

CONTACTS

Innes Willox
Chief Executive, Ai Group
Tel 03 9867 0111

Lindsay Le Compte
Executive Director, ACA
Tel 02 9466 5522

November 2018

MAJOR CONSTRUCTION TO FURTHER BUILD ON HIGH BASE OF ACTIVITY

Major construction value
2017-18: +9.0% p.a.

Major construction value
2018-19(e): +5.4% p.a.

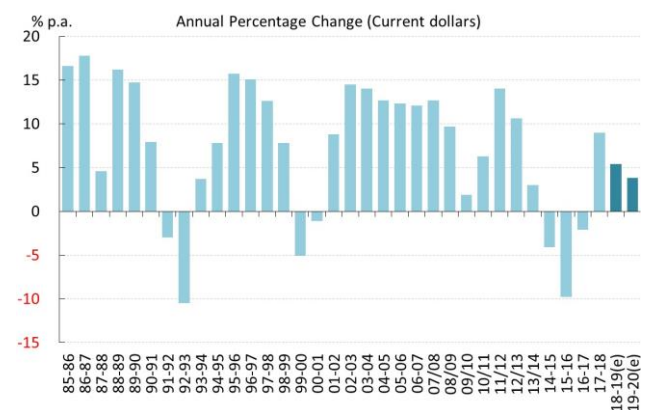
Major construction value
2019-20(e): +3.8%

Major construction jobs
2018-19(e): +7.4%

KEY FINDINGS

- Australia's leading construction companies are projecting further expansion - from a high base - in the value of major non-residential project work in 2018-19 and 2019-20. However, the pace of growth is expected to moderate as total infrastructure investment moves closer to peak levels. The outlook also points to large falls in revenue from multi-apartment work and oil and gas project activity, although the worst of the decline in mining-related construction appears to have now passed.
- The latest **Australian Industry Group/Australian Constructors Association Construction Outlook survey** indicates that after lifting by 9.0% in 2017-18 (current prices), the total value of non-residential construction work is forecast to rise by 5.4% in 2018-19 and a further 3.8% in 2019-20.
- Based on these forecasts, the total nominal value of non-residential construction by the private sector is set to reach a six-year high of \$142.8 billion in 2019-20 (refer explanatory notes).
- However, supply constraints remain at elevated levels with a range of large-scale projects continuing to draw heavily on labour and capital requirements. This is being reflected in rising input costs which are exerting on-going pressure on margins.
- In line with the impetus from non-mining infrastructure projects, the value of **engineering construction** is expected to increase by 6.5% in 2018-19 and a further 8.0% in 2019-20, following a 7.3% rise in 2017-18. Despite further falls in mining and oil and gas work (particularly in 2018-19), conditions will be supported by a continuation of solid public sector spending on **transport infrastructure projects**. Growth prospects are also strong for **'other' civil projects**, including, bridges, tunnels and the construction of Sydney's second airport at Badgerys Creek.
- Commercial building activity** (including offices, retail buildings and industrial premises) is poised for continued moderate growth over the next two years in line with rising private and public sector investment. The total value of commercial work is expected to increase by 8.7% in 2018-19 and 6.3% in 2019-20 following an 8.2% increase in 2017-18.
- Reflecting project completions and falling investor demand, revenue from **multi-level apartment building** work is expected to decline by 4.8% in 2018-19 followed by a sharp contraction of 17.6% in 2019-20.
- The growth in engineering and commercial construction over the next two years will underwrite continued job gains with **total employment in non-residential construction** expected to rise by around 3.8% in the second half of 2018 and by a further 4.4% by mid-2019 (after a rise of 3.9% in the year to July 2018).

TURNOVER FROM MAJOR CONSTRUCTION WORK



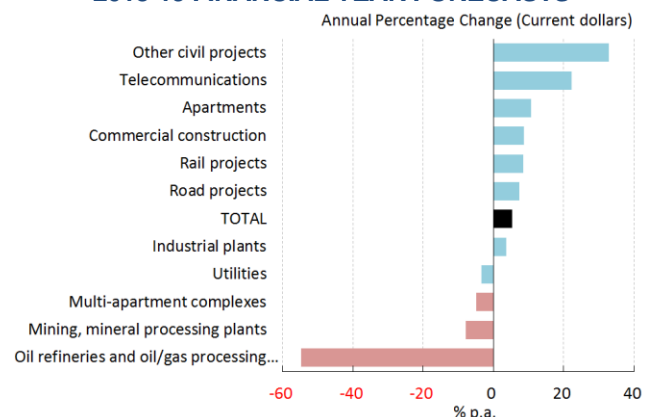
TURNOVER FROM MAJOR CONSTRUCTION WORK: OUTLOOK – FINANCIAL YEARS

	2017-18	2018-19(e)	2019-20(e)
SECTOR	% p.a.	% p.a.	% p.a.
Engineering	7.3	6.5	8.0
- Infrastructure non-mining	17.4	12.0	8.9
- Mining construction	-13.5	-7.9	2.3
- Heavy Industrial	-34.8	-35.7	1.2
Commercial construction	8.2	8.7	6.3
Multi-level Apartments	16.2	-4.8	-17.6
Total major construction	9.0	5.4	3.8

OUTLOOK 2018-19

- For the 2018-19 financial year, the value of turnover from **all major construction work** is expected to continue to expand, although the pace of growth will moderate to 5.4% following a 9.0% increase in 2017-18. Despite falls in apartments and oil and gas project work (as the remaining major LNG projects under construction largely move through to completion), a solid pipeline of infrastructure investment and rising commercial construction will underwrite a further overall lift in activity.
- Engineering construction** is expected to rise by 6.5% in 2018-19, underpinned by a sustained upturn in the value of **non-mining infrastructure construction** work (12.0%). Both road (+7.4%) and rail (+8.5%) projects will build on their current high base of activity. Other key contributors to growth include 'other' civil projects (+32.9%) and telecommunications infrastructure (+22.3%).
- Resource-related engineering construction** is expected to continue to decline in 2018-19. Weakness will be concentrated in the oil and gas processing sector (-54.8%). However, the drag from reduced mining investment (other than oil and gas) is moderating with a slower fall predicted in turnover derived mining projects (-7.9%) in 2018-19 after a 13.5% fall in 2017-18.
- Commercial construction is expected to maintain growth at a solid rate of 8.7% in 2018-19 consistent with rising approvals and commencements across key project areas including offices, industrial premises and education buildings.

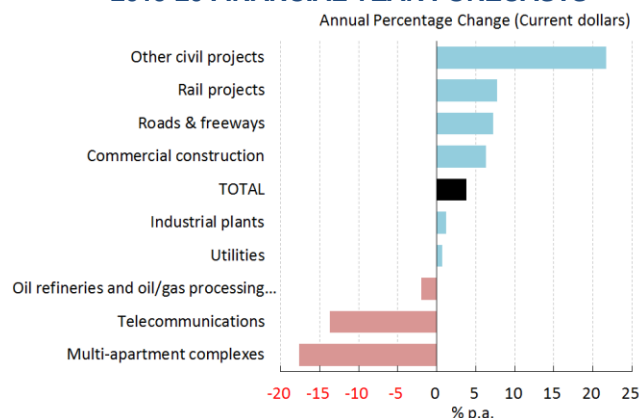
2018-19 FINANCIAL YEAR FORECASTS



OUTLOOK 2019/20

- Turnover from **all major construction work** is forecast to further moderate in 2019-20 (+3.8%), mainly reflecting the negative influence of a sharp fall in multi-apartment building work (-17.6%).
- However, engineering construction** will lift to a higher level, with expected growth of 8.0%. **The downturn in resources-related engineering construction** is expected to have largely run its course in 2019-20 with the decline in construction on oil and gas processing projects to moderate markedly (-2.0%) over the year. In addition, a slight recovery in mining-related construction is forecast to emerge (+2.3%) as investment in new mine capacity lifts in response to improving commodity prices and a turnaround in exploration activity.
- The expansion in non-mining infrastructure** (+8.9%) is expected to ease somewhat over the year. This mainly reflects a slower growth contribution from other civil projects (+21.7%) while telecommunications is expected to decline by 13.7% as NBN spending winds down. Turnover derived from utilities construction is expected to hold at relatively unchanged levels on the back of support from investment in new pipeline infrastructure for gas supply, wind and solar projects, electrical sub-station upgrades and the construction of water treatment facilities.
- Commercial construction** is projected to continue to expand in 2019-20, albeit at a slower pace of 6.3%. Private sector building activity is expected to rise by 6.3% while investment in education and health building projects is set to underpin a 5.6% growth outlook for public sector building activity.

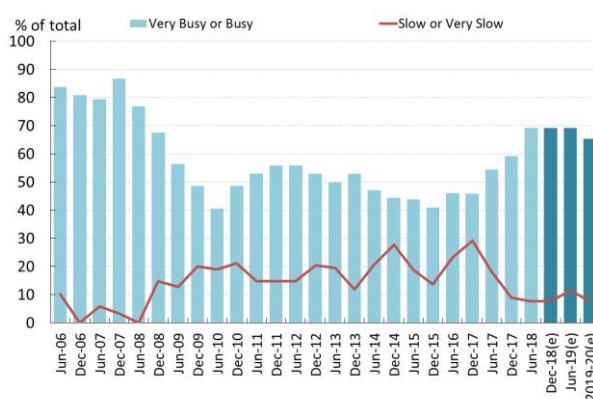
2019-20 FINANCIAL YEAR FORECASTS



LEVELS OF ACTIVITY

- In line with the strong upturn in infrastructure project work, **levels of activity continued to strengthen over the first half of 2018**. In total, 69.3% of respondents reported very busy or busy activity levels during the six months to June 2018, up from 59.1% in the previous six-month period. This was the **highest activity reading by survey respondents in the past decade**.
- Activity levels are expected to be sustained at this higher level through the second half of 2018 and through to mid-2019. Thereafter, activity is expected to moderate slightly with the proportion anticipating very busy/busy activity levels easing to 65.4%. Over this period activity will be supported by the combination of rising non-mining infrastructure and moderate expansion in commercial construction.
- The average level of industrial and construction capacity in use was 85.3% in September 2018, broadly unchanged of the level of six months earlier (85.7%). It was, however, 6.4 percentage points above the most recent low level of 78.9% in February 2015.

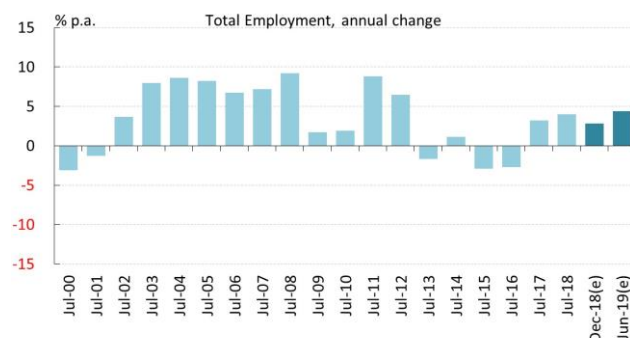
LEVELS OF ACTIVITY



EMPLOYMENT

- Labour market results from the survey reveal that **major construction employment is expected to maintain expansion through 2018 and the first half of 2019**.
- Reflecting continued strength across key project areas, employment in major construction increased by 3.9% in the year to July 2018, following an increase of 3.2% during the previous 12 months. Across the industry, rises in employment were concentrated among sub-contract tradesmen (+5.3%) and employees principally engaged on-site (+2.8%) with the higher volume of total work placing the strongest demand on on-site workforce resources.
- Higher levels of infrastructure and commercial building work will support continued job gains on an aggregate industry basis. Over the period July to December 2018, total employment is expected to rise by a further 3.8% led by increased hiring of on-site employees (+4.7%). This will be accompanied by continued growth in sub-contract tradesmen (+1.7%) and an upturn in off-site employment (+3.9%).
- Thereafter, over the six months to June 2019, total employment is expected to register a further increase of 4.4%. Over this period the expansion of the workforce will be highest among subcontract tradesmen (+5.8%) and on-site employees (+3.1%). However, off-site employment is expected to contract slightly by 0.8% in the first half of next year.

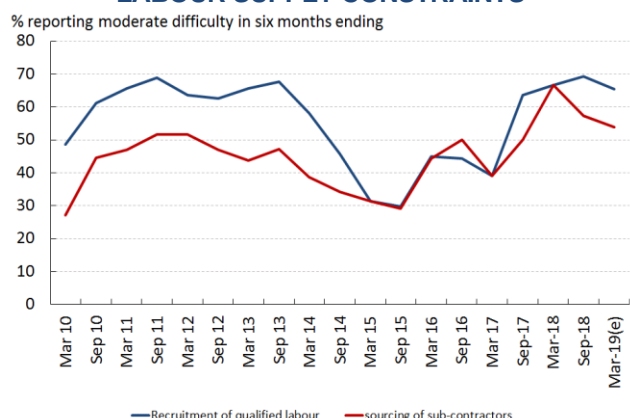
EMPLOYMENT



LABOUR CONSTRAINTS

- Amid rising workforce demand, businesses are reporting **widespread and increasing difficulties in sourcing skilled labour**. In total, a high 69.2% of respondents, up from 66.7% six months ago, reported either 'major' or 'moderate' difficulty in recruiting **skilled labour** in the six months to September 2018.
- Sourcing sub-contractors also remained a key concern in the six months to September 2018, with 57.8% also citing 'major' or 'moderate' difficulty, although this was down from 66.7% in the previous six months.
- With workforce demand expected to continue at high levels in line with elevated major project activity, labour sourcing difficulties are expected to remain widespread.
- Over the six months to March 2019, labour recruiting constraints are expected to remain prevalent, despite a slight easing in the number of businesses expecting difficulties in recruiting skilled labour (65.4% expect major or moderate difficulty) and the sourcing of sub-contractors (53.8%)

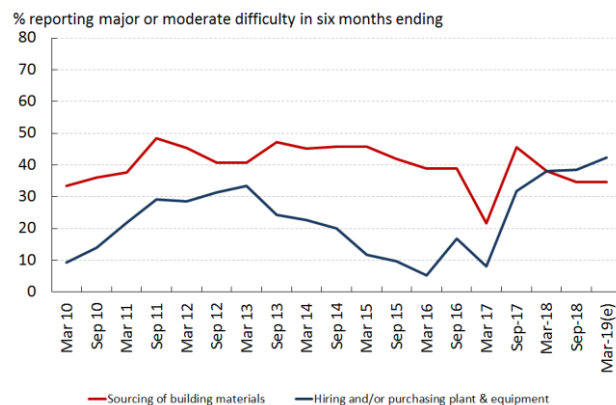
LABOUR SUPPLY CONSTRAINTS



CAPITAL CONSTRAINTS

- Supply constraints for capital inputs also remain at relatively high levels and a key concern across the industry. In total, more than one-third of respondents (34.6%) reported 'major' or 'moderate' difficulty the **sourcing of building materials** in the six months to September 2018, only slightly lower than the 38.1% of six months earlier.
- The proportion of businesses (38.5%) reporting 'major' or 'moderate' difficulty with **hiring and purchasing equipment was unchanged** compared with six months earlier (38.1%).
- Looking ahead over the six months to March 2019, little respite is anticipated in difficulties in meeting capital supply requirements. An unchanged number of businesses (34.6%) are pointing to a continuation of major/moderate difficulties with respect to the sourcing of building materials over this period.
- A slightly higher proportion of businesses expect major/moderate difficulties in the hiring/purchasing of equipment building materials (42.3%) over the six months to March 2019.

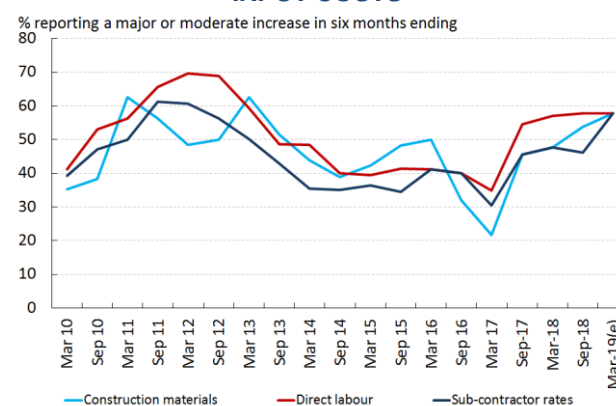
CAPITAL SUPPLY CONSTRAINTS



LABOUR AND CONSTRUCTION MATERIAL COSTS

- Labour cost** pressures continue to be exerted in the construction of infrastructure and building projects and are expected to be sustained into 2019. This reflects contractors competing for the same pool of skilled labour amid strong project activity.
- Over the six months to September 2018, 57.7% of respondents reported 'major' or 'moderate' increases in **direct labour rates** while 46.2% also reported 'major' or 'moderate' increases for **sub-contractor labour rates**. These proportions were broadly in line with the 57.1% and 47.6% respectively reporting 'major' or 'moderate' rises six months earlier.
- The survey points to these cost pressures continuing over the six months to March 2019. The proportion of businesses expecting 'major' or 'moderate' increases in direct labour costs remains unchanged at 57.7% while more businesses (57.7%) expect 'major' or 'moderate' pressure on sub-contractor rates in the six months to March 2019, than in the six months to September 2018.
- Reports of increases in **construction material costs** have become more widespread with 53.8% of businesses reporting 'major' or 'moderate' increases in the cost of materials in the six months to September 2018. This compares with 47.6% citing 'major' or 'moderate' increases six months earlier. Higher commodity prices and a lift in demand requirements due to the continuing rise in infrastructure investment activity has pushed construction material costs higher.
- The outlook indicates that the impact of strong demand requirements, particularly in the infrastructure and expanding commercial building sector, will result in increased cost pressures on material costs. A higher number of businesses (57.7%) expect 'major' or 'moderate' rises in the cost of construction materials over the six months to March 2019.

INPUT COSTS



Value of turnover in construction work	Share of turnover, 2017-18	2017-18	2018-19(e)	2019-20(e)
	% of total	% change p.a.	% change p.a.	% change p.a.
Engineering Construction*	48.3	7.3	6.5	8.0
(A) Infrastructure (non-mining)	40.5	17.4	12.0	8.9
Utilities (<i>electricity generation, pipelines, water storage</i>)	4.7	12.8	-3.4	0.7
Transport	26.6	19.0	8.1	7.5
Roads and freeways	11.6	23.8	7.4	7.2
Rail projects	15.0	15.6	8.5	7.7
Telecommunications	1.6	42.9	22.3	-13.7
Other civil projects (<i>eg. tunnels, airports, sports facilities</i>)	7.6	10.8	32.9	21.7
(B) Mining & mineral processing construction	3.7	-13.5	-7.9	2.3
(C) Heavy Industrial construction	4.1	-34.8	-35.7	1.2
Oil refineries and gas processing facilities	2.7	-44.2	-54.8	-2.0
Industrial plants	1.3	-0.4	3.7	4.1
Commercial construction	35.7	8.2	8.7	6.3
Private sector	17.9	10.5	10.1	5.6
Public sector	17.7	6.0	7.2	7.1
Multi-Apartment Complexes	15.6	16.2	-4.8	-17.6
Other	0.4	13.3	0.4	0.3
Total value of turnover in construction work	100.0	9.0	5.4	3.8

* Infrastructure, Mining and Industrial Construction

Outlook

Employment	Share of employment, July 2018 % of total	July 17 – July 18 % change	Exp. July 18 – Dec 18 % change	Exp. Dec 18– Jun 19 % change	July 18 – Exp. Jun 19 % change
On-site employees	33.9	2.8	4.7	3.1	7.9
Off-site employees	7.4	-0.7	3.9	-0.8	3.1
Sub-contract labour	58.7	5.3	1.7	5.8	7.6
Total employment	100.0	3.9	3.8	4.4	7.4

Level of activity	Very busy % of companies	Busy % of companies	Moderate % of companies	Slow % of companies	Very slow % of companies
Six months to Dec 2017, actual	36.4	22.7	27.3	9.1	4.5
Six months to Jun 2018, actual	30.8	38.5	23.1	0.0	7.6
Six months to Dec 2018, expected	34.6	34.6	23.1	3.8	3.8
Six months to Jun 2019, expected	42.3	26.9	19.2	3.8	7.8
Expected 2019-20 (financial year)	42.3	23.1	26.9	0.0	7.8

Explanatory Notes on Construction Outlook Survey

The Australian Industry Group Construction Outlook survey was conducted in September/October in conjunction with the Australian Constructors Association (ACA), the peak industry body representing the nation's major construction contractors. The major construction companies responding to the survey employed a total of 40,000 persons with combined turnover of around \$25 billion.

The survey provides an estimate of the dollar value of turnover in 2019-20 for the engineering and non-residential building sectors. This estimate has been derived by applying the survey forecasts (2018-19 and 2019-20 % changes) to Australian Bureau of Statistics total value of engineering and non-residential building work done – private sector, Australia (original data): ABS catalogue numbers 8762.0 and 8752.0.

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.

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