

# Construction Outlook

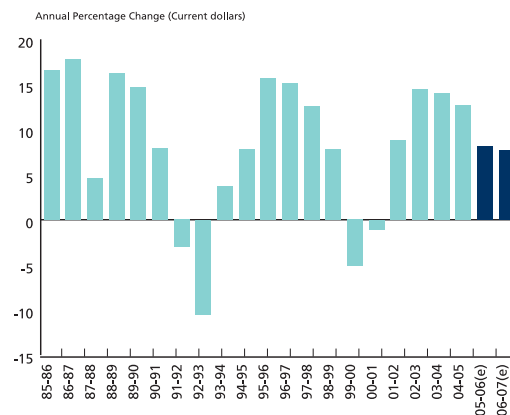


## SOLID GROWTH TO CONTINUE - BUT LITTLE RESPITE FROM COST PRESSURES AND SKILL SHORTAGES

### KEY FINDINGS

- Australia's leading construction companies are forecasting a continuation of solid engineering and non-residential construction activity fuelled by an upturn in Government infrastructure spending, strong resources investment and sustained economic growth.
- The latest Australian Industry Group – Australian Constructors Association Construction Outlook survey reveals that following a rise of 12.7% in 2004/05, total construction work (current dollars) is expected to increase by 8.2% in 2005/06 and by a further 7.7% in 2006/07.
- Consistent with a strong project pipeline, total engineering construction turnover (infrastructure, mining, heavy industrial construction) is forecast to rise by 11.5% in 2005/06 and 10.4% in 2006/07 to a level of \$39.9 billion.
- Within the engineering construction sector, work on infrastructure projects is set to maintain strong growth of 11.1% in 2005/06 and 10.5% in 2006/07 driven by private sector road and rail projects and solid growth in electricity construction.
- Consistent with buoyant resources investment, mining sector work is forecast to expand strongly in 2005/06 (13.8%) and 2006/07 (11.3%) while firm growth in heavy industrial construction of 7.5% in 2005/06 and 7.6% in 2006/07 is predicted.
- Continued strength in the commercial and industrial property sectors is expected to underpin a forecast rise in the value of non-residential building (commercial construction) of 8.9% in 2005/06 and 7.0% in 2006/07 to a level of \$22.9 billion.
- Revenue from apartment building activity is forecast to decline by 1.3% in 2005/06 following an 11.6% fall in 2004/05. Modest growth of 1.5% is predicted in 2006/07.

### TURNOVER FROM CONSTRUCTION WORK



### CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO '06/07

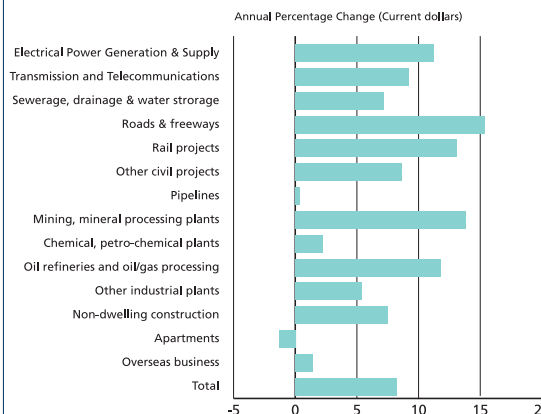
SECTOR	% CHANGE (CURRENT DOLLARS) 04/05	05/06(F)	06/07(F)
<b>INFRASTRUCTURE</b>	17.5	11.1	10.5
<b>MINING</b>	24.7	13.8	11.3
<b>HEAVY INDUSTRIAL</b>	12.8	7.5	7.6
<b>TOTAL ENGINEERING</b>	19.1	11.5	10.4
<b>COMMERCIAL CONSTRUCTION</b>	10.2	8.9	7.0
<b>APARTMENTS</b>	-11.6	-1.3	1.5
<b>OVERSEAS BUSINESS</b>	20.1	1.4	2.6
<b>TOTAL CONSTRUCTION</b>	12.7	8.2	7.7

### WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in August/September 2005 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 56,000 persons with combined turnover of \$14.2 billion or approximately 25% of total industry activity.

### OUTLOOK 2005/06

- After increasing by 12.7% in 2004/05, continued solid growth in construction activity of 8.2% is forecast in 2005/06, with infrastructure projects and mining and resource related construction expected to be the key drivers of growth.
- Expansion of the infrastructure market will be led by high levels of investment in roads (15.4%), and rail projects (13.1%), while a solid rise is also expected in electrical power generation (11.2%).
- The mining sector is forecast to be a major contributor to growth in line with continued strong world growth and mineral demand, although the increase in the value of work is expected to moderate (13.8%) on 2004/05 levels.
- Investment plans for heavy industrial construction remain firm with a forecast rise in turnover of 7.5%. Growth will be focused on the oil and gas sector (11.8%).
- The commercial sector is set to maintain a solid rate of expansion.



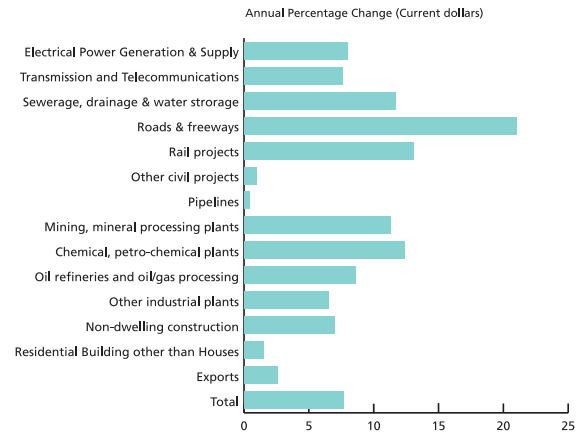
### SPONSOR STATEMENT

The Australian Constructors Association 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.



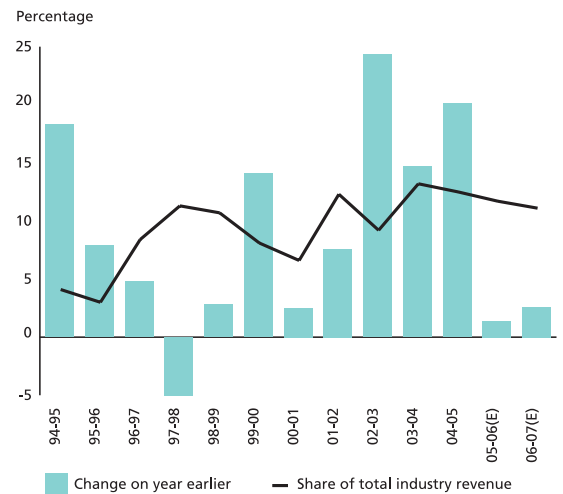
## OUTLOOK 2006/07

- Prospects are for construction work to record growth of 7.7% in 2006/07.
- Infrastructure construction (10.5%) will again be led by the substantial volume of work still to be undertaken on both road (21.0%) and rail (13.1%) projects, including the large private sector funded toll road projects in Sydney and Melbourne. A further solid rise of 8.0% is forecast in electricity generation and supply consistent with the \$22 billion of projects currently earmarked for investment in the electricity sector.
- Mining sector work is expected to remain solid in 2006/07. However growth is forecast to ease to 11.3%, a possible reflection of lower commodity prices as new capacity comes on stream and mineral demand moderates.
- Further growth (7.6%) is projected in heavy industrial construction, with the major market segments - oil and gas and "other" industrial plants expected to rise by 8.6% and 6.5% respectively.
- The upturn in the non-residential building (commercial construction) sector is expected to be sustained, although at a slightly lesser rate of 7.0%.



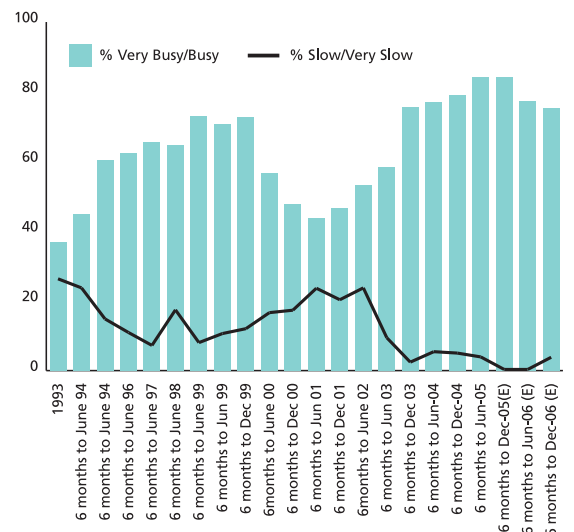
## OVERSEAS BUSINESS

- Overseas business accounted for 12.5% of total industry revenue in 2004/05, down slightly from 13.2% the previous year, although well above the 3% level recorded in the mid 1990s. It also represents the second highest proportion recorded in the 20-year history of the survey.
- The overseas business of construction firms has continued to expand, increasing at a rate of 20.1% in 2004/05. This marked the sixth consecutive year of growth with the annual rate of increase since 2002/03 averaging almost 20%.
- Total revenue from export business is expected to stabilise at current levels over the next two years with growth at rates of less than 3% per annum in both 2005/06 (1.4%) and 2006/07 (2.6%). This will generate an average value of overseas business for respondents of almost \$2 billion over this two-year period.



## LEVELS OF ACTIVITY

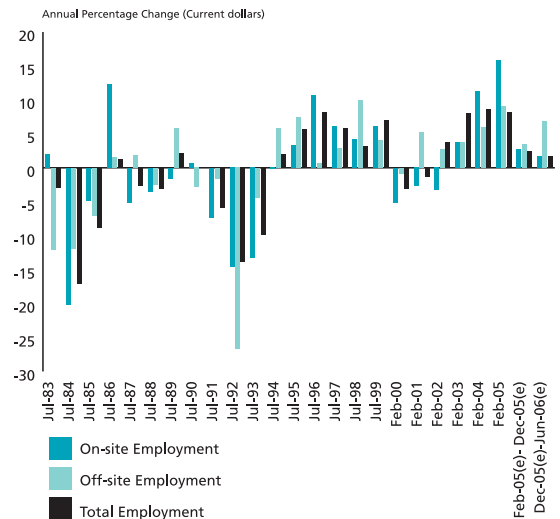
- The survey confirms the continued strength in levels of construction activity. In the six months to June 2005, 84.2% of respondents reported busy or very busy activity, a rise from 79.1% during the previous six months. This represents the highest activity reading in the past 13 years.
- These robust levels of activity are expected to continue to prevail throughout the second half of 2005. Thereafter, activity is forecast to remain solid during 2006, although conditions will moderate. In total, 77.2% of firms anticipate very busy/busy activity levels during the six months to June 2006 with this proportion easing back to 75.4% over the second half of next year.
- The average level of industrial / construction capacity in use was 89.5% in August/September 2005, an increase from the 86.4% reading in February 2005.
- The current capacity utilisation level is the highest recorded in the past nine years, and significantly, is 14 percentage points above the most recent low point of 74.9% registered by respondents in February 2001.





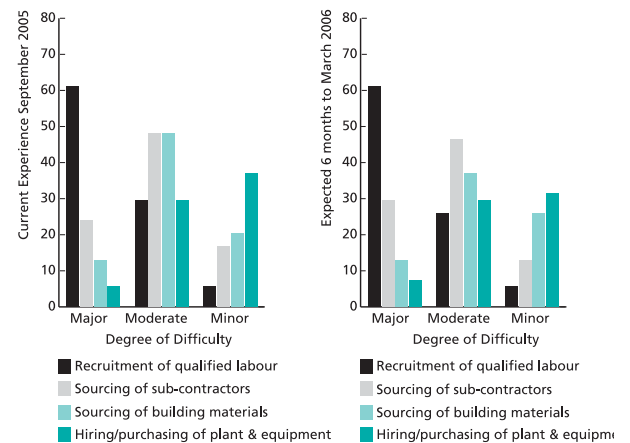
## EMPLOYMENT

- Robust activity levels and strong investment demand has continued to support an improving jobs market with total employment rising by 8.2% in the year to July 2005. This follows growth of 8.6% during the previous 12 months period and maintains the upward trend of the past five years.
- Employment growth in the year to July 2005 mainly reflected strong growth in on-site employees (15.8%). Off-site employment increased by 9.0% while the number of sub-contract tradesmen increased by 1.7%.
- The continued strength in work levels will support further job gains, although growth is expected to moderate. Total employment is forecast to rise by 2.4% over the second half of 2005 with rises expected across all employment categories: on-site employment (2.7%), off-site (3.5%) and sub-contract tradesmen (1.9%).
- Employment growth is set to continue through the first half of 2006 with forecast growth of 1.7%. Over this period employment increases are expected to be more prevalent among employees engaged off-site (6.8%).



## SUPPLY CONSTRAINTS

- The surge in work levels has exacerbated the difficulties of skilled labour shortages and sourcing of capital requirements. In total, 90.7% of firms (up from 71.4% six months ago) reported either major (61.1%) or moderate (29.6%) difficulty in the recruitment of qualified labour. This was followed by the sourcing of sub-contractors with 72.1% (up from 69.1%) citing either major (24.0%) or moderate (48.1%) difficulty.
- Other dominant supply constraints were experienced on the capital side, with 61.1% of firms reporting either major or moderate difficulty in the sourcing of building materials (up from 59.6% six months ago), and 35.2% reporting major or moderate difficulty in the hiring and purchasing of equipment (up from 28.5%).
- Over the six months to March 2006, the recruitment of qualified labour will remain the dominant supply constraint (87% major or moderate difficulty). A higher proportion of firms expect difficulty with the sourcing of contract labour (75.9% major or moderate difficulty) and hiring and/or purchasing of plant and equipment (37.0%). A lower proportion of firms (50.0%) expect major or moderate difficulty in the sourcing of building materials.



## INPUT COSTS

- The shortage of resources in meeting demand has created cost pressures which are expected to continue in the short term. During the six months to September 2005, 88.8% of firms (up from 81% six months ago) cited either major or moderate increases in direct labour costs, while 87% (up from 78.6%) and 79.4% (up from 64.3%) respectively reported major or moderate increases for the prices of construction materials and sub-contractor rates.
- Over the six months to March 2006, firms anticipate little respite with respect to the degree of increase in direct labour costs ( 88.8% anticipate a major or moderate increase).
- The extent of upward pressure on construction materials is likely to increase (88.3% major or moderate increase) whereas a slight easing is likely in the extent of increase in sub-contractor rates (75.9% major or moderate increase).



## VALUE OF TURNOVER IN CONSTRUCTION WORK

	PROPORTION	PERCENTAGE CHANGE		
	2004/05 TURNOVER	2004/05 ON 2003/04	2005/06(E) ON 2004/05	2006/07 (E) ON 2005/06(E)
<b>INFRASTRUCTURE</b>				
<b>UTILITIES</b>				
Electrical Power Generation & Supply	1.1	38.9	11.2	8.0
Sewerage, drainage and water storage	2.9	28.7	7.2	11.7
<b>Sub-total</b>	<b>4.0</b>	<b>31.4</b>	<b>8.4</b>	<b>10.6</b>
<b>TRANSPORT INFRASTRUCTURE</b>				
Roads and freeways	6.6	24.5	15.4	21.0
Rail projects	5.4	4.5	13.1	13.1
<b>Sub-total</b>	<b>11.9</b>	<b>14.6</b>	<b>14.4</b>	<b>17.5</b>
<b>TRANSMISSION AND TELECOMMUNICATIONS INFRASTRUCTURE</b>				
Other civil projects	8.0	13.7	8.6	1.0
Pipelines	0.2	49.7	0.4	0.4
<b>Sub-total Infrastructure</b>	<b>27.4</b>	<b>17.5</b>	<b>11.1</b>	<b>10.5</b>
<b>MINING MINERAL PROCESSING ETC</b>	<b>16.6</b>	<b>24.7</b>	<b>13.8</b>	<b>11.3</b>
<b>INDUSTRIAL CONSTRUCTION</b>				
Chemical, petro-chemical plants etc	0.4	10.5	2.2	12.4
Oil refineries and oil/gas processing facilities	2.3	10.7	11.8	8.6
Other industrial plants	3.9	14.5	5.4	6.5
<b>Sub-total Industrial Construction</b>	<b>6.6</b>	<b>12.8</b>	<b>7.5</b>	<b>7.6</b>
<b>NON DWELLING CONSTRUCTION</b>				
- Private Sector	20.7	8.0	7.0	6.0
- Public Sector	5.2	19.9	16.2	11.0
<b>Sub-total Non-Dwelling Construction</b>	<b>25.9</b>	<b>10.2</b>	<b>8.9</b>	<b>7.0</b>
<b>APARTMENTS</b>	<b>10.8</b>	<b>-11.6</b>	<b>-1.3</b>	<b>1.5</b>
<b>OVERSEAS BUSINESS</b>	<b>12.5</b>	<b>20.1</b>	<b>1.4</b>	<b>2.6</b>
<b>OTHER</b>	<b>0.2</b>	<b>45.1</b>	<b>16.5</b>	<b>18.0</b>
<b>TOTAL</b>	<b>100.0</b>	<b>12.7</b>	<b>8.2</b>	<b>7.7</b>

## EMPLOYMENT

	YEAR TO JULY 2005	EXPECTED JULY TO DECEMBER 05	EXPECTED DEC 05 TO JUNE 06
On-site employees	15.8	2.7	1.7
Off-site employees	9.0	3.5	6.8
Sub-contract labour	1.7	1.9	1.3
<b>TOTAL</b>	<b>8.2</b>	<b>2.4</b>	<b>1.7</b>

## LEVEL OF ACTIVITY (% OF COMPANIES)

	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to December 2004	37.2	41.9	16.2	4.7	0.0
Six months to June 2005	49.1	35.1	12.3	1.8	1.8
<b>EXPECTED</b>					
Six months to December 2005	42.1	42.1	15.8	0.0	0.0
Six months to June 2006	36.8	40.4	22.8	0.0	0.0
Six months to December 2006	24.6	50.8	21.1	3.5	0.0

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