



Australia's Construction Industry: Profile and Outlook. July 2015

The construction industry is a significant driver of economic activity in Australia. It is Australia's third largest industry, behind only mining and finance, and produces around 8% of our Gross Domestic Product (GDP), in value added terms. It comprises over 330,000 businesses nationwide and directly employs over one million people (around 9% of the total workforce). It produces the buildings and infrastructure that are essential to the operation of all other industries, adds to the wealth and capital stock of the nation and underpins the productivity improvements that are necessary to support our future prosperity and incomes.

Demand for construction activity is driven by economic factors including population growth, income growth, industry activity, technology changes, commodity cycles, consumer sentiment, interest rates and inflation. Government policies affecting residential building, pricing and infrastructure development (including taxation, land allocation, industrial and planning policies) are key influences. The availability, price and location of resources, including skilled labour, building materials and building equipment are other key determinants of the pace of growth in the industry.

The supply chain for construction is complex and strongly interrelated, encompassing manufacturing (materials, equipment components), services (engineering, design, surveying, consulting, lease management) and traditional construction trades.

CONSTRUCTION INDUSTRY ACTIVITIES

The construction industry operates in both the private and public sectors, across three broad areas of activity:

- engineering construction (major infrastructure, mining and heavy industrial resource based projects;
- non-residential building (including offices, shops, hotels, industrial premises, hospitals, entertainment facilities) and;
- residential building (houses, flats, home units, townhouses).

KEY POINTS ON OUTLOOK

The latest data points to a fragmented outlook for the construction industry. The current downturn underway in engineering construction is expected to continue, as mining-related construction and related infrastructure investment falls further from its recent peaks. Non-residential building activity (commercial construction) is expected to remain subdued into 2016, reflecting persistent weakness in approvals and building commencements across most major commercial property markets. In contrast, residential building activity is forecast to remain solid over the remainder of 2015 and into 2016 supported by elevated approvals, low mortgage interest rates, strong population growth and urban transport infrastructure developments.

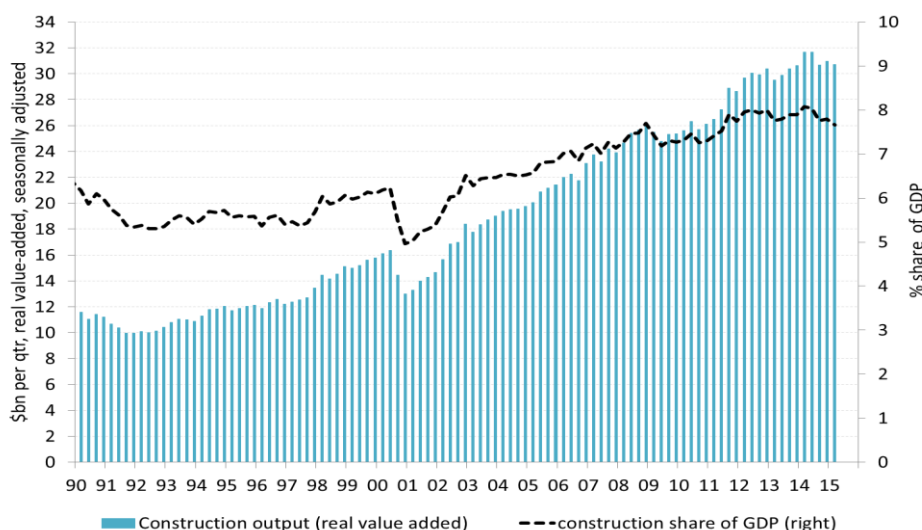
CONTRIBUTION TO ECONOMIC OUTPUT

In 2014-15, direct construction industry output contributed 7.8% to Australia's Gross Domestic Product (GDP) up from around 6.5% a decade ago (see chart 1). This makes the construction industry Australia's third largest contributor to GDP in terms of the volume of its output. Only the financial and insurance services (8.7%) and mining (8.8%) sectors contribute larger shares of direct output to GDP.

In addition to this direct contribution to GDP, construction activity supports a large upstream and downstream supply chain. For example, the production of building materials (e.g. tiles, wood, steel, cement, bricks and glass), building components (doors, windows, wiring, electronics, plumbing supplies) and accessories

(bathroom and kitchenware, carpets and curtains) are supplied from manufacturing, while the sale and management of property is the preserve of real estate services and the financing of property mortgages is part of the financial services sector. Similarly, engineering and architectural design services are classified as 'professional services' in the 'ANZSIC'¹ system of classification, while the transport and wholesaling of all building materials are included in the 'transport' and 'wholesale trade' sectors respectively. These upstream and downstream industries are large and significant in their own right. Collectively, they extend the reach of construction-related activity to around 20% of the economy, in output ('value added') terms.

Chart 1: Construction industry output: size and share of GDP



Source: ABS, Australian National Accounts: National Income, Expenditure and Product

CONSTRUCTION ACTIVITY

Total construction activity in 2014 was valued at \$204.5 billion, in real (inflation-adjusted) volume terms. **Engineering construction** was the largest sector (56.1% of all construction activity in 2014) followed by residential building (26.6%) and non-residential building (17.2%). See Table 1 and Chart 2.

The five years to 2012 saw the volume of total construction work done increase by \$71.3b, implying an average annual growth rate of 16.2%. \$68.3b worth of this increase was in engineering construction, in line with the substantial investment phase of the mining boom which led to historically high levels of activity in infrastructure and resources related construction. The mining investment boom saw the annual value of construction peak at \$213b in 2012 (see chart 2).

From 2012 to 2014, engineering construction declined by \$16.7 billion as mining investment fell from its record-high peaks and as mining-related heavy industrial, rail and port infrastructure construction declined. Engineering construction's share of total work done rose from 47.2% in 2010 to 61.6% in 2012, before dipping to 56.1% in 2014 with the passing of the peak in resources investment.

The impact of this downturn in engineering construction on total construction work done over this two-year period was partially countered by an \$8 billion recovery in other (non-engineering) types of building work. The value of **residential** work rose by \$6.5 billion through 2013 and 2014, in response to low interest rates, pent-up demand and ongoing population growth. **Non-residential** building and commercial construction expanded by \$1.4 billion over the same period, mainly reflecting large projects underway in Melbourne and Sydney. However, overall levels of non-residential work done building work have remained relatively subdued in recent years, with heightened risk aversion and low investor sentiment weighing heavily on the sector.

¹ Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC) is the coding system used for all industry data published by the Australian Bureau of Statistics and most other Government agencies.

The total volume of construction work continued to contract in early 2015, led by engineering construction which fell by 20.3% p.a. in Q1 2015. In contrast, residential building increased by 11.4% p.a. in Q1 2015, supported by stronger house approvals and especially strong growth in multi-unit dwelling construction. Building construction as a share of total work done in construction fell to an historical low of 38.3% in 2012, followed by an upturn in 2013 and 2014 in line with the residential building recovery and higher levels of commercial building work.

The location of construction work has shifted during this period as well, reflecting the locations of the mining boom (Western Australia and Queensland) versus the main locations of residential construction (NSW, Victoria and Queensland, in line with those states' larger population size and growth). The value of all construction work being done peaked in Western Australia and Queensland in 2012 and in the Northern Territory in 2014. NSW construction activity peaked in 2012, while Victoria is peaking in 2015 (see Chart 3).

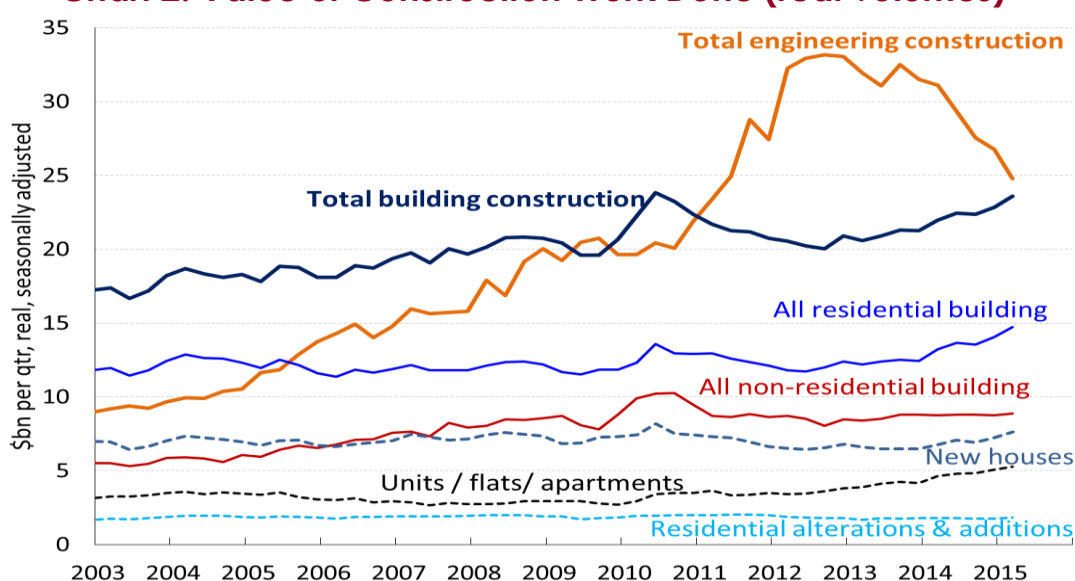
The Federal Department of Industry and Science biannual Resources and Energy Major Projects report (April 2015) provides further confirmation of the downward investment trend in in resources and energy. Projects at the committed stage (see chart 4) had a combined value of \$225.8 billion as at April 2015 (these are projects that have been approved, financed and work is ready to commence). This was \$1.9 billion less than in October 2014. The report predicts further declines in committed projects that will not be offset by new investments coming through the pipeline which are increasing being delayed by adverse market conditions.

Table 1: Value of Construction Work Done (real volumes)

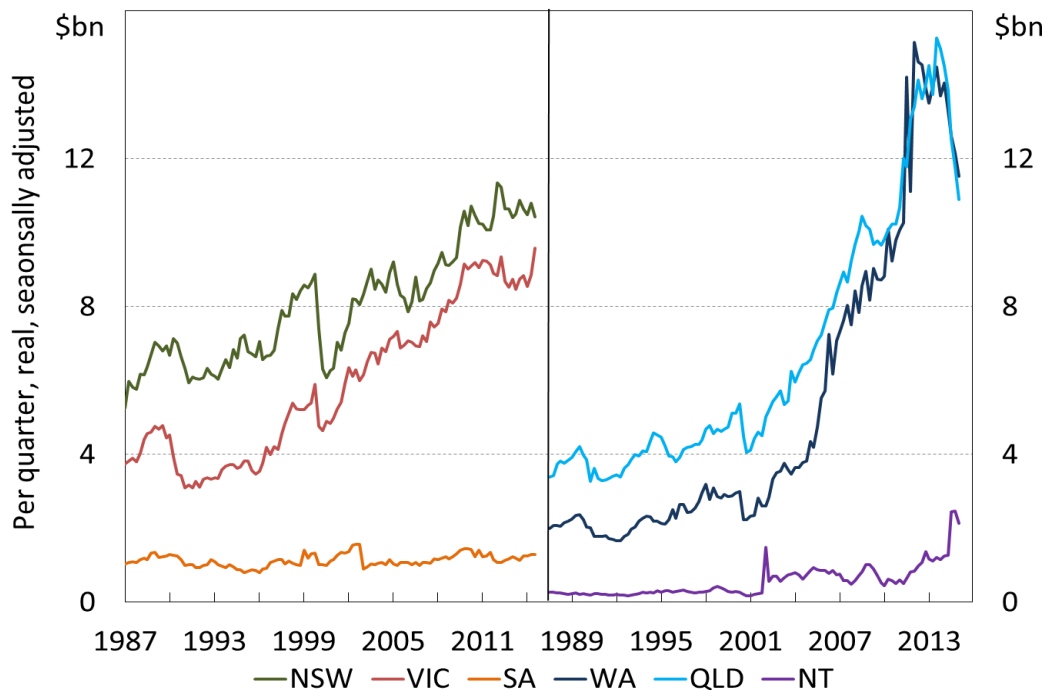
Real Value (chain volume measures as at Q1 2015)	2012 \$ bn	2013 \$ bn	2014 \$ bn	Q1 2014 % change p.a.	Q1 2015 % change p.a.
Residential Building	48.0	49.6	54.5	8.4	11.4
Non-Residential Building	33.7	34.5	35.1	4.2	1.2
<i>Total Building</i>	<i>81.7</i>	<i>84.1</i>	<i>89.7</i>	<i>6.7</i>	<i>7.4</i>
Engineering Construction	131.4	127.0	114.7	-2.5	-20.3
Total Construction	213.1	211.1	204.5	1.1	-8.8
Shares of total (%)	%	%	%		
Residential Building	22.5	23.5	26.6		
Non-Residential Building	15.8	16.3	17.2		
<i>Total Building</i>	<i>38.3</i>	<i>39.8</i>	<i>43.8</i>		
Engineering Construction	61.6	60.2	56.1		

Source ABS Construction Work Done, Australia, Preliminary, Mar 2015.

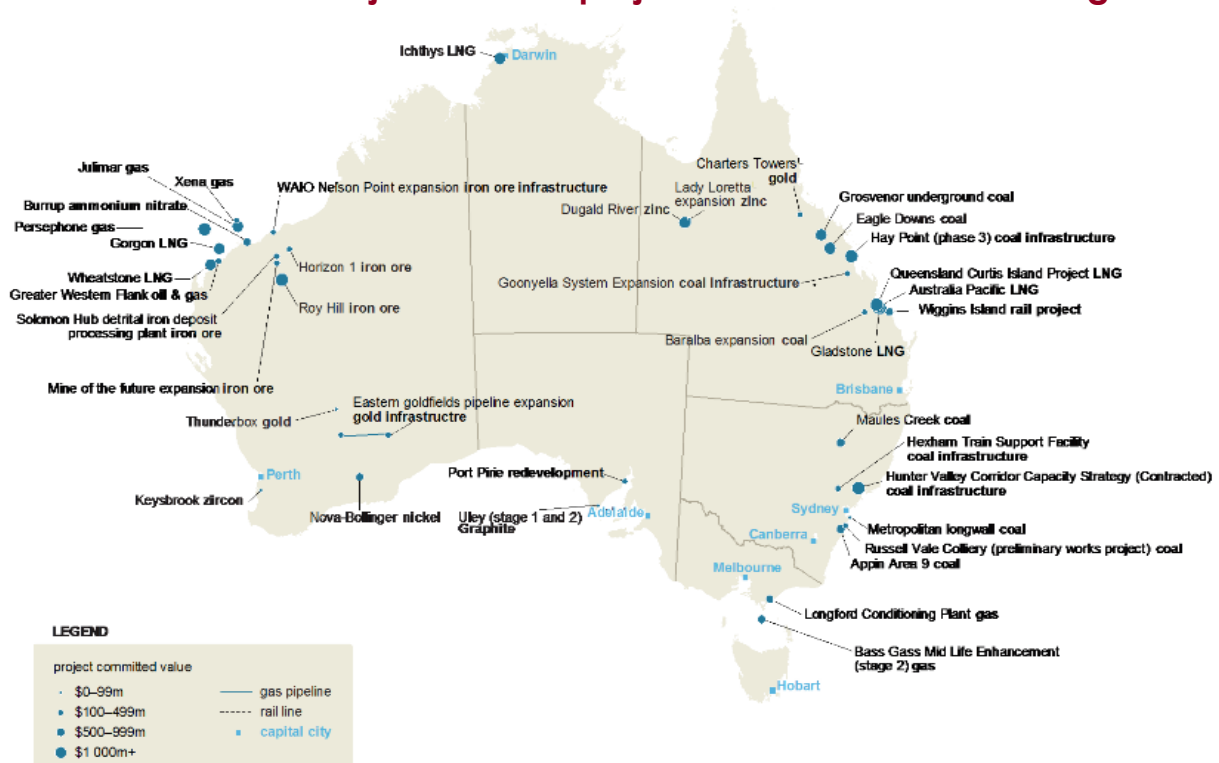
Chart 2: Value of Construction Work Done (real volumes)



Source: ABS Construction Work Done, Australia, Preliminary, Mar 2015

Chart 3: Value of Construction Work Done (real volumes)


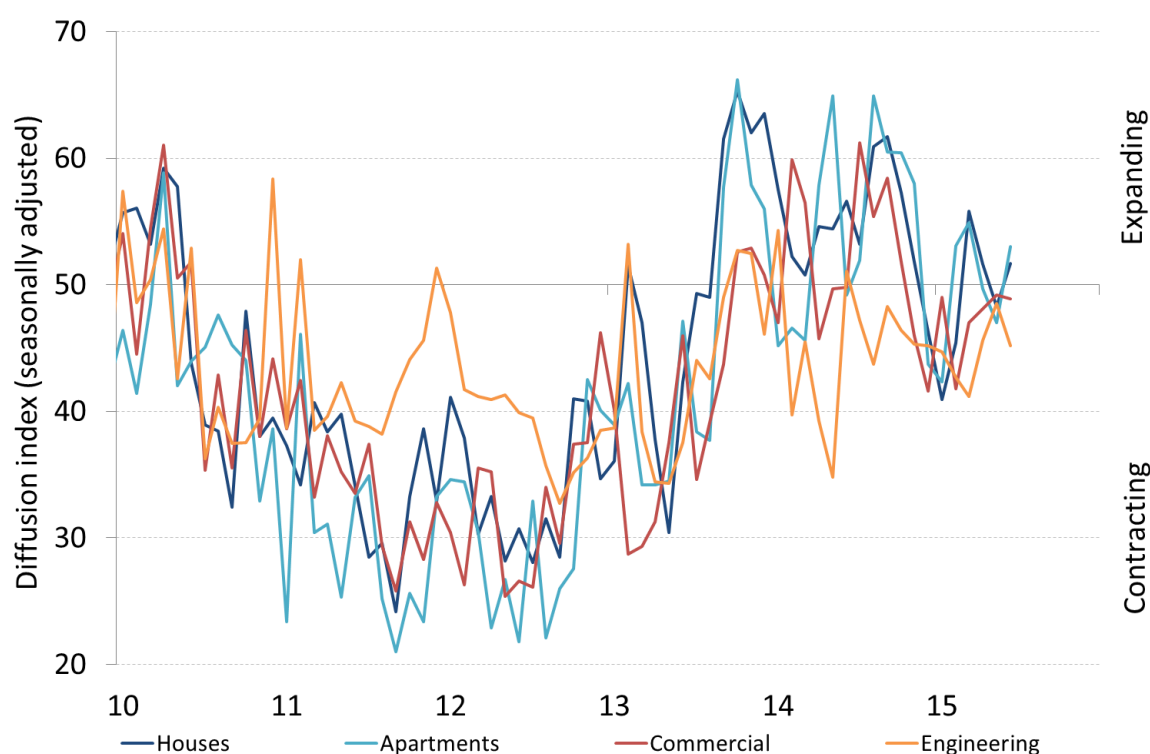
Source: ABS Construction Work Done, Australia, Preliminary, Mar 2015

Chart 4: Current major resource projects at the 'committed' stage


Source: DIS Major Resource Projects Report, April 2015.

These trends are in line with the findings from the Australian Industry Group/HIA Performance of Construction Index (Australian PCI®) which show that the broader construction sector continues to be hamstrung by the structural retreat of engineering construction (see chart 5). By June 2015, engineering construction had contracted for 12 consecutive months in response to weaker mining-related projects and major infrastructure construction activity nationally. This contraction in engineering construction is continuing to outweigh the growth in house and apartment building. As a consequence, 2014-15 has been characterised by monthly Australian PCI® readings below the 50 point level that indicates industry-wide contraction, with businesses engaged in engineering and commercial projects reporting limited investment activity by clients, a lack of public sector tenders and intense competition for the available work.

Chart 5: Ai Group/HIA Performance of Construction Index (Australian PCI®)



Source: Australian Industry Group, July 2015

CONSTRUCTION BUSINESSES

Approximately 338,000 businesses were registered as operating in the construction industry as of June 2014 (ABS business register). See table 2. These included project based businesses (major builders and contractors, designers, engineers, project managers); property sector businesses (organisations that develop, commission, own, manage and lease buildings and other infrastructure) and; the traditional construction trades (concreting, bricklaying, structural steel and carpentry services).

Due to the construction industry's diverse range of products and services, and its traditional structure of sub-contracted and legally licenced trade specialisations, few individual businesses grow to a size that commands a substantial market share. As such, the industry is overwhelmingly comprised of small businesses with fewer than 20 employees (98.6% of construction businesses). Indeed, 60% of construction businesses are sole operators with no employees. The majority (82.2%) of these small businesses operate in the trade services sector of the building industry that includes plumbers, electricians, plasterers and a myriad of other specialist

building trades. Medium sized businesses (employing between 20 and 200 employees) made up 1.3% of the total number of businesses while medium to large businesses (employing 200 or more persons) accounted for just 0.1% of the total. Whilst the majority of companies participating in the industry are Australian-owned, the majority of tier one contractors are foreign-owned, if not foreign controlled.

Only 5.9% of construction businesses generated more than \$2 million of revenue in 2013-14, while the majority (60.8%) generated revenue of less than \$200,000.

Table 2: Distribution of businesses by employment size - June 2014

Employee range	Number of businesses	Share of businesses (%)
Non-employing	201,785	60.0
1-19	131,546	38.6
20-199	4,698	1.3
200+	197	0.1
Total	338,226	100.0

Source: ABS: Counts of Australian Businesses, June 2014

CONSTRUCTION EMPLOYMENT

The construction industry is the third largest employing industry in Australia (behind only healthcare and retail trade), with 1.05 million employees (around 9% of all workers) in May 2015 (see chart 6).

Employment in the industry has been characterised by relatively solid recovery in 2013 and outright growth through 2014. This reflects employment gains in the building construction sector due to the recovery in housing and apartment building activity. Despite job losses in the engineering (heavy and civil) construction sector in 2014 and 2015, total construction employment has strengthened. This reflects a solid pick-up in construction services' employment and continued jobs growth in the building construction sector. Reflecting their bigger populations, employment in the construction industry is concentrated in New South Wales, Victoria and Queensland. These three states together account for 74% of all construction employment.

The majority of construction workers (65%) are employed in trade services. 26% are in building construction, 7% are in heavy and civil construction and 2.5% are in general construction services.

At a more detailed level, the largest segment of construction employment is 'Building Installation services', which employed 232,700 workers (23% of industry employment) in February 2015. Other large employing sectors include building completion services (192,400 or 19%), residential building construction (100,900 or 10%) and other construction services (98,900 or 10%) (see chart 7).

By state, New South Wales recorded the largest growth in construction industry employment in the five years to February 2015, (up 30,300 or 11%). Although Western Australia accounts for only 14.2% of total construction employment, over the five years to February 2015 it accounted for one third of employment growth in the industry (up 19,900). In contrast, declines in construction industry employment over this 5 year period were recorded in Queensland (down 14,900 or 6.5%), South Australia (8,000 or 12%) and Tasmania (1,700 or 8.5%). See chart 8.

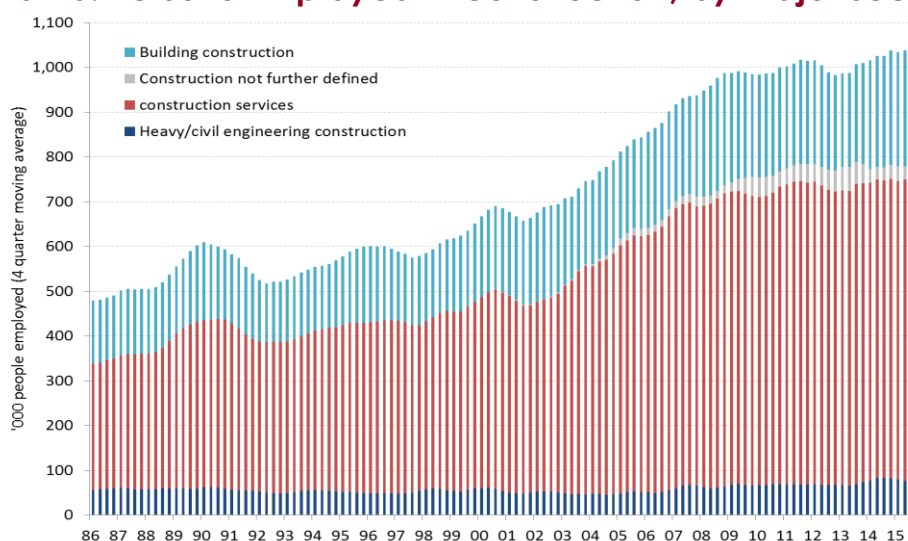
Notable employment and employee characteristics in this industry include far higher shares of full-time, male, younger, self-employed, certificate-qualified workers than for most other industries:

- 85% of construction workers are full-time, compared with 54% across all industries, and 15% were part-time, compared to 31% for all industries (as of Feb 2015).
- average hours worked per week by construction employees was 38.3 hours in May 2015, compared to 33.9 hours for employees in all industries. It has the fourth highest average hours worked of any industry, exceeded only by mining (43.5 hours), agriculture (40 hours) and wholesale trade (38.6 hours).
- 89% of construction workers are male, compared with 54% across all industries (in February 2015). "Male representation is particularly high in Building Structure Services (92.6%) and Building Completion Services (92%)."²

² Department of Employment, *Industry Outlook Construction*, May 2015.

- "the construction industry has a relatively young workforce, with 43% of workers aged 15 to 34 years, compared with 38% across all industries. The industry is the largest employer of young full time workers, employing 152,100 or 17% of all full-time workers aged 15 to 24 years in February 2015. By contrast, older workers are under-represented in the construction industry, likely due to the manual labour roles dominant in the industry, with 35% aged 45 years or over, compared with 39% across all industries. The median age of workers in the industry was 38 years in 2014, slightly below the median age of 40 years recorded across all industries. Notably, despite remaining dominated by younger age groups, the workforce age profile of the Construction industry has become older over the past 20 years, in line with broader demographic trends. Indeed, the share of the industry's workforce aged 55 and over has risen by 7.2 percentage points over the past two decades to stand at 15.8% in February 2015"³.
- 30% of construction workers are self-employed, compared to only 8.5% for all industries (see table 3)
- 45% of construction industry workers have completed a certificate III or IV qualification (see chart 9). This is well above the share for all industries (20%).
- In contrast, 8% of construction industry workers have attained a Bachelor Degree or higher, compared with 28% for all industries.
- The most common occupations in the construction industry in 2014 were carpenters and joiners (105,900), electricians (87,900) and plumbers (73,600).
- Average Weekly Ordinary Time Earnings for full-time workers (AWOTE) in construction was \$1,475.10, just below the AWOTE for all industries of \$1,477.00 (November 2014, latest available data).
- The national Wages Price Index (WPI) for construction industry wage and salary workers (total hourly rates of pay excluding bonuses) increased by 1.8% p.a. in the March quarter 2015, compared with 2.3% p.a. growth for all industries (see table 4).

Chart 6: Persons Employed in construction, by major sector



Source: ABS, *Labour Force, Australia, Detailed Quarterly*, May 2015.

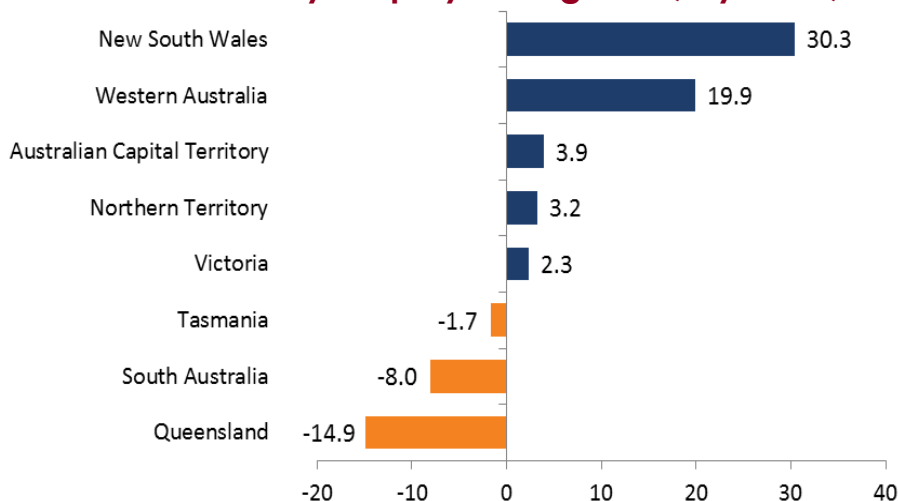
Table 3: Forms of employment, construction and all industries (2013 & 2014)

	All employees (May 2014)			Forms of employment (Nov 2013)			
	People	Part-time	Female	Paid leave	No paid leave	Independent contractors	Business operators
	'000	%	%	%	%	%	%
Construction	1,029.2	15.5	11.4	48.1	12.7	29.7	9.5
All industries	11,529.9	30.4	45.7	63.3	19.4	8.5	8.8

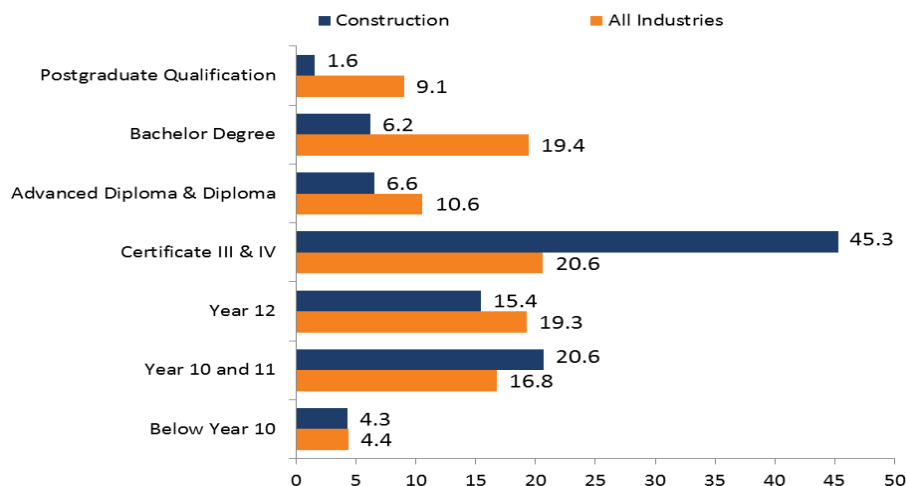
³ Department of Employment, *Industry Outlook Construction*, May 2015.

Chart 7: Construction employment and growth, by detailed sector, February 2015


Source: ABS, Labour Force, Australia, Detailed, Quarterly, cat. no. 6291.0.55.003, Department of Employment trend.

Chart 8: Construction industry employment growth, by State, February 2015


Source: ABS, Labour Force, Australia, Detailed, Quarterly, cat. no. 6291.0.55.003, Department of Employment trend.

Chart 9: Highest educational attainment, % of employees


Source: ABS, Survey of Education and Work, 2013.

Table 4: ABS wage measures, construction and all industries

	Wage price index (private sector), Q1 2015		Full time adult average weekly ordinary time earnings (AWOTE), Nov 2014
	q/q %	y/y %	\$ per week
Construction	0.3	1.8	1,475.10
All industries	0.6	2.4	1,477.00

Sources: ABS, Wage Price Index, Australia, Cat no. 6345.0, Mar 2015 and Average Weekly Earnings, Australia, Cat no. 6302.0, Nov 2014. The next WPI for Q2 (the June quarter) 2015 will be released on 12 August 2015.

For more information from the ABS, go to www.abs.gov.au and follow the subject links or catalogue numbers.

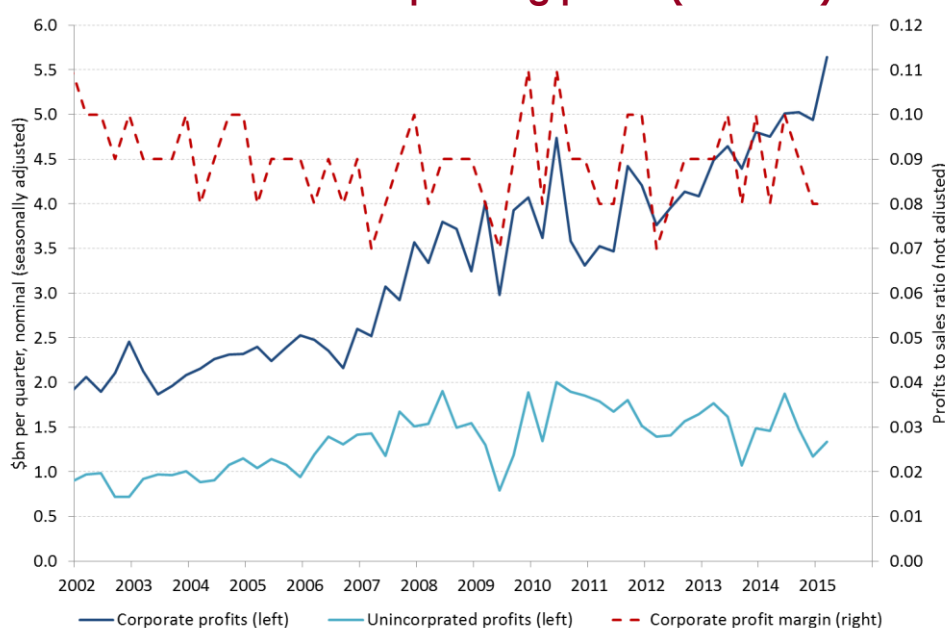
CONSTRUCTION PROFITS AND MARGINS

In 2013-14 (the most recent full financial year of data available), construction businesses in aggregate generated \$31.6bn in operating profits before tax, or 9.5% of all industries' profits that year (see table 5). Around 60% of construction industry profits come from construction services. Since then, the latest data on gross operating profits suggests a lift in aggregate profits earned by construction companies through 2014-15, reflecting stronger levels of activity (see chart 10). Profit margins have however, remained tight, suggesting strong competition for building sector work and a corresponding lack of pricing freedom. Construction materials price rises (e.g. as metals prices soared) have also been a source of cost pressure in recent years. Most recently, a smaller pipeline of new work due to the scaling back in mining-related engineering construction has exerted additional downward pressure on profits in engineering-related work.

Table 5: Construction industry operating profits before tax (nominal)

Operating profit before tax (\$ million)	2010-11	2011-12	2012-13	2013-14
Building (res. & non-res.)	9,592	8,110	7,708	9,198
Heavy & Civil Engineering	1,434	1,857	-1,137	3,688
Construction Services	19,256	19,581	18,183	18,708
Total Construction	30,282	29,548	24,754	31,594
All Industries	345,876	353,496	315,115	332,931

Source: ABS Australian Industry, 2013-14

Chart 10: Gross operating profits (nominal)


Source: ABS Business Indicators, Mar 2015.

CONSTRUCTION ACTIVITY OUTLOOK

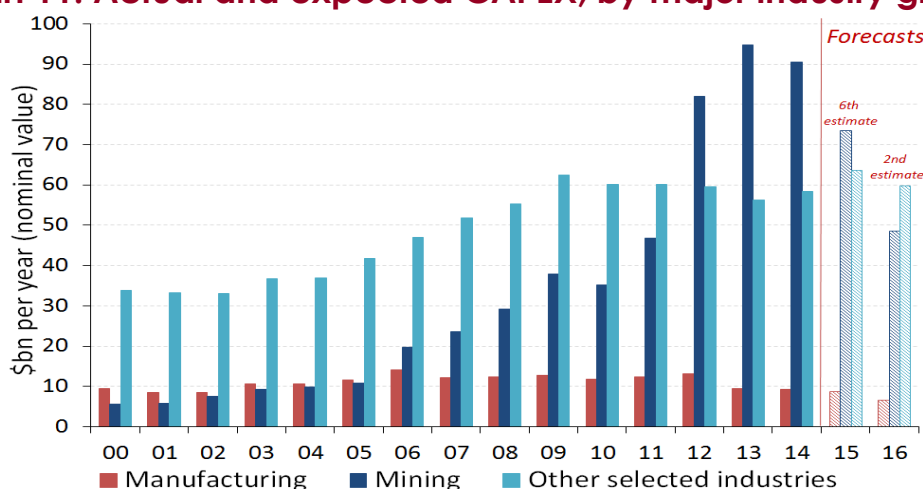
The latest data points to a fragmented outlook for Australia's construction industry.

The downturn underway in engineering construction is expected to continue, as mining-related construction and related infrastructure investment falls further from its recent peaks (see Chart 11). The latest estimates of private sector capital expenditure (CAPEX) indicates that total private investment in building and structures was down by 11.5% p.a. in 2014-15 (in nominal value terms) and will fall by a further 25.2% in 2015-16.

This downward trend mainly reflects the rapid decline in engineering investment by the resources sector (see chart 11). Mining investment in buildings, structures, plant and equipment fell by 4.1% q/q (and -13.7% p.a.) in Q1 of 2015, the sixth consecutive quarter of decline. The outlook for mining industry investment indicates further falls, with an 18.7% decline in investment expected to have occurred in 2014-15 and another 31% fall expected in 2015-16 (in nominal terms).

This decisive end to the mining investment 'boom' is not being replaced by greater investment activity from other, non-mining industries. Manufacturing investment in buildings, structures, plant and equipment is expected to be 5.6% p.a. lower in 2014-15 and 21% p.a. lower in 2015-16, as the demise of the automotive sector and other factors weigh on local manufacturers' investment and expansion plans. Up until a decade ago, manufacturing and mining were responsible for around the same levels of annual investment spending, but the level and share of investment coming from manufacturing has progressively dwindled since peaking in 2006 (see chart 11). Across other private-sector industries (e.g. utilities, retail, wholesale, transport and finance), a lift in total investment is expected in 2014-15 (up 9.2% in nominal terms), followed by lower spending in 2015-16 (-7.3% p.a.).

Chart 11: Actual and expected CAPEX, by major industry group



Source: ABS, CAPEX, Mar 2015.

A similar story is evident in the May 2015 **Australian Industry Group/Australian Constructors Association Construction Outlook survey**. This reveals that revenue from major project activity in Australia is forecast to fall by 4.3% (current dollars) in 2015 following a 3.6% decline in 2014. A further fall of 1.7% is projected for 2016. This largely reflects the continued declines in mining-related engineering construction (see Table 6).

The Ai Group Outlook Survey indicates that mining-related construction is expected to decline by 16.8% in 2015, in response to falling commodity prices and the completion of a number of major projects. Reduced resources investment is also contributing to a decline of 3.2% in heavy industrial resource-based construction. The value of oil and gas related construction projects is set to fall by 17.5% p.a. in 2016, as a number of the large-scale LNG projects finish construction later this year and in 2016. This includes projects underway at Curtis Island off the Queensland coast (planned for completion by the end of 2015) as well as the Wheatstone LNG (2016) and Gorgon LNG (2016) projects.

Table 6: Resource Construction Outlook (% change p.a. in revenue*)

Sector	2014	2015 (f)	2016 (f)
Mining-related construction	-2.8	-16.8	-12.0
Heavy industrial construction			
1. Chemical, petro-chemical plants	-4.4	-13.5	-8.9
2. Oil and gas processing	0.1	-1.1	-17.5
3. Other "downstream" processing plants	0.5	-5.4	-7.9
Total Heavy Industrial (1-3 above)	-0.2	-3.2	-14.6

Source: Australian Industry Group, May 2015 Construction Outlook survey *nominal dollars.

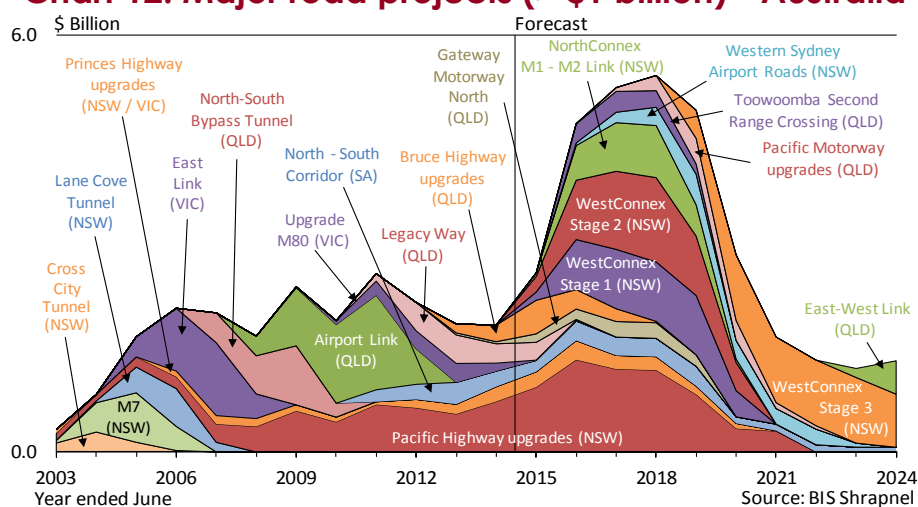
The effect of the downturn in resource-related engineering construction in 2015 and 2016 will be partly offset by better conditions in some other key infrastructure project categories (see table 7). Revenue derived from road and rail projects for example, is expected to grow in 2016 in line with Federal and State Government plans to commence a number of major transport projects (see chart 12).

In telecommunications, construction work is expected to be broadly sustained at current levels of activity over the next two years, in line with the rollout of the NBN and 4G network developments. However, the recent decline in capital investment in power and water infrastructure (following large investments over the past decade) is expected to continue, with falls of between 10% p.a. and 13% p.a. in the value of utilities construction projects such as electricity generation and supply and sewerage, drainage and water supply.

Table 7: Infrastructure Construction Outlook (% change p.a. in revenue*)

Sector	2014	2015 (f)	2016 (f)
1.Transport – road and rail	-7.7	-0.3	10.6
2.Telecommunications	-3.1	-2.0	3.3
3.Utilities	-13.9	-11.3	-13.4
4.Other - (pipelines, dams, bridges, wharves)	5.0	-9.9	-6.1
Total Infrastructure (1-4 above)	-7.6	-4.9	2.0

Source: Australian Industry Group, May 2015 Construction Outlook survey * nominal dollars.

Chart 12: Major road projects (> \$1 billion) - Australia


Non-residential building activity (commercial construction) is expected to remain subdued into 2016, reflecting persistent weakness in approvals and building commencements across most major commercial property markets. Constrained public sector investment and weak white collar employment growth (two of the main drivers of office construction), poor growth in local retail spending (the main driver of growth in retail construction) and poor investor sentiment continue to weigh heavily on the commercial construction industry's pipeline of work. Accordingly, results from the Ai Group Construction Outlook survey point to relatively weak annual growth in turnover from non-residential building work in both 2015 and 2016 (see table 8). Public sector commercial building work is expected to be flat, while private sector commercial building activity is expected to improve modestly through 2015 and 2016.

Table 8: Commercial Construction Outlook (% change p.a. in revenue*)

	2014	2015 (f)	2016 (f)
1.Private sector	2.3	2.5	3.5
2.Public sector	-1.7	0.3	-0.1
Total commercial	0.0	1.3	1.5

Source: Australian Industry Group, May 2015 Construction Outlook survey * nominal dollars, not adjusted for inflation.

Across the key project areas in commercial construction, there is currently a pipeline of work valued at around \$23bn waiting to be completed (see table 9). This includes:

- office construction which is facing a thinning project pipeline and patchy demand for office space.
- health building investment levels have been strong, with an aging population and urban sprawl driving demand for aged care facilities and hospitals, including health facilities servicing regional communities. There is likely to be a drop in large projects in the pipeline in 2015 (-16.5% reduction in investment pipeline) as existing large projects move close to completion.
- industrial building and warehousing is expected to remain mixed. Subdued conditions and excess capacity in manufacturing are likely to continue to weigh heavily on demand for factory space. However, the trend towards warehouse storage and distribution centres on transport corridors is likely to continue to support other forms of industrial construction.
- retail building and wholesale premises construction is likely to drop in 2015 with the investment pipeline falling by 24.1% in the year to the March quarter 2015. Subdued consumer sentiment, weak retail spending growth and competition from on-line retailers are key challenges for the sector.
- entertainment and recreation building is expected to show solid growth over the next three years (with the pipeline already up 122%) reflecting a boost from the 2018 Commonwealth Games facilities on the Gold Coast, the new Sydney Entertainment and Convention Centre, and other sporting facilities.
- accommodation and hotel construction is expected to push higher over the next three years in response to a strong increase in the demand pipeline. The lower Australian dollar is encouraging international visitor arrivals and increasing the attractiveness of domestic travel. Deloitte Access Economics forecasts that national hotel demand – measured as room nights sold – will rise by 2.5% p.a. on average over the three years to December 2017. The projected average supply growth over the same period is less than half the pace of demand at 1.2% p.a.

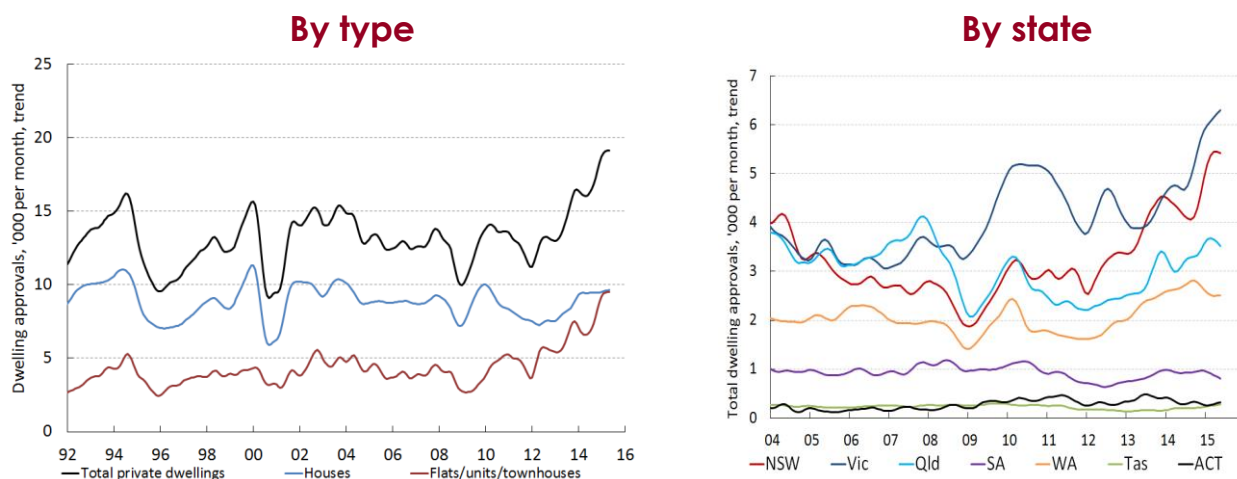
Table 9: Work yet to be done - March quarter 2015

Industry	Investment pipeline as at March quarter 2015 (\$ billion)	(% change - year to March quarter 2015)
Wholesale and retail	2.55	-24.1
Offices	4.35	-23.0
Industrial	1.83	-18.9
Entertainment	2.26	122.0
Accommodation	1.86	89.3
Health	5.99	-16.5
Education	1.97	-29.3
Total non-residential	23.2	-10.4

Source: ABS, Construction Work Done, preliminary, Mar 2015.

Residential building activity continues to charge ahead in 2015, reflecting buoyant new apartment approvals, particularly in Sydney and Melbourne. The number of total dwelling units approved in May 2015 was up 17.6% p.a., mainly due to the strength in approvals for apartments ("other dwellings" in the ABS data), which rose by 46% p.a. to a near-record high of around 10,000 approvals per month (see chart 13).

Chart 13: Private residential building approvals (trend)



Source: ABS, Building Approvals Australia, May 2015

The latest Ai Group Construction Outlook survey (May 2015) suggests growth in the value of apartment construction of 14.9% p.a. in 2015. Further growth of 4.1% p.a. is expected in 2016, in response to sustained demand for new residences (see table 10). The drivers of residential construction suggest further growth in residential building activity over the remainder of 2015 and into 2016. These factors include elevated approvals, low mortgage interest rates, strong population growth and urban transport infrastructure developments.

Table 10: Apartments Construction Outlook (% change p.a. in revenue*)

	2014	2015 (f)	2016 (f)
Multi-apartment complexes	7.1	14.9	4.1

Source: Australian Industry Group, May 2015 Construction Outlook survey * nominal dollars

CONSTRUCTION EMPLOYMENT OUTLOOK

Based on recent labour market trends, the Australian Government Department of Employment (May 2015) expects growth in construction industry employment of 137,900 (13%) over the five years to November 2019. This is well above the growth rate of 10% that it expects for total employment, so construction will account for a greater share of employment (and of employment growth) over this forward period.

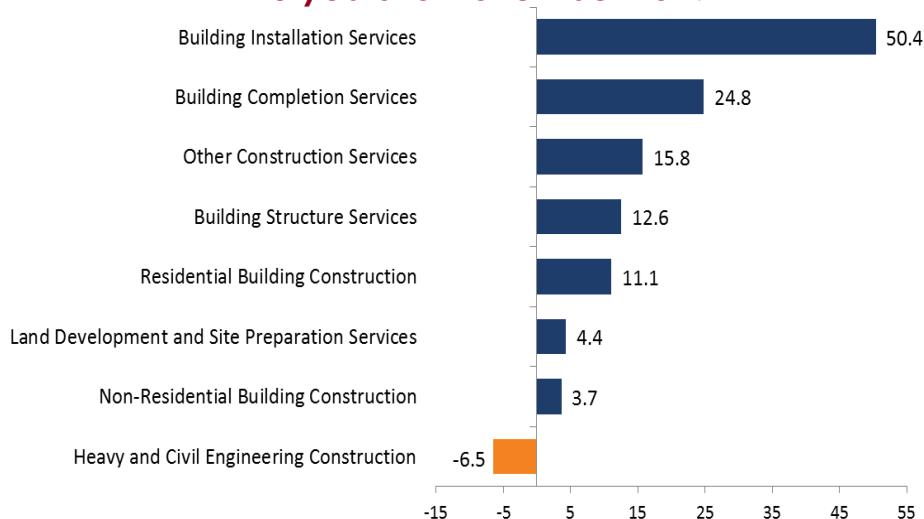
The Department expects construction employment growth over the five years to November 2019 to be strongest in the Building Installation Services sector (up by 50,400 or 21%), followed by Building Completion Services (24,800 or 13%), Other Construction Services (15,800 or 14%) and Building Structure Services (12,600 or 16%) (see chart 14).

Reflecting the subdued outlook for major engineering project activity, employment in the Heavy and Civil Engineering Construction sector is expected to decline over the five years to November 2019 (down by 6,500 or 8.3%), with conditions expected to be constrained by fewer new mining-related engineering projects.

The latest Ai Group Construction Outlook survey (May 2015) similarly forecasts a deteriorating outlook for non-residential construction employment in 2015, with a fall of 1% p.a. expected in the year to December 2015, following a 1.6% decline in the year to February 2015. A smaller pipeline of new projects and the deferral of some existing projects will see falls in employment concentrated in the on-site and sub-contracted

trades. The number of on-site employees and sub-contract tradesmen is forecast to fall by 1.4% p.a. and 1.0% p.a. respectively by December 2015. In contrast, off-site construction employment is expected to rise marginally by 0.6% over this year to December 2015.

Chart 14: Projected employment growth ('000) by Construction industry sector: five years to November 2019



Source: Department of Employment, 2015 Employment Projections to November 2019.

Ai Group Economics and Research Team

Julie Toth

Pip Freebairn

Yi Ming Hu

David Richardson

Colleen Dowling

Elle Spyropoulos

Chief Economist

Senior Adviser, Economic Policy

Economist

Manager, Economics and Business Services

Senior Research Coordinator (part time)

Research Assistant (part time)

(03) 9867 0124

(03) 9867 0261

(03) 9867 0231

(02) 9466 5456

(03) 9867 0251

(03) 9867 0108