

Construction Outlook



ENGINEERING AND COMMERCIAL CONSTRUCTION TO WEAKEN FURTHER THROUGH TO 2010

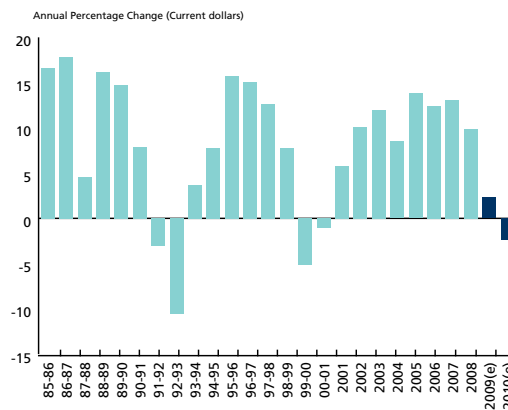
KEY FINDINGS

- Following a sustained period of solid growth, Australia's leading construction companies are forecasting a marked slowdown in the rate of activity growth through 2009, followed by a decline in 2010.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after rising by 9.9% in 2008 (current prices), the value of engineering and commercial construction work is forecast to moderate sharply to a 2.3% growth rate in 2009. Thereafter, a fall of 2.4% is expected in 2010 driven by a reduction in heavy investment in the resources sector, declines in mining related infrastructure projects, and weaker private sector commercial building activity.
- Despite this, the total value of construction work done by the private sector is expected to remain at a high level overall, with a forecast value of \$91.2 billion in 2010, to be 20.8% above the level of 2007, and to represent an almost four-fold increase on the previous low point of 2001.
- Within the engineering construction sector, the most marked contractions in activity in 2010 are forecast in mining projects, heavy industrial resource based projects, and "other" civil projects (including bridges, terminals and port facilities), reflecting the deferral and cancellation of projects and falling commodity prices. Engineering construction, is however, expected to gain support from continued growth in the oil and gas sector, transport infrastructure, electricity generation and supply and sewerage and water supply projects.
- Reflecting tight credit conditions and weak investor sentiment across the property market, private sector commercial construction is predicted to contract in 2009 and 2010 by 5.1% and 15.4% respectively. This decline, however, is expected to be cushioned by growth in public sector non-residential building activity, mainly reflecting continued increases in health and education sector construction and redevelopments.

OUTLOOK 2009

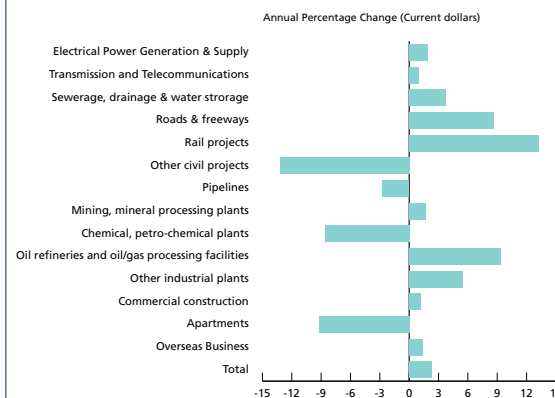
- Following a strong period of growth since 2001, the rate of increase in construction revenue is forecast to decelerate to 2.3% in 2009.
- Underlying this weakening outlook, the infrastructure market is forecast to register growth of 3.3% in 2009 after expanding by 19.0% in 2008, with declines in "other" civil projects (-13.2%) and pipelines (-2.7%) constituting the major negative influences. A slower rate of growth in revenue is expected to be generated from roads (8.6%), rail (13.2%), electricity generation and supply (1.9%), sewerage and water supply projects (3.7%) and telecommunications (1.0%).
- Reflecting sharp falls in commodity prices and weakening minerals demand, the mining sector is forecast to rise at a slower rate of 1.7%, following average annual growth of 21.3% over the previous three years.
- Within the heavy industrial construction market, growth is expected to be mainly centered on the oil and gas processing sector (9.4%) in line with the substantial number of large projects in the pipeline.
- Non-residential building (commercial construction) is expected to post marginal growth of 1.3%, due to the negative impact of a forecast 5.1% fall in private building activity, which contrasts with a 16.2% rise in public sector building.

TURNOVER FROM CONSTRUCTION WORK



CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2010

SECTOR	% CHANGE		
	2008	2009 (F)	2010 (F)
INFRASTRUCTURE	19.0	3.3	2.7
MINING	7.7	1.7	-10.3
HEAVY INDUSTRIAL	15.6	6.9	-8.9
TOTAL ENGINEERING	13.2	3.0	-1.7
COMMERCIAL CONSTRUCTION	2.2	1.3	-6.4
APARTMENTS	-8.6	-9.2	-7.8
OVERSEAS BUSINESS	10.3	1.4	1.5
TOTAL CONSTRUCTION	9.9	2.3	-2.4



WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group survey was conducted in March/April 2009 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 77,000 persons with combined turnover of almost \$27 billion or approximately 30% of total industry activity. This survey provides an estimate of the dollar value of turnover in 2010 for the engineering and non-residential building industry. This estimate has been derived by applying the survey forecasts (2009 and 2010 % changes) to Australian Bureau of Statistics Value of Work Done - Australia (original series data). The estimate of the total value of construction by the private sector excludes the value of overseas business. This estimate may include a small proportion of work undertaken by the public sector.

SPONSOR STATEMENT

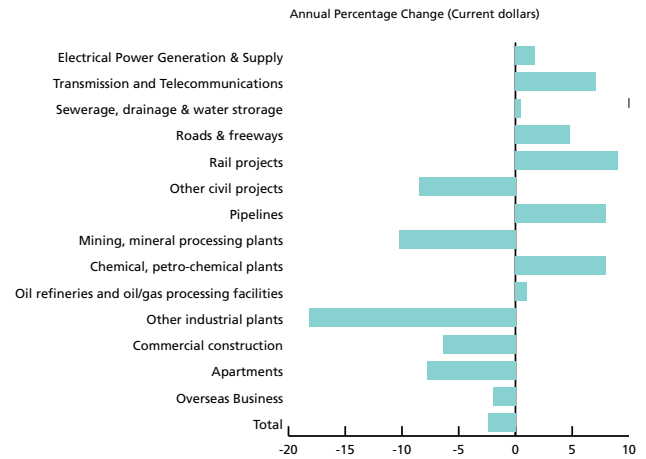
The Australian Constructors Association (ACA) is delighted to be associated with the Australian Industry Group as the major sponsor of one of the most authoritative surveys of Australian construction activity. The survey, which is conducted on a bi-annual basis, provides an excellent barometer on the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





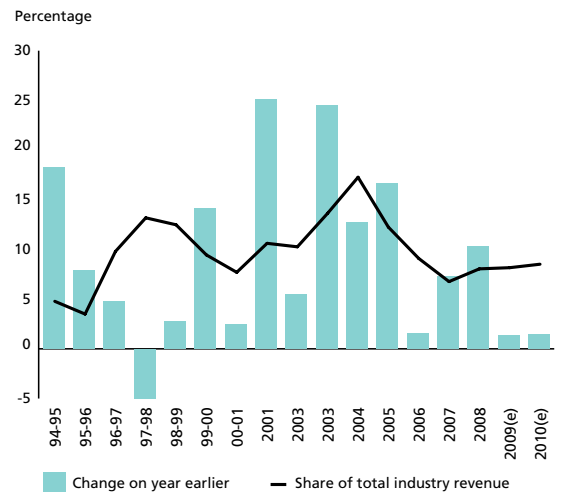
OUTLOOK 2010

- Prospects are for a further weakening in 2010 with the total value of construction work forecast to decline by 2.4%.
- Within the infrastructure market further declines are expected in "other" civil projects (-8.5%) and pipelines (-2.1%), and whilst a high level of work is expected to continue in the utilities segment, rates of growth are predicted to be low, with prospective increases of 1.7% and 0.5% in power generation and water supply projects respectively. It also expected that transport infrastructure expenditure will remain at a high level, although growth is forecast to further moderate in both roads (4.8%) and rail (9.0%) projects.
- The value of mining construction work is forecast to decline at a higher rate of 10.3% in 2010 as capital expenditure in the sector remains under pressure due to project financing constraints and lower commodity prices.
- Heavy industrial construction prospects are mixed with continued growth in oil and gas processing projects (5.8%) contrasting with steady conditions in chemical and petro-chemical plants (0.1%), and a decline in other industrial plants (-18.2%).
- Non-residential building (commercial construction), is expected to contract at a steeper rate of 6.4%, driven by a forecast decline of 15.4% in private building activity. Continued support is expected from public sector new build with an expected lift in activity of 11.0%.



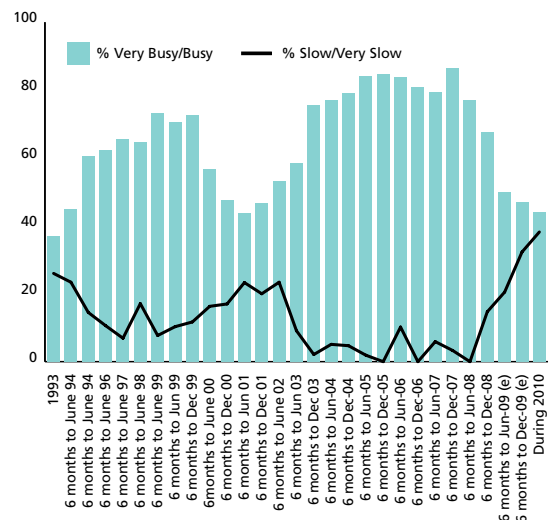
OVERSEAS BUSINESS

- The overseas business of construction firms accounted for 6.9% of all construction revenue in 2008. While this share remained well below the peak years of 2003 and 2004, it constituted the fifth largest market segment in 2008 and was almost on par with the level of the previous year (7.2%).
- Revenue from overseas business in 2008 registered solid growth of 10.3%. This represented the 11th consecutive year of growth (with the average rate of increase over the past five years averaging 9.7%), and is in line with the trend of construction activity in becoming increasingly globalised.
- Total revenue from export business is expected to increase at a moderate rate of 1.4% in 2009, followed by a further rise of 1.5% in 2010. Nevertheless, this slower growth is off a high base and equates to approximately \$4.0 billion of overseas revenue to be generated by respondents over the next two years.



LEVELS OF ACTIVITY

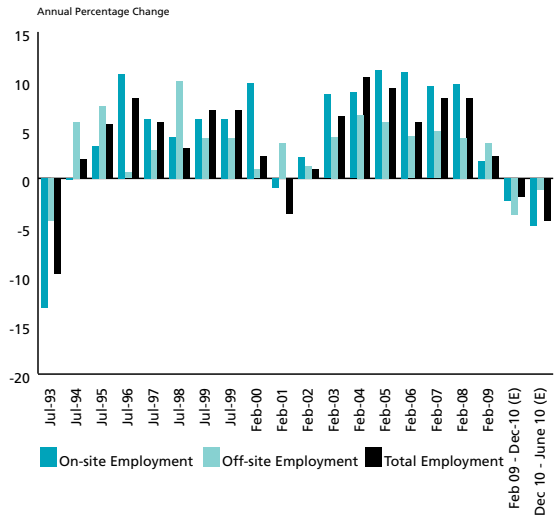
- Consistent with a slower economy and weaker demand for new projects, levels of construction activity moderated over the second half of 2008. In total, 67.7% of respondents reported operating at busy or very busy levels of activity during this period. This was 9.2 percentage points below the level recorded in the previous six months, and was in line with the expectations of respondents when last surveyed in mid 2008.
- Activity is expected to weaken further during 2009 and 2010. In total, 50.0% of firms anticipate very busy/busy activity levels during the six months to June 2009, with this proportion pulling back further during the six months to December 2009 (47.1%) and through 2010 (44.1%).
- Weaker project demand also saw the average level of industrial/construction capacity in use at 79.6% in March/April 2009.
- This level of capacity utilisation was 7.6 percentage points lower than the reading of September/October 2008 and the lowest level recorded since March 2002.





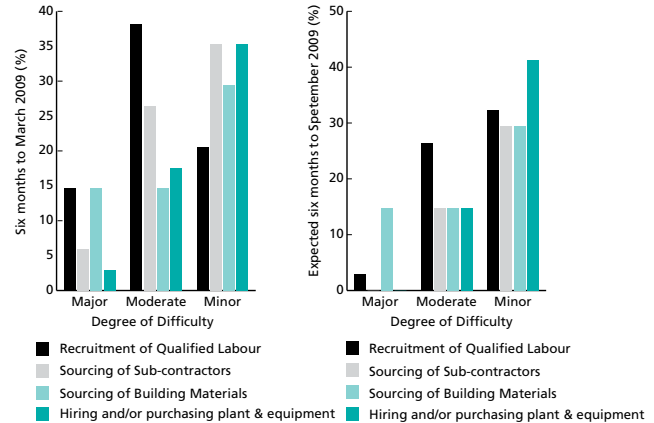
EMPLOYMENT

- Total employment continued to expand in the year to February 2009, although the rate of growth (2.3%) was well below the increase of 8.0% recorded during the previous 12 months. Across the industry, the number of off-site and sub contract tradesmen increased by 3.6% and 3.2% respectively, while the number of on-site employees (comprising two-thirds of all persons employed) increased at a lesser rate of 1.8%.
- It is expected, however, that employment will decline through 2009 and during the first half of 2010. Over the period February to December 2009 total employment is forecast to fall by 1.9%, with reductions mainly prevalent among on-site (-2.3%) and off site employees (-3.7%).
- Thereafter to June 2010, total employment is expected to register a further decline of 4.4%. Over this period reductions in employment are expected to occur more heavily among on-site (-4.9%) and sub-contract tradesmen (-4.1%) as work levels weaken and various large scale projects move through to completion. A fall of 1.2% is expected in off-site employment.



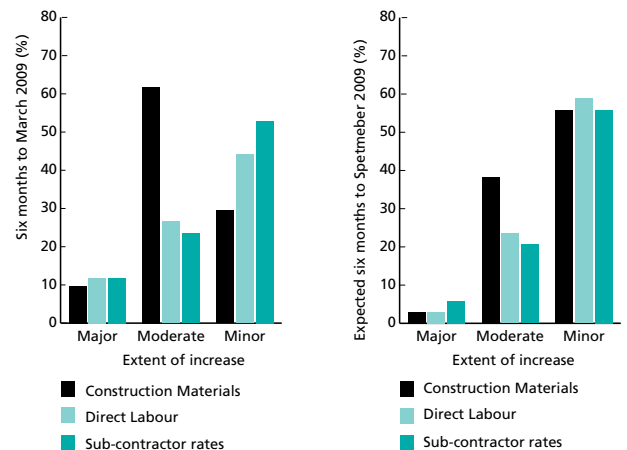
SUPPLY CONSTRAINTS

- Pressures in the sourcing of labour and capital requirements have eased in line with the moderation in activity levels. In total, 58.8% of firms reported either major or moderate difficulty in the recruitment of qualified labour during the six months to March 2009 (down from 83.8% in the previous six months period). This was followed by the sourcing of sub-contractors, with 32.4% (down from 65.7%) citing either major or moderate difficulty.
- For capital supplies, 29.4% (down from 42.8%) reported major or moderate difficulty in the sourcing of building materials, while 20.5% (down from 34.3%) reported major or moderate difficulty in the hiring and purchasing of equipment.
- Supply constraints are expected to ease further in the short term. Over the six months to September 2009, a lower proportion of firms expect major or moderate difficulty in the recruitment of qualified labour (29.4%), the sourcing of sub-contractors (14.7%), and the hiring and purchasing of equipment (14.7%). No change is expected in the proportion of firms anticipating major or moderate difficulty (29.4%) in the sourcing of building materials.



INPUT COSTS

- Weaker demand and falls in commodity prices have been reflected in an easing in cost pressures for construction firms. During the six months to March 2009, 71.5% of firms cited major or moderate increases in construction material costs, (down from 94.5% during the previous six months period).
- Pressures on labour costs have also moderated. In total, less than 40% of firms reported major or moderate increases in direct labour costs (38.3%) and sub-contractor rates (35.3%).
- Cost pressures are expected to moderate further during the six months to September 2009. The proportion of firms anticipating major or moderate increases stood at 41.1% for construction materials, and 26.5% for both direct labour and sub-contractor rates.



VALUE OF TURNOVER IN CONSTRUCTION WORK

PERCENTAGE CHANGE (CURRENT DOLLARS)

	% OF 2008 TURNOVER	2008 ON 2007	2009(E) ON 2008	2010(E) ON 2009(E)
UTILITIES INFRASTRUCTURE				
Electrical Power Generation & Supply	1.3	28.1	1.9	1.7
Sewerage, drainage and water storage	2.7	25.7	3.7	0.5
Sub-total	4.0	26.5	3.1	0.7
TRANSPORT INFRASTRUCTURE				
Roads and freeways	22.5	22.0	8.6	4.8
Rail projects	3.9	38.1	13.2	9.0
Sub-total	26.4	24.1	9.3	5.4
OTHER INFRASTRUCTURE				
Transmission and telecommunications Infrastructure	4.2	2.9	1.0	7.1
Other civil projects	8.0	11.1	-13.2	-8.5
Pipelines	2.3	14.4	-2.7	-2.1
Sub-total Infrastructure	44.9	19.0	3.3	2.7
MINING MINERAL PROCESSING ETC	20.2	7.7	1.7	-10.3
INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	0.1	-4.0	-8.6	-0.1
Oil refineries and gas processing facilities	1.3	6.4	9.4	5.8
Other industrial plants	2.1	-25.1	5.5	-18.2
Sub-total Industrial Construction	3.5	-15.6	6.9	-8.9
COMMERCIAL CONSTRUCTION				
- Private Sector	13.8	6.7	-5.1	-15.4
- Public Sector	5.9	-6.9	16.2	11.0
Sub-total Non-Dwelling Construction	19.7	2.2	1.3	-6.4
APARTMENTS	1.4	-8.6	-9.2	-7.8
OVERSEAS BUSINESS				
Other	3.4	2.9	0.2	0.0
TOTAL	100.0	9.9	2.3	-2.4

EMPLOYMENT	YEAR TO FEBRUARY 2009 (% CHANGE)	EXPECTED FEBRUARY TO DEC. '09 (% CHANGE)	EXPECTED DEC '09 - JUNE '10 (% CHANGE)
On-site employees	1.8	-2.3	-4.9
Off-site employees	3.6	-3.7	-1.2
Sub-contract labour	3.2	0.3	-4.1
TOTAL	2.3	-1.9	-4.4

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to June 2008	38.4	38.5	20.5	2.6	0.0
Six months to December 2008	26.5	41.2	20.5	11.8	0.0
EXPECTED					
Six months to June 2009	8.8	41.2	29.4	17.6	3.0
Six months to December 2009	5.9	41.2	20.5	20.5	11.8
During 2010	2.9	41.2	14.7	26.5	14.7

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