

INFRASTRUCTURE TO LIFT MAJOR PROJECT ACTIVITY

Major construction value
2015: -8.0% p.a.

Major construction value
2016(e): -0.4% p.a.

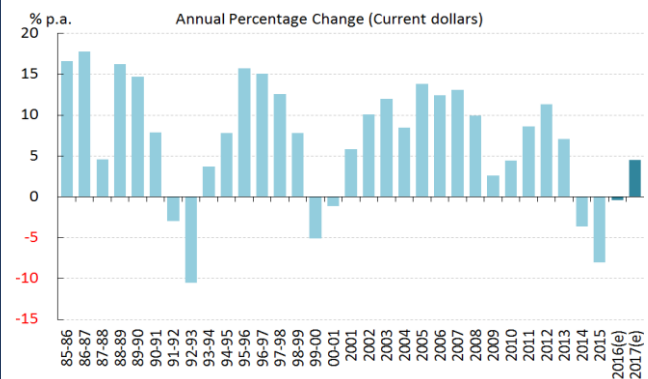
Major construction value
2017(e): +4.5%

Major construction jobs
Year to Feb 16: -4.8%

KEY FINDINGS

- The **nation's leading non-residential construction companies** are forecasting a modest recovery in major project work in 2017 following a sustained period of weakness since 2013.
- The latest **Australian Industry Group/Australian Constructors Association Construction Outlook survey** indicates this upturn will be supported by a recovery of activity in the infrastructure and commercial sectors and further growth in apartment building. Although reduced mining-related construction will continue to weigh on industry conditions, its negative impact is expected to wane during 2016, and more particularly in 2017.
- The latest half-yearly national survey of the non-residential construction industry found that after dropping sharply by 8.0% in calendar year 2015 (current prices), the value of turnover from major project work is expected to stabilise in 2016 – before recovering some ground with a 4.5% rise in 2017.
- Highlighting the persistent weakness in the mining and heavy industrial sectors, **engineering construction** is expected to decline by a further 2.9% in 2016 following a steep 14.0% downturn in 2015.
- However, with renewed impetus from **non-resources infrastructure activity**, revenue derived from engineering construction projects is forecast to pick-up by 5.5% in 2017 as new road and rail projects gather pace. A more substantial lift in telecommunications work is also expected in 2017 in line with rising NBN-related investment.
- Commercial construction** activity (e.g. offices, retail buildings, warehouses and industrial premises) is also expected to strengthen gradually over the forecast period. Following a contraction of 2.3% in 2015, the value of commercial construction is forecast to rise slightly by 1.0% in 2016 followed by a stronger 4.0% expansion in 2017. This improvement is expected to be boosted mainly by stronger private sector demand.
- For **multi-level apartments**, a solid increase in turnover of 10.8% is expected in 2016 after particularly strong growth of 22.4% in 2015. However, a more moderate pace is anticipated in 2017 (+1.5%) due to slowing apartment approvals and price growth, with a possible excess supply in selected capital city locations.
- Total **employment** in non-residential construction fell through the year to February 2016 in response to the winding back in mining-related work. However, a recovery in employment is expected over the remainder of 2016 and the first half of 2017 as rising infrastructure work leads to an increase in workforce requirements elsewhere.

TURNOVER FROM CONSTRUCTION WORK



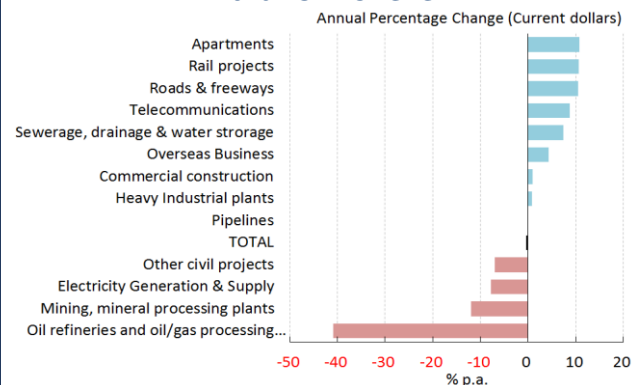
TURNOVER FROM CONSTRUCTION WORK: OUTLOOK AT A GLANCE

	2015	2016(e)	2017(e)
SECTOR	% p.a.	% p.a.	% p.a.
Engineering	-14.0	-2.9	5.5
Commercial construction	-2.3	1.0	4.0
Multi-level Apartments	22.4	10.8	1.5
Overseas business	4.4	-0.5	2.0
Total construction	-8.0	-0.4	4.5

OUTLOOK 2016

- For the 2016 calendar year, the value of turnover from non-residential construction work is expected to remain broadly unchanged (-0.4%) following an 8.0% reduction in 2015.
- Largely in response to the ongoing decline in mining investment, **engineering construction** is expected to fall by 2.9% in 2016 as the pipeline of new projects continues to shrink. Also dominating the negative outlook for engineering construction is continued weakness across the heavy industrial and resources sectors. In particular, the value of construction work for the oil and gas processing sector is set to fall by 40.9% in 2016 as a number of large scale projects are completed and recently low gas prices limit incentives for further expansion.
- The total value of infrastructure work (a sub-set of engineering construction in these data) is expected to recover (+3.5%) in 2016, partially offsetting the industry's downturn in mining projects. The current phase of strengthening investment in urban transport infrastructure is reflected in solid projected rises in revenue from both road (+10.6%) and rail projects (+10.7%). Telecommunications infrastructure is also set to expand solidly in 2016 (+8.8%).
- The value of **commercial construction** is expected to show marginal improvement with a forecast rise of 1.0% in 2016. This slow rate of growth is consistent with persistent weakness in approvals and building commencements across various major commercial property markets.

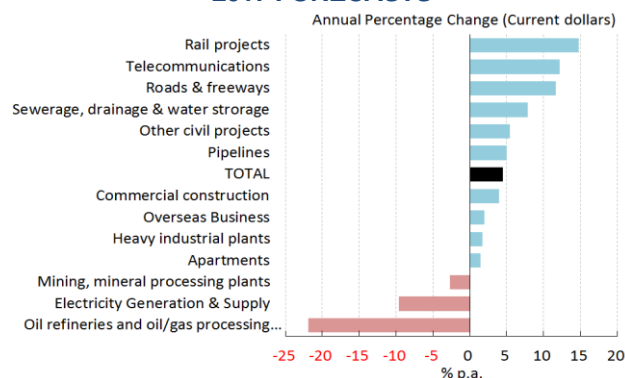
2016 FORECASTS



OUTLOOK 2017

- Turnover from major construction projects is forecast to recover by 4.5% in 2017 as the lift in non-mining infrastructure projects builds momentum.
- Engineering construction** is expected to grow by 5.5% in 2017. This reflects the positive influences of solid increases in revenue from road (+11.7%) and rail projects (+14.8%) and more robust conditions in the telecommunications sector (+12.2%) as a higher level of NBN-related investment moves into the construction pipeline. In addition, a pickup in revenue is expected from other civil projects (+5.0%) as some large port and terminal projects move into the early stages of the investment cycle.
- Resources-related engineering construction** is expected to continue to decline in 2017. However, the drag from reduced mining investment is likely to lessen with slower falls predicted in turnover derived from mining projects (-2.7%) and heavy industrial construction (-10.1%).
- Commercial construction** is projected to show a stronger recovery in 2017 (+4.0%). Growth is expected to be led by private sector building activity (+4.9%). Public sector building work is expected to be slower (+2.9%) reflecting a thinner project pipeline, and the completion of a number of large public health sector projects.

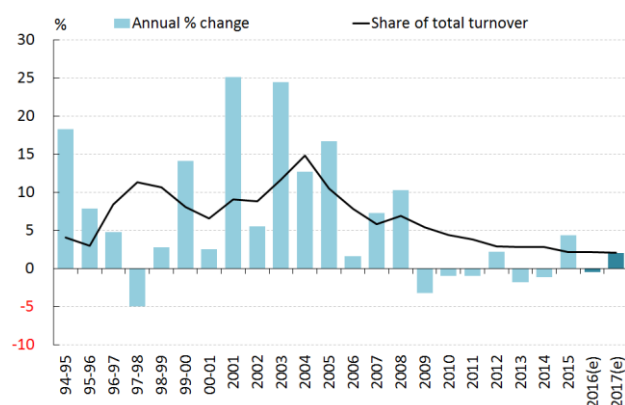
2017 FORECASTS



OVERSEAS BUSINESS

- The overseas business of the construction sector accounted for approximately 2.2% of all construction revenue in 2015, well below the 13.2% peak of ten years ago.
- Revenue from overseas business increased by 4.4% in 2015 (nominal Australian dollar terms). The lower Australian dollar is likely to have had a positive influence by raising the local currency value of overseas generated revenue. This growth follows a decline in overseas revenue of 1.1% p.a. in 2014.
- The total overseas revenue generated by respondents in 2015 is expected to be sustained in 2016 with respondents forecasting only a slight decline of 0.5% during the year. This is expected to be followed by relatively subdued growth of 2.0% in 2017.

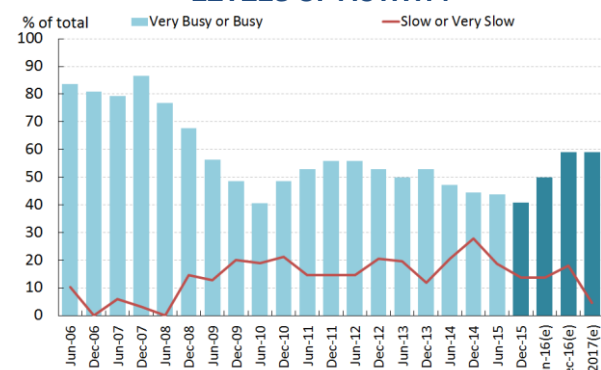
OVERSEAS BUSINESS



LEVELS OF ACTIVITY

- Levels of activity in the second half of 2015 were consistent with the further winding down in capital expenditure on major resource projects. Less than one-half (40.9%) of respondents reported very busy or busy activity levels during the six months to December 2015, down from 43.8% in the previous six months period. This was the lowest 'busy activity' result for respondents in close to six years.
- Over the first half of 2016, activity is expected to strengthen with 50.0% of businesses anticipating very busy or busy conditions.
- A distinct improvement is expected through the second half of 2016 (59.1% expecting to be very busy or busy) with this proportion holding steady during 2017. This mainly reflects the projected lift in infrastructure construction over this period which will help in cushioning the impact of waning resources-based construction.
- The average level of industrial and construction capacity in use was 84.3% in March 2016, unchanged from six months ago.
- The current level of capacity utilisation is broadly in line with the average level recorded over the past six years, although it remains well below the peak levels of approximately 90.0% recorded in late 2007 and early 2008.

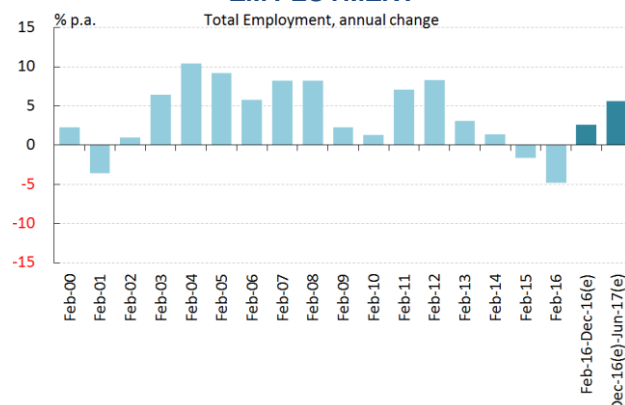
LEVELS OF ACTIVITY



EMPLOYMENT

- This latest survey reveals that non-residential construction employment is expected to recover through 2016 and the first half of 2017.
- Reflecting declining resources investment and the completion of key projects, employment in non-residential construction contracted by 4.8% in the year to February 2016 following a decline of 1.6% during the previous 12 months. Reductions in employment were concentrated in sub-contract tradesmen (-6.3%) and employees principally engaged off-site (-7.9%). On-site employment fell by 2.1% during the twelve months to February 2016 after dropping by 2.6% in the previous 12 months.
- However, total construction employment is expected to increase over the remainder of 2016 (+2.6%), in response to rising infrastructure work. Over this period, growth is expected across all employment categories, led by on-site (+3.1%) and off-site employees (+3.4%).
- In the six months to June 2017, total employment is expected to increase by a further 2.9%. Growth will be mainly boosted by a 4.0% increase in the number of on-site employees, with the numbers of off-site and sub-contractors lifting by 2.6% and 2.0% respectively.

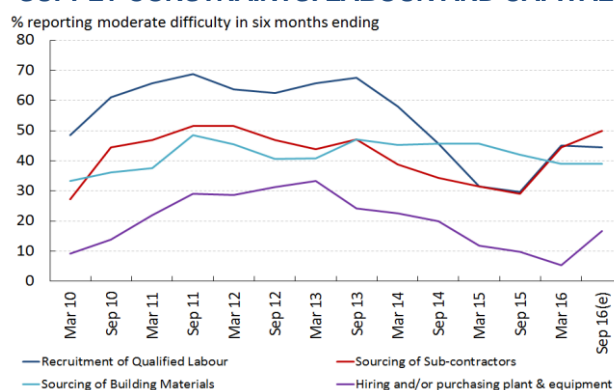
EMPLOYMENT



SUPPLY CONSTRAINTS

- Reflecting a lift in workforce demand as major infrastructure works come on stream, labour shortages are again emerging. 44.4% of respondents reported either major or moderate difficulty in recruiting skilled labour in the six months to March 2016, up from 29.1% in the previous six months. Sourcing sub-contractors was also a greater concern in the six months to March 2016, with 44.4% citing major or moderate difficulty, up from 29.1% in the previous six months.
- Sourcing building materials continues to be a dominant concern for the industry with 38.9% of respondents reporting major or moderate difficulty in the six months to March 2016, down from 41.9% six months ago.
- A lower proportion of businesses (5.3%) also reported major or moderate difficulty with hiring and purchasing equipment (9.8% six months ago).
- Over the six months to September 2016, the proportion of businesses experiencing difficulty in the recruitment of skilled labour is expected to remain at current levels (44.4% having major or moderate difficulty). However, difficulties for businesses in recruiting sub-contractors (50.0%) is expected to become more widespread in the six months to September 2016. For capital supplies, the proportion of businesses expecting major or moderate difficulties is higher for the hiring and purchasing of equipment (16.7%) and unchanged for the sourcing of building materials (38.9%).

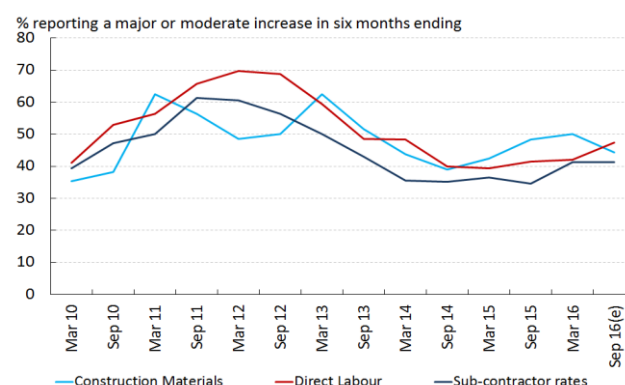
SUPPLY CONSTRAINTS: LABOUR AND CAPITAL



INPUT COSTS

- Labour and construction material costs remain a source of pressure for the construction of infrastructure and building projects. Upward pressures on direct labour costs are expected to become more pronounced as large infrastructure projects increasingly move into construction and contractors are forced to compete for skilled labour.
- Over the six months to March 2016, 41.2% of respondents reported major or moderate increases in sub-contractor labour rates (up from 34.4% in the previous six months period) while 42.1% reported major or moderate increases for direct labour rates (up slightly from 41.1% in the previous six months).
- Consistent with the difficulties faced by a number of companies in sourcing building materials, 50.0% of businesses reported major or moderate increases in the cost of materials in the six months to March 2016, compared with 48.3% citing this level of difficulty six months earlier. This increase reflects the impact of higher prices for imported building products due to the lower value of the Australian dollar.
- In the six months to September 2016 a higher proportion of businesses expect major or moderate increases in direct labour costs (47.4% major or moderate increase) while pressures on sub-contractor rates are expected to be sustained at unchanged levels (41.2%). Rising costs for construction materials (44.4% expecting major or moderate increases) are expected to ease off but remain relatively widespread.

INPUT COSTS



Value of turnover in construction work	Share of turnover, 2015	2015	2016(e)	2017(e)
	% of total	% change p.a.	% change p.a.	% change p.a.
Engineering Construction*	57.3	-14.0	-2.9	5.5
(A) Infrastructure	38.8	-4.5	3.5	9.5
Utilities Infrastructure	4.3	3.4	0.0	0.0
- Electricity generation and gas supply	2.1	-4.6	-7.8	-9.6
- Sewerage, drainage and water storage	2.2	12.4	7.5	7.9
Transport infrastructure	18.9	-9.2	10.6	13.5
- Roads and freeways	8.3	-16.9	10.6	11.7
- Rail projects	10.7	-2.2	10.7	14.8
Telecommunications infrastructure	2.7	0.7	8.8	12.2
Other civil projects	12.7	0.0	-6.9	5.4
Pipelines	0.2	-28.0	0.0	5.0
(B) Mining & mineral processing construction	12.6	-27.0	-11.9	-2.7
(C) Heavy Industrial construction	5.9	-32.5	-25.5	-10.1
Oil refineries and gas processing facilities	3.7	-41.9	-40.9	-21.9
Industrial plants	2.2	-6.2	0.9	1.7
Commercial construction	32.9	-2.3	1.0	4.0
Private sector	17.4	5.5	4.2	4.9
Public sector	15.5	-9.7	-2.6	2.9
Multi-Apartment Complexes	7.4	22.4	10.8	1.5
Overseas Business	2.2	4.4	-0.5	2.0
Other	0.2	-12.0	27.4	-13.9
Total value of turnover in construction work	100.0	-8.0	-0.4	4.5

* Infrastructure, Mining and Industrial Construction

Outlook

Employment	Share of employment, Feb 2016 % of total	Feb 15 – Feb 16 % change	Exp. Feb 16 – Dec 16 % change	Exp. Dec 16 – Jun 17 % change
On-site employees	43.3	-2.1	3.1	4.0
Off-site employees	14.9	-7.9	3.4	2.6
Sub-contract labour	41.8	-6.3	1.8	2.0
Total employment	100.0	-4.8	2.6	2.9

Level of activity	Very busy % of companies	Busy % of companies	Moderate % of companies	Slow % of companies	Very slow % of companies
Six months to Jun 2015	6.3	37.5	37.5	12.5	6.3
Six months to Dec 2015	13.6	27.3	45.5	9.1	4.5
Expected six months to Jun 2016	9.1	40.9	36.4	4.5	9.1
Expected six months to Dec 2016	18.2	40.9	22.7	13.6	4.5
Expected 2017 (calendar year)	18.2	40.9	36.4	0.0	4.5

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 approximately 60,000 persons with combined turnover of around \$23 billion.

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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