

Tuesday April 13, 2010

## News release

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### **Setback for civil construction during 2010/11**

*Next upswing will be limited by skills shortages and capacity constraints*

Civil construction activity is set to decline six per cent during 2010/11, despite the recent commencement of large transport, water and resources projects, according to leading industry analyst and economic forecaster, BIS Shrapnel. This decrease is expected to drive a decline in total construction activity through the year, despite a pick-up in residential building.

BIS Shrapnel's most recent civil report, *Engineering Construction in Australia, 2009/10 – 2023/24* says a fall in work done will be apparent across most civil segments as the current round of projects are completed and there are fewer projects ready to take their place.

"While civil construction will remain at very high levels, a setback in work done will be hard to avoid in 2010/11," says Adrian Hart, Senior Manager for BIS Shrapnel's Infrastructure and Mining Unit.

"Even given a ramping up of work on various projects, there will still be negative growth for the sector," says Hart. "The decline can be attributed to a double-whammy of a general decline in commencements which occurred through much of 2009, with the notable exception of the Gorgon LNG project, and a likely easing in public sector infrastructure stimulus projects."

Despite the impact of the global financial crisis from late 2008, civil construction, as measured by the Australia Bureau of Statistics (ABS) Engineering Construction series, still grew 15 per cent in real terms (or \$10 billion in 2007/08 prices) through calendar year 2009.

This growth was achieved through the strong pipeline of work already established by the private sector, particularly in the mining and heavy industry, electricity and roads sectors, prior to the GFC, as well as continued strong growth in public sector funded work after a period of under-investment through the 1990s and the first half of the 2000s.

However, growth in civil work was weaker during the second half of calendar year 2009, with recent data released by the ABS showing that real engineering construction actually declined four per cent in the December quarter in seasonally adjusted terms, albeit from very high levels.

"Through 2009, the momentum and drivers of engineering construction activity shifted substantially," says Hart. "Very strong growth in private sector funded work has given way to uneven growth as existing projects move to completion while new projects have been delayed.

"However, growth in public sector funded work has remained strong as State and Federal Governments have more or less remained committed to their pre-GFC infrastructure plans. Until now, this has helped keep overall infrastructure construction on an upward path."

BIS Shrapnel expects that real growth in civil construction activity will slow to around nine per cent through financial year 2009/10, with activity declining over 2010/11, before the next upswing gets underway. The company says the next cycle in engineering construction work is likely to be a strong one, lasting for several years and peaking in the second half of the decade, with private investment in energy and resources projects being one of the key drivers, along with new public investment in freight and passenger rail, and telecommunications.

However, Hart cautions against calling the next cycle a new engineering construction 'boom'.

"It is unlikely that growth in engineering construction activity over the next decade will be anywhere near as strong as the last five years, which saw work done more than double," says Hart. "The 2000s boom absorbed a lot of excess capacity and, despite the GFC, the constraints created by this boom have not really left. Skills shortages are likely to affect plans for major expansions in mining, rail and marine work, where specialist skills are required. Rising construction costs through the middle of the decade are also expected to have a dampening impact on activity.

"Furthermore, while most sectors will be experiencing higher real levels of activity five years from now, there are some notable exceptions. We are forecasting that real annual construction activity in roads, bridges and water will be lower in 2013/14 than in 2008/09. To a large degree, this is a reflection of the tremendously strong levels of activity taking place in these sectors right now, but also reflects a likely change in priorities for investment through the next five years."

### **BIS Shrapnel engineering construction forecasts by state**

#### **New South Wales**

Activity in New South Wales is forecast to grow 10 per cent through 2009/10, but plateau at this level through the next few years as major projects in water (Kurnell Desalination Plant), harbours (Port Botany and Newcastle coal ports), electricity and other heavy industry (Tumut Pulp Mill) are completed. Roads and rail work, however, will remain robust.

#### **Victoria**

Activity is forecast to surge 28 per cent in Victoria in 2009/10 before easing back marginally over the next few years. Activity will be sustained by rail (South Morang, Regional Rail Link, Rail Revitalisation), roads, water (Wonthaggi Desalination Plant), electricity (Mortlake Power Station) and oil and gas (Kipper and Turrum projects).

#### **Queensland**

Following five consecutive years of 20 per cent-plus growth in Queensland, BIS Shrapnel expects flat growth in 2009/10 overall, with a setback apparent in 2010/11. The completion of roads and bridges (Gateway Duplication, CLEM7), water, electricity and mining and heavy industry construction (particularly the Yarwun alumina refinery expansion and Boyne Island smelter works), will drive the decline. A strong upswing in work done is forecast from 2012/13, led by mining, oil and gas and associated infrastructure.

#### **South Australia**

Activity surged 39 per cent in 2008/09 and BIS Shrapnel is forecasting another 28 per cent increase in South Australia through 2009/10. Roads (Northern Expressway and South Road projects), water (Adelaide Desalination Plant), electricity and mining and heavy industry construction will drive this expansion. A setback is then expected in 2010/11 as these projects move to completion but a strong outlook beyond this is dependent on the timing of the proposed Olympic Dam expansion.

#### **Western Australia**

Western Australia is forecast to see 12 per cent growth in activity through 2009/10, driven mainly by existing mining and energy projects. An improved outlook for the global economy has seen the prospects for Western Australian civil work improve markedly over the past six months, but a pause in work done is still expected over 2010/11 and 2011/12 as activity shifts to the next round of projects. Strong growth is forecast in Western Australia from 2012/13.

## **Tasmania**

Activity in Tasmania is expected to grow nine per cent in 2009/10 led by work on the National Broadband Network, roads and heavy industry (BOC plant). Work will then fall back sharply over 2010/11 as these projects wind down, but a pick-up, driven by new electricity projects, is expected by 2012/13. BIS Shrapnel's outlook does not include the \$2 billion Gunns Pulp Mill, so there may be some upside here.

## **Northern Territory**

Activity in the Northern Territory fell sharply in 2009/10 as major oil and gas works concluded. A further fall is likely in 2010/11 and 2011/12, however, the medium-to-longer-term outlook for the Northern Territory is more robust given its minerals and energy reserves.

## **Australian Capital Territory**

Work in the Australian Capital Territory has surged in 2009/10 led by major water (Cotter Dam and Murrumbidgee to Googong Dam Pipeline) and road works (Gungahlin Drive Extension). A peak in work done is expected in 2010/11 before activity eases over the next few years.

## **About BIS Shrapnel**

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 46-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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