (F)	2014/15 (F)
Infrastructure	14.0	5.9	3.4
Mining	9.9	-9.9	-9.0
Heavy Industrial Construction	14.7	8.8	3.2
Total Engineering	12.9	1.9	0.4
Non-Residential Building (Commercial Construction)	3.1	1.0	4.5
- Private sector	3.7	1.1	4.3
- Public sector	2.3	0.5	4.8
Apartments	1.1	4.8	7.5
Overseas Business	-0.1	0.1	0.4
Total Construction	10.6	2.0	1.0

2013/14 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)

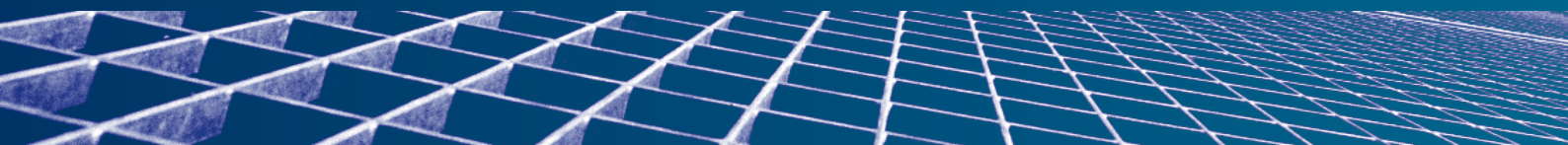


WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group Construction Outlook survey was conducted in August/September in conjunction with the Australian Constructors Association (ACA), the peak industry body representing the nation's major construction contractors. The survey covered the responses of 100 companies employing 90,000 persons with combined turnover of almost \$33 billion or approximately 30% of total non-residential industry activity.

SPONSOR STATEMENT

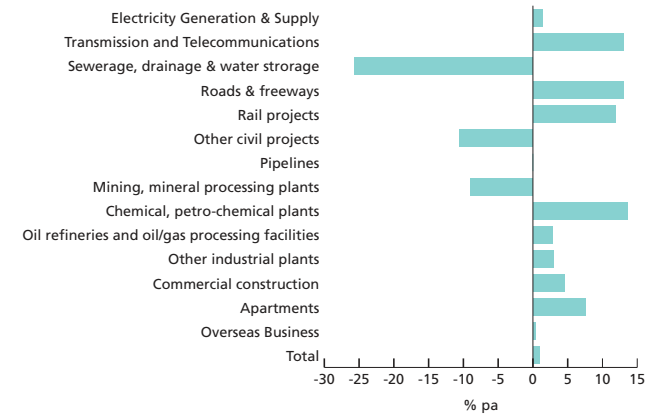
The Australian Constructors Association (ACA) is delighted to be associated with the Australian Industry Group as the major sponsor of one of the most authoritative surveys of Australian construction activity. The survey, which is conducted on a bi-annual basis, provides an excellent barometer on the 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 2014/15

- The total value of construction turnover is forecast to show a further slight easing in 2014/15 with growth of 1.0% p.a. forecast.
- The value of infrastructure work is expected to record relatively subdued overall growth of 3.4% p.a. A marked decline is forecast in water supply & sewerage (-25.6% p.a.) while the close links of ports/terminal construction to resource investment is expected to lead to a 10.6% p.a. decline the value of revenue derived from other civil projects. Businesses also expect softer growth in transmission & telecommunications (+13.0% p.a.) and electricity generation & supply (+1.4% p.a.) projects.
- Consistent with a slowing resource projects pipeline, a further decline in mining related construction work of 9.0% p.a. is expected in 2014/15.
- A weaker outlook is predicted for heavy industrial construction in 2014/15. This is largely due to a slower growth in work on oil and gas processing projects (+2.8% p.a.) as the construction phase of oil and LNG moderates.
- The value of commercial construction work is expected to rise at a rate of 4.5% p.a. in 2014/15. Although this is a modest overall growth forecast, an improvement in work generated from both the private (4.3% p.a.) and public sector (4.8% p.a.) is predicted.

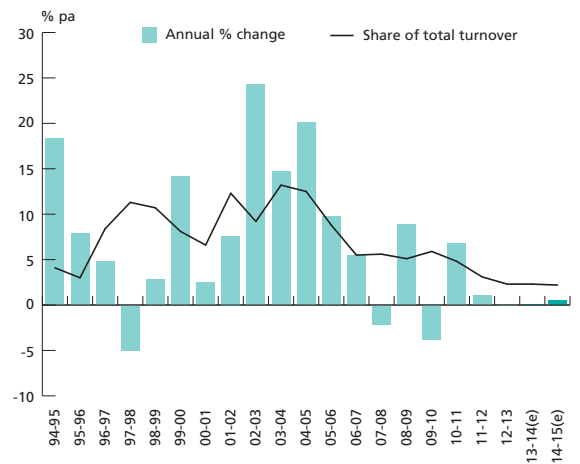
2014/15 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



OVERSEAS BUSINESS

- The overseas business of construction businesses accounted for just 2.3% of all construction revenue in 2013/14, well below the plus 10% peak years of 2002/03 to 2004/05.
- Revenue from overseas business has stabilised over the past two years. Following a decline of just 0.2% p.a. in 2012/13, revenue from overseas business is again expected to be broadly unchanged with an increase of 0.1% p.a. predicted in 2013/14. Respondents linked this weakness 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 0.4% p.a. in 2014/15.

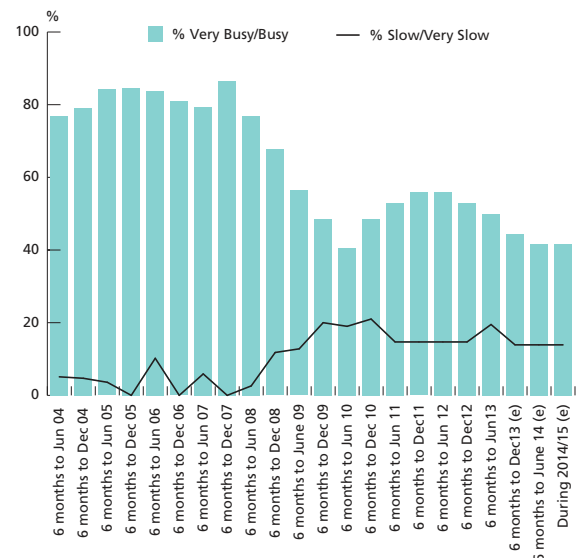
OVERSEAS BUSINESS



LEVELS OF ACTIVITY

- With resources and infrastructure project work remaining reasonably solid over the first half of 2013, levels of activity were broadly unchanged in comparison with those reported in the second half of 2012. One in every two respondents (49.9%) reported operating at busy or very busy levels of activity during this six months period, only slightly down from the 52.9% in the previous six months period.
- However, in 2013/14 a notable easing in activity is expected. During the second half of 2013, the proportion of businesses anticipating busy or very busy activity falls to 44.4% with a further decline to 41.7% during the first half of 2014. Activity is expected to plateau at this level through 2014/15.
- The average level of industrial/construction capacity in use was 82.1% in August/September 2013, slightly below the reading (82.6%) from the level six months earlier.
- Although capacity utilisation has held broadly steady in recent months, from a longer term perspective, it is well down on 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

- Labour market conditions weakened in the year to July 2013. Total employment was reported to have risen by 0.9% p.a. in the year to June 2013 after rising by 6.5% p.a. during the previous 12 months period. Across the industry, the number of off-site employees declined by 6.3% p.a. while the number of on-site employees and sub-contract tradesmen increased by 2.1% p.a. and 0.5% p.a. respectively over this period.
- Total employment is forecast to decline at a rate of 2.0% over the remainder of 2013. Weaker investment demand and completion of various major projects will see reductions in employment weighing more heavily on employees principally engaged on-site (-3.8%) although employment of sub-contract tradesmen is expected to remain broadly unchanged (+0.5%). Off-site employment is expected to fall by 1.9% over this period.
- Thereafter to June 2014, total employment is forecast to decline at a slower pace of 1.4%. Over this period, declines are expected to be concentrated among off-site (-2.6%) and on-site employees (-2.1%) whereas the number of sub-contract tradesmen engaged on projects is again seen as remaining relatively stable with a slight fall of 0.2% predicted.

EMPLOYMENT

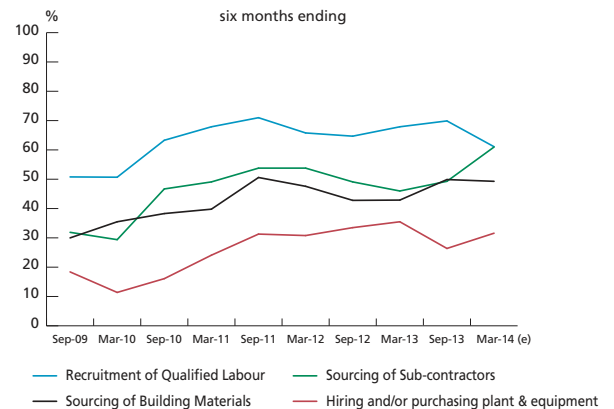


SUPPLY CONSTRAINTS

- Pressures from supply constraints remain at high levels. Despite a weakening in the forward pipeline, a range of large-scale projects continue to draw heavily on labour and capital requirements. During the six months to September 2013, a high 67.7% of respondents reported either major or moderate difficulty in the recruitment of skilled labour (up from 65.7% six months ago). The sourcing of sub-contractors was also a dominant supply constraint with 47.1% citing major or moderate difficulty (up from 43.8%).
- For capital supplies, 47.7% (up from 40.7%) reported major or moderate difficulty in the sourcing of building materials. In addition, approximately one quarter of businesses reported major or moderate difficulty in the hiring and purchasing of equipment (24.2%), although this was down from 33.3% six months ago.
- The outlook points to little respite from these pressures in coming months. Over the six months to March 2014, a higher proportion of firms expect major or moderate difficulty in the sourcing of sub-contractors (58.8% of respondents) and the hiring or purchasing equipment (29.4%). The degree of difficulty in the recruitment of skilled labour is expected to be somewhat less widespread (58.9% of respondents) while businesses anticipating major or moderate difficulty sourcing building materials is broadly unchanged at 47.1%.

SUPPLY CONSTRAINTS - LABOUR AND CAPITAL SUPPLIES

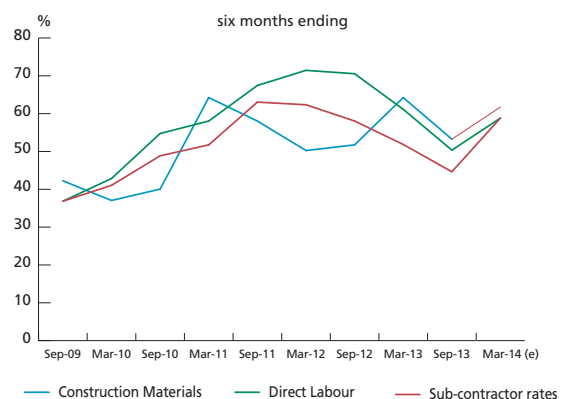
(% reporting major/moderate difficulty)



INPUT COSTS

- The rise in supply-side constraints is continuing to exert pressure on a range of input costs. Although the survey indicates a moderation in the extent of input cost inflation in the six months to September 2013 (relative to the previous six months period), cost pressures are expected to heighten thereafter. During the six months to September 2013, 51.5% of businesses cited major or moderate increases in material costs, down from 62.5% citing this level of difficulty six months ago.
- As a consequence of widespread skilled labour shortages, close to one in every two businesses (48.6%) reported major or moderate increases in direct labour costs in the six months to September 2013 (down, however from 59.4% six months ago). For subcontractor rates, 42.9% reported major or moderate increases as compared to 50.1% six months ago.
- The shortage of resources in meeting demand is expected to lead to rising cost pressures. Over the six months to March 2014, the proportion of firms anticipating major or moderate increases is forecast to rise to 60.0% for construction materials and 57.1% for sub-contractor rates and; 57.1% for direct labour costs.

INPUT COSTS (% reporting major/moderate increase)



VALUE OF TURNOVER IN CONSTRUCTION WORK	PERCENTAGE CHANGE			
	% OF 2012/13 TURNOVER	2012/13 ON 2011	2013/14(E) ON 2012/13	2014/15(E) ON 2013/14(E)
UTILITIES INFRASTRUCTURE				
Electricity generation & supply	6.9	13.0	8.5	1.4
Sewerage, drainage and water storage	2.7	21.8	-9.6	-25.6
Sub-total	9.6	15.3	3.5	-5.2
TRANSPORT INFRASTRUCTURE				
Roads and freeways	11.6	11.0	1.0	13.1
Rail projects	10.7	14.6	8.6	11.9
Sub-total	22.3	12.7	4.7	12.5
Transmission and telecommunications infrastructure	4.3	28.4	25.9	13.0
Other civil projects	11.5	14.2	8.5	-10.6
Pipelines	2.4	0.0	-20.0	0.0
Sub-total Infrastructure	50.1	14.0	5.9	3.4
MINING MINERAL PROCESSING ETC	21.2	9.9	-9.9	-9.0
HEAVY INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	0.5	9.6	-18.8	13.6
Oil refineries and gas processing facilities	6.2	18.0	12.0	2.8
Other industrial plants	1.0	-2.7	-2.6	2.9
Sub-total Industrial Construction	7.7	14.7	8.8	3.2
ENGINEERING CONSTRUCTION (INFRASTRUCTURE, MINING & INDUSTRIAL CONSTRUCTION)	79.0	12.9	1.9	0.4
COMMERCIAL CONSTRUCTION				
– Private Sector	9.5	3.7	1.1	4.3
– Public Sector	7.4	2.3	0.5	4.8
Sub-total Commercial Construction	16.9	3.1	1.0	4.5
APARTMENTS	0.8	1.1	4.8	7.5
OVERSEAS BUSINESS	2.3	-0.1	0.1	0.4
OTHER	1.0	2.5	-8.0	-7.7
TOTAL	100.0	10.6	2.0	1.0

EMPLOYMENT	Year to July 2013 (% Change)	Expected July '13 to Dec '13 (% Change)	Expected Dec '13- Jun '14 (% Change)
On-site employees	2.1	-3.8	-2.1
Off-site employees	-6.3	-1.9	-2.6
Sub-contract labour	0.5	0.5	-0.2
TOTAL	0.9	-2.0	-1.4

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to December 2012	20.5	32.4	23.5	17.6	2.9
Six months to June 2013	27.7	22.2	30.6	16.7	2.8
EXPECTED					
Six months to December 2013	25.0	19.4	41.7	11.1	2.8
Six months to June 2014	16.7	25.0	44.4	13.9	0.0
During 2014/15	13.9	27.8	44.4	11.1	2.8

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