

Construction Outlook

MAY 2010

CONSTRUCTION POISED FOR STRONGER GROWTH

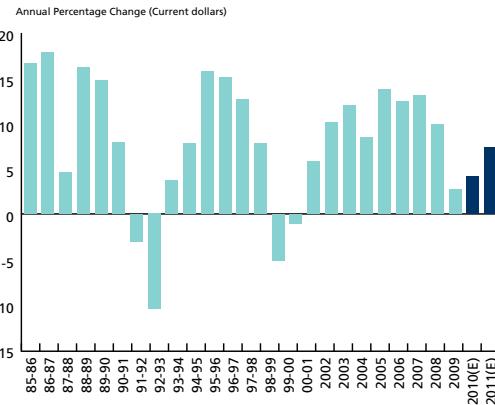
KEY FINDINGS

- Australia's leading construction companies are forecasting that growth in the value of total engineering and non-residential building work will lift to a higher rate through 2010 and 2011. The improved conditions are expected to be largely driven by growth in mining related construction and the large number of transport and oil and gas projects in the pipeline.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after rising by a subdued 2.7% in 2009 (current prices), the value of engineering and commercial construction work is forecast to register higher growth of 4.1% in 2010, before lifting by 7.4% in 2011.
- Higher workloads and increased investment demand are also expected to result in an expansion in employment, particularly in 2011 with a forecast rise of 4.8% through the first half of next year.
- Engineering construction is expected to lead growth with total turnover increasing by 6.5% in 2010 and 8.9% in 2011, reflecting the improved demand for commodities and the increasing shift to project re-starts in the resources sector. Other key positives include a further increase in transport infrastructure work driven by a number of major government supported projects, and an upturn in oil and gas project activity.
- Private sector non-residential building (commercial construction) is forecast to record a further decline in 2010 of 7.6% (following a contraction of 11.6% in 2009), due to on-going private funding difficulties and weak building demand. However, growth in public sector non-residential building activity (mainly education building) is expected to again limit the overall decline. Further ahead, total non-residential building is expected to recover modestly by 3.9% in 2011.
- The decline in apartment building sector work evident over the past four years is expected to continue in 2010 with the value of work falling by 22.7% in 2010, followed by an upturn of 15.0% in 2011.

OUTLOOK 2010

- Growth in total turnover from construction work is forecast to rise at a rate of 4.1% (current dollars) in 2010, with infrastructure and resource related construction underpinning growth.
- The impact of increased investment in the resources sector is reflected in a predicted increase of 8.6% in the value of mining related construction work and a 9.6% increase in heavy industrial resource based construction. Within the heavy industrial sector, the expansion in activity is expected to be led by solid growth in "other" (downstream processing) industrial plants (+11.5%) and in oil and gas processing (+9.9%).
- The expansion of the infrastructure market is expected to be led by firm growth in both road (7.6%) and rail projects (12.2%), in line with a range of large-scale Government transport initiatives either underway or in the pipeline.
- The main negatives with respect to the outlook in 2010 are the sizeable declines projected in private sector non-residential building activity (-7.6%) and apartment building (-22.7%). This contrasts with a forecast rise of 10.5% in public sector non-residential building projects reflecting the boost from the Federal Government's social infrastructure spending commitments.

TURNOVER FROM CONSTRUCTION WORK



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

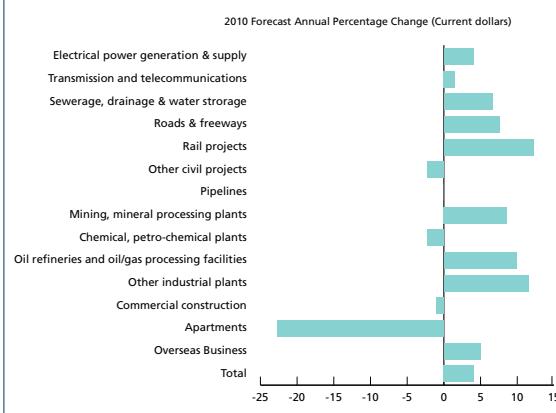
| SECTOR | 2009 | 2010 (F) | 2011 (F) |
|---|-------|----------|----------|
| INFRASTRUCTURE | 4.7 | 5.7 | 7.5 |
| MINING | 5.5 | 8.6 | 13.4 |
| HEAVY INDUSTRIAL | 11.0 | 9.6 | 10.0 |
| TOTAL ENGINEERING CONSTRUCTION | 5.3 | 6.5 | 8.9 |
| NON-RESIDENTIAL BUILDING (COMMERCIAL CONSTRUCTION) | -2.2 | -1.0 | 3.9 |
| - PRIVATE SECTOR | -11.6 | -7.6 | 2.1 |
| - PUBLIC SECTOR | 19.7 | 10.5 | 6.5 |
| APARTMENTS | -9.0 | -22.7 | 15.0 |
| OVERSEAS BUSINESS | -3.2 | 5.0 | 6.2 |
| TOTAL CONSTRUCTION | 2.7 | 4.1 | 7.4 |

WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in February/March 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 60,000 persons with combined turnover of almost \$30billion or approximately 30% of total industry activity.

SPONSOR STATEMENT

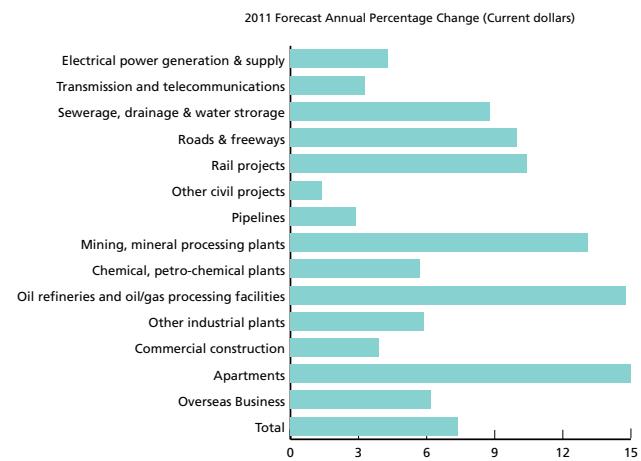
The Australian Constructors Association (ACA) is delighted to be associated with the Australian Industry Group as the major sponsor of one of the most authoritative surveys of Australian construction activity. The survey, which is conducted on a bi-annual basis, provides an excellent barometer on the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





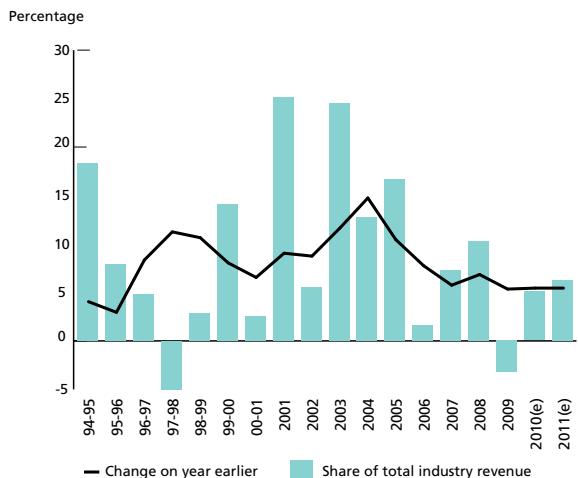
OUTLOOK 2011

- The total value of construction turnover is forecast to register a lift in growth to 7.4% in 2011 as a higher level of major projects move through the pipeline to commencement.
- The value of construction work in mining is set to maintain robust expansion of 13.4% in 2011 on the back of the improving global outlook and stronger commodities demand.
- The outlook for heavy industrial construction is dominated by a high level of growth projected in oil and gas processing projects of 14.5%.
- Within the infrastructure market, transport infrastructure expenditure, supported by significant planned Government infrastructure expenditure, is forecast to maintain solid growth with rises expected in both roads (10.0%) and rail (10.4%) projects. Electricity generation and supply (4.3%), and sewerage and water supply projects (8.8%) projects represent the other main contributors to infrastructure growth.
- Prospects are for a modest improvement in private sector non-residential building activity of 2.1%, and further growth in public sector building of 6.5%, resulting in a forecast lift in total non-residential building (commercial construction) of 3.9%.



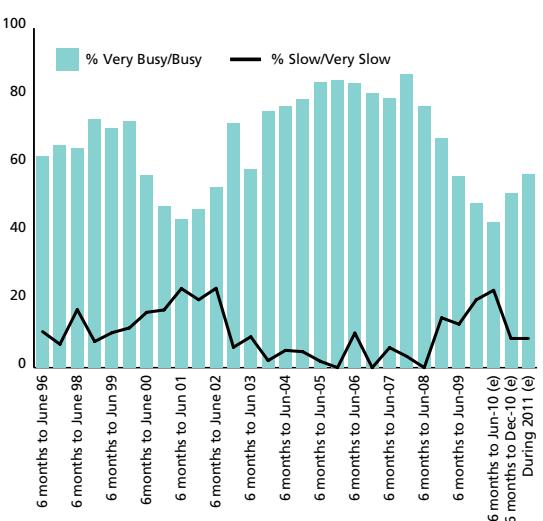
OVERSEAS BUSINESS

- The overseas business of construction firms accounted for 5.1% of all construction revenue in 2009. Whilst this share remained well below the plus 10% peak years of 2003 to 2005, by size it constituted the eighth largest market sector of respondents (of a total of 16 sectors surveyed).
- Revenue from overseas business in 2009 registered a decline of 3.2%. This follows average annual growth of 12.9% over the previous eight years and was mainly linked to the completion of major projects in key markets, and overseas projects put on hold due to the global economic and financial crisis.
- Total revenue from export business is expected to recover to register growth of 5.0% in 2010, followed by a further rise of 6.2% in 2011. This equates to approximately \$3.5 billion of overseas revenue to be generated by respondents over this two year period.



LEVELS OF ACTIVITY

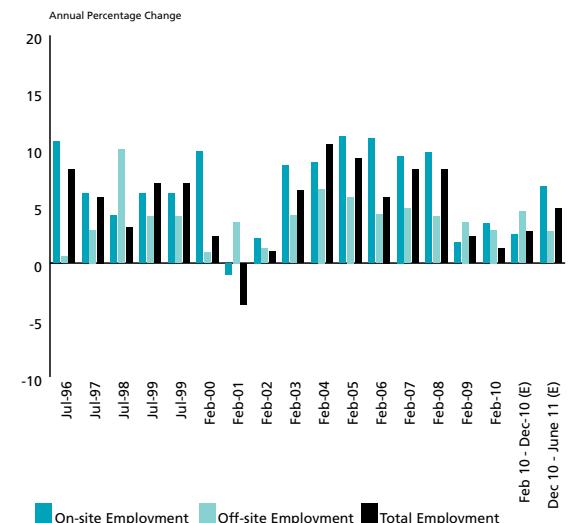
- Consistent with the subdued level of overall construction conditions, levels of activity moderated over the second half of 2009. In total, 48.6% of respondents reported operating at busy or very busy levels of activity during this six month period. This was 7.8 percentage points below the level recorded in the previous six months, and the lowest activity reading by respondents in the past eight years.
- While activity is expected to be at a weaker level during the first half of 2010 (42.8% very busy/busy), the second half of 2010 will see activity lifting with 51.4% anticipating very busy or busy conditions. Thereafter, during 2011, activity is expected to register further improvement with this proportion rising to 57.1%.
- Weaker project demand also saw the average level of industrial/construction capacity in use at 76.9% in February 2010, down from a reading of 80.3% six months ago.
- From a historical perspective, this level of capacity utilisation was 15.7 percentage points lower than the peak reading of March/April 2008 and the lowest level recorded since February 2001.





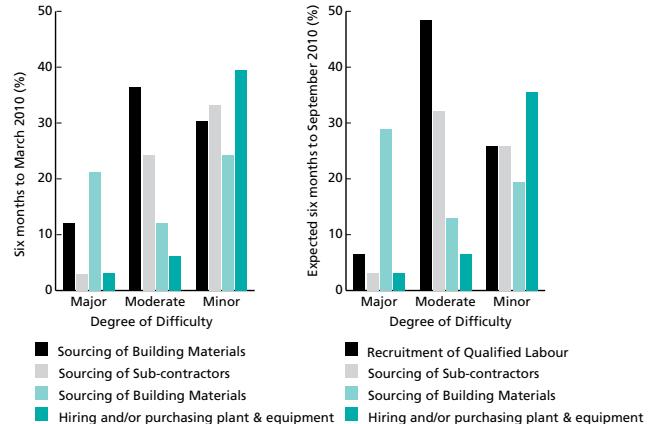
EMPLOYMENT

- Total employment continued to expand in the year to February 2010, although the rate of growth (1.3%) was slower than the increase of 2.3% recorded during the previous 12 months. Across the industry, the number of on-site and off-site employees increased by 3.5% and 2.9% respectively, while the number of subcontract tradesmen declined by 3.3%.
- 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 February to December 2010 total employment is forecast to rise by 2.8%, with increases expected to be at the highest level among off-site employees (4.5%).
- Thereafter to June 2011, total employment is expected to register a further increase of 4.8%. Over this period employment growth is led by solid growth of 6.7% in on-site employees, with the expected higher level of new project work in 2011 set to place the strongest demand on on-site resources.



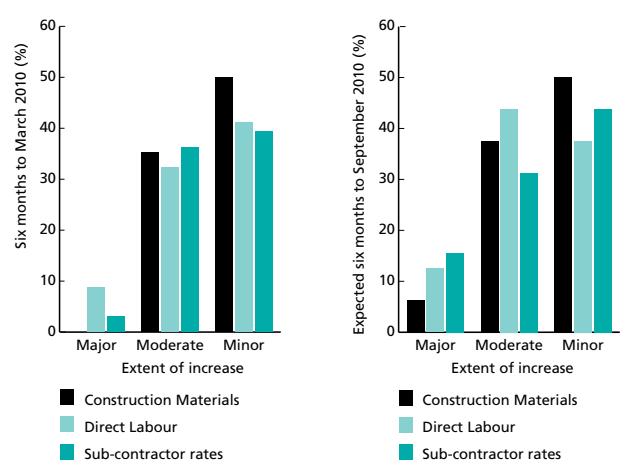
SUPPLY CONSTRAINTS

- Supply constraints continue to exert significant pressures on the industry. In particular, demand for labour remains high due mainly to the lift in resource related construction and scale of projects in the pipeline. Reflecting this, almost one in every two companies surveyed (48.5%) reported either major or moderate difficulty in the recruitment of qualified labour during the six months to March 2010. This was in line with the proportion (48.6%) citing this level of difficulty in the previous six months period. With respect to the sourcing of subcontractors, 27.2% reported major or moderate difficulty, down slightly from 29.7% in the previous six months period.
- For capital supplies, 33.3% (up from 27.8%) reported major or moderate difficulty in the sourcing of building materials, while 9.2% (down from 16.2%) reported major or moderate difficulty in the hiring and purchasing of equipment.
- Supply constraints are expected to exert increased pressures in the short term. Over the six months to September 2010, a higher proportion of firms expect major or moderate difficulty in the recruitment of qualified labour (54.9%), the sourcing of sub-contractors (35.4%), the sourcing of building materials (41.9%) and the hiring and purchasing of equipment (9.7%).



INPUT COSTS

- Weaker project demand has seen construction material cost pressures ease during the six months to March 2010 with 35.3% of firms citing a major or moderate increase as compared with 40.5% during the previous six months period.
- Skilled labour shortages, however, have led to the re-emergence of upward pressures on labour costs. In total, 41.1% of firms reported a major or moderate increase in direct labour costs (up from 38.3% in the previous six months period) and 39.3% of firms reported a major or moderate increase for sub-contractor rates (up from 35.8%).
- 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 September 2010. Over this period, the proportion of firms anticipating major or moderate increases is forecast to rise to 43.8% for construction materials, 56.3% for both direct labour and 46.9% for sub-contractor rates.



| VALUE OF TURNOVER IN CONSTRUCTION WORK | % OF 2009 TURNOVER | PERCENTAGE CHANGE (CURRENT DOLLARS) | | |
|--|--------------------|-------------------------------------|-----------------|--------------------|
| | | 2009 ON 2008 | 2010(E) ON 2009 | 2011(E) ON 2010(E) |
| UTILITIES INFRASTRUCTURE | | | | |
| Electrical Power Generation & Supply | 1.1 | 2.0 | 4.0 | 4.3 |
| Sewerage, drainage and water storage | 3.6 | -4.4 | 6.6 | 8.8 |
| Sub-total | 4.7 | -3.0 | 6.0 | 7.8 |
| TRANSPORT INFRASTRUCTURE | | | | |
| Roads and freeways | 22.7 | 7.2 | 7.6 | 10.0 |
| Rail projects | 5.6 | 7.1 | 12.2 | 10.4 |
| Sub-total | 28.3 | 7.2 | 8.5 | 10.1 |
| OTHER INFRASTRUCTURE | | | | |
| Transmission and telecommunications Infrastructure | 7.1 | 0.7 | 3.4 | 3.3 |
| Other civil projects | 6.5 | 4.1 | -2.2 | 1.4 |
| Pipelines | 2.3 | 6.6 | 0.0 | 2.9 |
| Sub-total Infrastructure | 48.9 | 4.7 | 5.7 | 7.5 |
| MINING MINERAL PROCESSING ETC | | | | |
| Chemical, petro-chemical plants etc | 0.3 | 1.6 | -2.3 | 5.7 |
| Oil refineries and gas processing facilities | 2.0 | 1.6 | 9.9 | 14.5 |
| Other industrial plants | 2.0 | 24.5 | 11.5 | 5.9 |
| Sub-total Industrial Construction | 4.3 | 11.0 | 9.6 | 10.0 |
| COMMERCIAL CONSTRUCTION | | | | |
| - Private Sector | 15.6 | -11.6 | -7.6 | 2.1 |
| - Public Sector | 9.1 | 19.7 | 10.5 | 6.5 |
| Sub-total Non-Residential Building | 24.7 | -2.2 | -1.0 | 3.9 |
| APARTMENTS | | | | |
| | 1.0 | -9.0 | -22.7 | 15.0 |
| OVERSEAS BUSINESS | | | | |
| | 5.1 | -3.2 | 5.0 | 6.2 |
| Other | 2.7 | 4.0 | 0.0 | 0.0 |
| TOTAL | 100.0 | 2.7 | 4.1 | 7.4 |

| EMPLOYMENT | YEAR TO FEBRUARY 2010 | EXPECTED FEB '10 TO DEC '10 (% CHANGE) | EXPECTED DEC '10 - JUNE '11 (% CHANGE) | |
|---------------------|-----------------------|---|---|---|
| | | | EXPECTED FEB '10 TO DEC '10 (% CHANGE) | EXPECTED DEC '10 - JUNE '11 (% CHANGE) |
| On-site employees | 3.5 | 2.5 | 6.7 | |
| Off-site employees | 2.9 | 4.5 | 2.8 | |
| Sub-contract labour | 3.3 | 2.4 | 2.3 | |
| TOTAL | 1.3 | 2.8 | 4.8 | |

| LEVEL OF ACTIVITY (% OF COMPANIES) | VERY BUSY % | BUSY % | MODERATE % | SLOW % | VERY SLOW % |
|------------------------------------|-------------|--------|------------|--------|-------------|
| Six months to June 2009 | 20.5 | 35.9 | 30.8 | 10.3 | 2.5 |
| Six months to December 2009 | 20.0 | 28.6 | 31.4 | 17.1 | 2.9 |
| EXPECTED | | | | | |
| Six months to June 2010 | 11.4 | 31.4 | 34.3 | 11.4 | 11.4 |
| Six months to December 2010 | 14.3 | 37.1 | 39.9 | 8.6 | 0.0 |
| During 2011 | 20.0 | 37.1 | 34.3 | 8.6 | 0.0 |

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