

Outlook

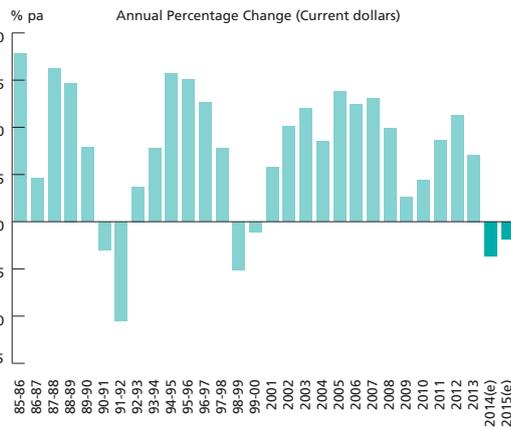
MAY 2014

MAJOR PROJECT ACTIVITY TO DECLINE AS MINING CONSTRUCTION WEAKENS

KEY FINDINGS

- Australia's leading construction companies are forecasting a decline in total non-residential construction work through the 2014 and 2015 calendar years. The decline is expected to be driven by falls in resource related construction as mining investment winds back from peak levels. However, the extent of the industry's downturn will be moderated by continued growth in telecommunications investment, firmer commercial construction activity and a pick-up during 2015 in transport infrastructure construction.
- The latest Australian Industry Group/Australian Constructors Association Construction Outlook survey reveals that after growth of 7.1% p.a. in 2013 (current prices), the total value of engineering and commercial construction work is expected to fall by 3.6% p.a. in 2014, followed by a slower decline of 1.8% p.a. in 2015.
- Total employment is also forecast to decline through to mid-2015 in response to the weakening in resources and total infrastructure project activity.
- While engineering construction is forecast to turn down in response to reduced work levels in various key project areas, the total value of work will remain relatively high due to a still sizable engineering pipeline and a number of long-dated projects. Within the engineering sector, mining related construction is expected to weaken through 2014 and 2015. Other notable declines are forecast in other civil projects (such as ports and terminals) and heavy industrial resource based projects, including oil and gas processing which is set to peak in 2014 before starting a downturn in 2015.
- After struggling in recent years, the commercial construction sector is forecast to gain some momentum over the next two years. With more projects starting to receive the go ahead, the total value of commercial work is forecast to recover from a 1.8% p.a. decline in 2013 to increase by 4.1% p.a. in 2014 and a further 3.5% p.a. in 2015.

TURNOVER FROM CONSTRUCTION WORK



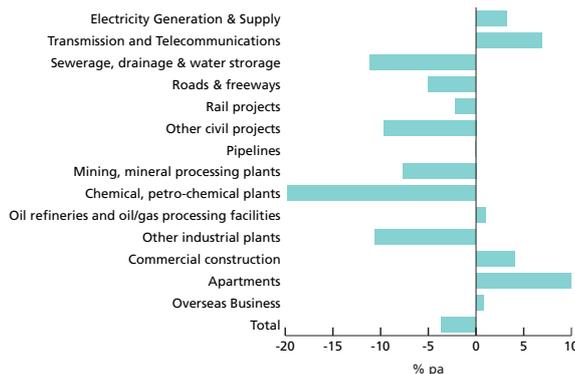
CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2015

Sector	% Change p.a.		
	2013	2014(F)	2015 (F)
Infrastructure	9.2	-4.6	1.6
Mining	10.0	-7.7	-12.5
Heavy Industrial Construction	6.2	-3.6	-12.7
Total Engineering	9.0	-5.1	-2.9
Non-Residential Building (Commercial Construction)	-1.8	4.1	3.5
- Private sector	-3.0	2.8	5.1
- Public sector	-1.0	5.1	2.3
Apartments	2.1	10.0	9.6
Overseas Business	-1.8	0.8	0.5
Total Construction	7.1	-3.6	-1.8

OUTLOOK 2014

- Growth in total turnover from construction work is forecast to decline by 3.6% p.a. (current dollars) in 2014, following an increase of 7.1% p.a. in the previous year.
- Total infrastructure construction is expected to turn down by 4.6% p.a. This reflects a drop in transport construction of 3.8% p.a. due to the completion of some major projects and the winding down of flood reconstruction work in Queensland. Falls are also expected in sewerage, drainage & water supply projects (-11.1% p.a.) while the close links of ports/terminal construction to resource investment is reflected in a 9.7% p.a. decline in revenue from other civil projects.
- The value of mining sector work is expected to contract by 7.7% p.a. as mining investment reduces from peak levels. A decline of 3.6% is also expected in heavy industrial resource-based construction, although work on oil and gas processing projects (+1.0% p.a.) is forecast to be sustained at a high level underpinned by major LNG facilities still under construction.

2014 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



WHAT IS THE CONSTRUCTION OUTLOOK REPORT?

The Australian Industry Group Construction Outlook survey was conducted in March/April in conjunction with the Australian Constructors Association (ACA), the peak industry body representing the nation's major construction contractors. The survey covered the responses of 100 companies employing 79,000 persons with combined turnover of almost \$32 billion or approximately 30% of total non-residential industry activity.

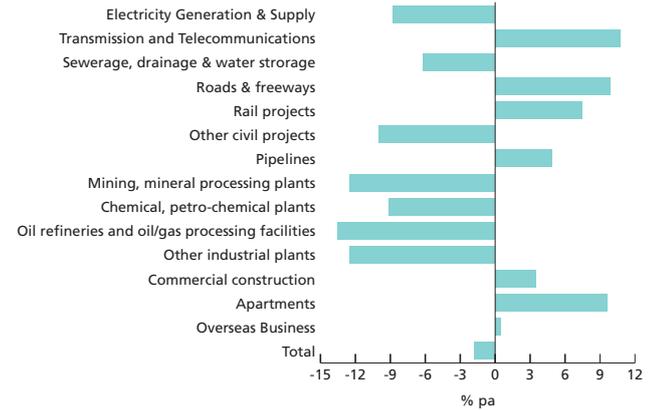
SPONSOR STATEMENT

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 2015

- The total value of construction turnover is forecast to decline by a further 1.8% p.a. during 2015.
- The value of infrastructure work is expected to remain broadly unchanged over the year. With power and water infrastructure investment reaching the end of a long run growth cycle, businesses anticipate falls of between 6-9% p.a. in both electricity generation & supply and sewerage, drainage & water supply projects. In addition, a lower level of mining-related port projects will lead to a further decline of 10.0% p.a. in revenue derived from other civil projects. These falls will be cushioned by NBN network investment which is forecast to drive solid growth of 10.7% in telecommunications infrastructure, and growth in transport infrastructure of 8.8% p.a.
- Consistent with a slowing resource projects pipeline, a further decline in mining related construction work of 12.5% p.a. is expected in 2015.
- A weaker outlook is also predicted for heavy industrial construction in 2015. This is largely due to a downturn in work in the oil and gas processing sector as more projects move through to completion (-13.5% p.a.).
- Growth is forecast in turnover from commercial construction activity of 3.5% p.a. with this increase led by a step-up in private sector building activity of 5.1% p.a.

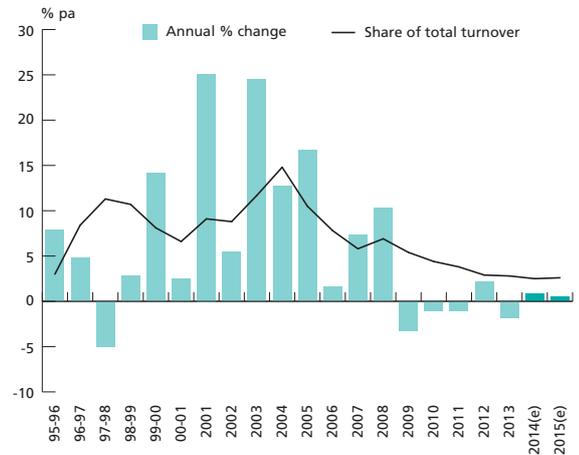
2015 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



OVERSEAS BUSINESS

- The overseas business of construction businesses accounted for 2.5% of all construction revenue in 2013, a share which is well below the plus 10% peak years of 2002/03 to 2004/05
- Revenue from overseas business fell by 1.8% p.a. in 2013 due to a weaker uptake of new projects among respondents. This follows growth in overseas revenue of 2.2% p.a. in the previous year. The strong Australian dollar was cited as having a negative influence on growth in revenue from overseas projects.
- Revenue from overseas business is expected to be broadly unchanged in 2014 and 2015 with respective increases of just 0.8% p.a. and 0.5% p.a. predicted in both years.

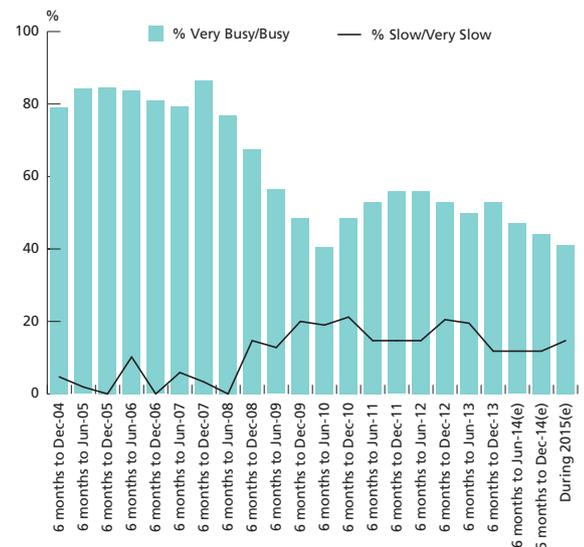
OVERSEAS BUSINESS



LEVELS OF ACTIVITY

- Levels of activity in the second half of 2013 were consistent with the continuation of reasonably solid resources and infrastructure project work during this period. Just over a half of respondents (52.9%) reported operating at busy or very busy levels of activity during the six months to December 2013, slightly up from the 49.9% in the previous six months period.
- However, in 2014 an easing in activity is expected. During the first half of 2014, the proportion of businesses anticipating busy or very busy activity falls to 47.0% with a further decline to 44.1% during the second half of 2014. While activity is expected to soften further through 2015 (41.2%), the decline is not marked over this period. This reflects the diversity of forecasts across sectors with the impact of reduced resource related construction moderated by higher activity in commercial construction and key infrastructure sectors.
- The average level of industrial/construction capacity in use was 84.2% in March 2014, a rise of 2.1 percentage points from the reading (82.1%) from the level six months earlier.
- Despite the increase in capacity utilisation in the past year, it is well down on the peak levels of approximately 90.0% recorded in late 2007 and early 2008 prior to the strong hit to construction demand from the Global Financial Crisis.

LEVELS OF ACTIVITY

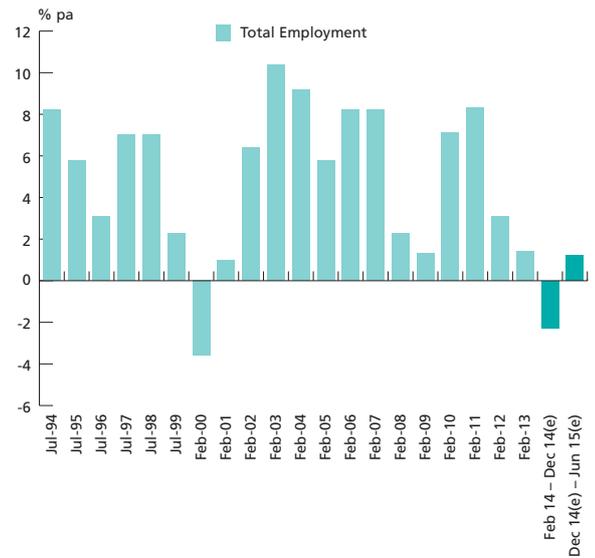




EMPLOYMENT

- Labour market data reveal continuing employment growth. Total employment increased by 1.4% p.a. in the year to February 2014, although this is down from the 3.1% p.a. rate of increase during the previous 12 months period. This increase was driven by a 4.1% rise in the number of sub-contract supply and install tradespeople. The number of off-site and on-site employees remained broadly unchanged over this period.
- Total employment, is however, forecast to weaken over the remainder of 2014. This reflects softer investment demand and the impending completion of several resources projects. The number of employees principally engaged on-site and sub-contract tradespeople numbers are forecast to fall by 3.6% and 1.5% respectively. Off-site employment is also expected to fall by 1.5% forecast over this period.
- Thereafter to June 2015, total employment is expected to recover some ground, rising at a rate of 1.2%. This improvement mainly reflects a strengthening in the employment of sub-contract tradespeople (+3.1%). The number of off-site employees is expected to rise by +0.9% while on-site numbers are expected to stabilise.

EMPLOYMENT

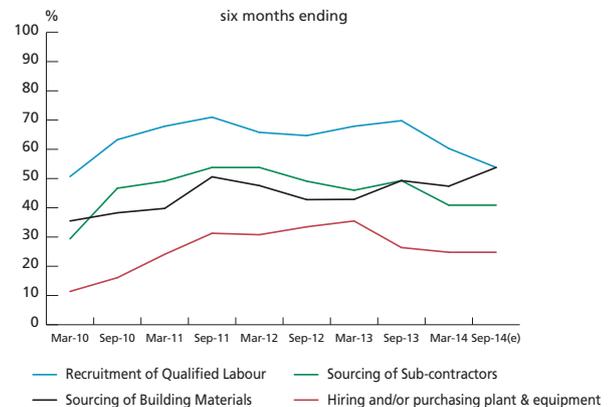


SUPPLY CONSTRAINTS

- Although a range of large-scale projects continue to draw heavily on workforce requirements, labour supply constraints have moderated in recent months. This is consistent with slower employment growth and deferrals or cancellations of large resource projects during the last year. Whilst a relatively high 58.1% of respondents reported either major or moderate difficulty in the recruitment of skilled labour in the six months to March 2014, this was down from 67.7% in the previous six months period. The sourcing of sub-contractors was also a less dominant supply constraint in the six months to March 2014 with 38.7% citing major or moderate difficulty (down from 47.1%).
- For capital supplies, sourcing difficulties were down slightly with 45.2% of respondents reporting major or moderate difficulty in the sourcing of building materials (47.7% six months ago) and 22.6% reporting major or moderate difficulty in the hiring and purchasing of equipment (24.2% six months ago).
- Over the six months to September 2014, a higher proportion of firms expect major or moderate difficulty in the sourcing of building materials (51.6% of respondents). The degree of difficulty in the recruitment of skilled labour is expected to be less widespread (51.6% of respondents) while businesses anticipating major or moderate difficulty in the sourcing of sub-contractors (38.7%) and the hiring and purchasing of equipment (22.6%) is expected to remain unchanged.

SUPPLY CONSTRAINTS - LABOUR AND CAPITAL SUPPLIES

(% reporting major/moderate difficulty)



INPUT COSTS

- The survey results indicate that labour and construction material costs remain a source of pressure on total costs for infrastructure and building projects. This is despite a moderation in input cost inflation in the six months to March (relative to the previous six months period). During the six months to March 2014, 43.8% of businesses cited major or moderate increases in material costs, down from 51.5% citing this level of difficulty six months ago.
- Reflecting the continuation of skill shortages and the need to attract workers to remote sites, the proportion of respondents reporting major or moderate increases in direct labour costs remained relatively high at 48.4% in the six months to March 2014 (unchanged from six months ago). For subcontractor rates, 35.5% reported major or moderate increases as compared to 42.9% six months ago.
- Cost pressures are expected to be sustained at broadly unchanged levels in coming months. The proportion of businesses anticipating major or moderate increases is forecast to rise slightly over the six months to September 2014 to 45.2% for construction materials and 38.7% for sub-contractor rates and remain steady at 48.4% for direct labour costs.

INPUT COSTS (% reporting major/moderate increase)



VALUE OF TURNOVER IN CONSTRUCTION WORK	PERCENTAGE CHANGE			
	% OF 2013 TURNOVER	2013 ON 2012	2014(E) ON 2013	2015(E) ON 2014(E)
UTILITIES INFRASTRUCTURE				
Electricity generation & supply	1.7	3.3	3.2	-8.8
Sewerage, drainage and water storage	1.8	11.6	-11.1	-6.2
Sub-total	3.5	7.4	-4.1	-7.6
TRANSPORT INFRASTRUCTURE				
Roads and freeways	13.5	0.7	-5.0	9.9
Rail projects	11.2	5.2	-2.2	7.5
Sub-total	24.7	2.7	-3.8	8.8
Transmission and telecommunications infrastructure	5.4	16.6	6.9	10.7
Other civil projects	19.5	16.3	-9.7	-10.0
Pipelines	3.5	11.8	-0.1	4.9
Sub-total Infrastructure	56.6	9.2	-4.6	1.6
MINING MINERAL PROCESSING ETC	17.8	10.0	-7.7	-12.5
HEAVY INDUSTRIAL CONSTRUCTION				
Chemical, petro-chemical plants etc	1.7	5.5	-19.8	-9.1
Oil refineries and gas processing facilities	6.9	6.0	1.0	-13.5
Other industrial plants	0.4	12.9	-10.6	-12.5
Sub-total Industrial Construction	9.0	6.2	-3.6	-12.7
ENGINEERING CONSTRUCTION (INFRASTRUCTURE, MINING & INDUSTRIAL CONSTRUCTION)	83.4	9.0	-5.1	-2.9
COMMERCIAL CONSTRUCTION				
– Private Sector	5.5	-3.0	2.8	5.1
– Public Sector	7.7	-1.0	5.1	2.3
Sub-total Commercial Construction	13.2	-1.8	4.1	3.5
APARTMENTS	0.8	2.1	10.0	9.6
OVERSEAS BUSINESS	2.5	-1.8	0.8	0.5
OTHER	0.1	-17.9	16.1	3.2
TOTAL	100.0	7.1	-3.6	-1.8

EMPLOYMENT	Year to February 2014 (% Change)	Expected Feb '14 to Dec. '14 (% Change)	Expected Dec '14- Jun '15 (% Change)
On-site employees	-0.3	-3.6	-0.3
Off-site employees	0.3	-1.5	0.9
Sub-contract labour	4.1	-1.1	3.1
TOTAL	1.4	-2.3	1.2

LEVEL OF ACTIVITY (% OF COMPANIES)	VERY BUSY %	BUSY %	MODERATE %	SLOW %	VERY SLOW %
Six months to June 2013	27.7	22.2	30.6	16.7	2.8
Six months to December 2013	29.4	23.5	35.3	11.8	0.0
EXPECTED					
Six months to June 2014	23.5	23.5	41.2	11.8	0.0
Six months to December 2014	14.7	29.4	44.1	8.8	2.9
During 2015	11.8	29.4	44.1	11.8	2.9

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