

Wednesday May 12, 2010

## News release

[www.bis.com.au](http://www.bis.com.au)

### For further information:

Adrian Hart  
BIS Shrapnel  
Tel: 02 9959-5924  
A/h: 0425-370-145  
Email: [ahart@bis.com.au](mailto:ahart@bis.com.au)

Roxanne Hughes  
Watterson Marketing Communications  
Tel: 02 9929-7533  
A/h: 0419-623-519  
Email: [roxanne.hughes@watterson.com.au](mailto:roxanne.hughes@watterson.com.au)

### **2010/11 Commonwealth Budget based on “heroic” mining assumptions** *New engineering construction set to stabilise, not boom, over next two years*

Leading industry analyst and economic forecaster, BIS Shrapnel, has questioned Treasury’s outlook for engineering construction in the 2010/11 Commonwealth Budget. The very strong Treasury forecast for private new engineering construction is a key driver of the forecast growth in business investment and economic growth in the Budget.

“At first glance, the private sector engineering construction forecasts contained in the Budget seem rather heroic,” says Adrian Hart, Senior Manager for BIS Shrapnel’s Infrastructure and Mining Unit. “This may have implications for the quality of forecasts in the Budget regarding economic growth and the pace by which the Budget can be brought back into surplus.”

According to Budget Paper No.1 (p2-29), new engineering construction investment from the private sector is forecast to rise by around 20 per cent per annum in both 2010/11 and 2011/12, due to a “significant increase in investment in Australia’s resources sector”. This will see private new engineering construction surge above \$60 billion by 2011/12.

By contrast, BIS Shrapnel’s *Engineering Construction in Australia 2009/10 to 2023/24* report is forecasting private sector funded engineering construction to decline marginally in 2010/11 before the start of a new upswing from 2011/12.

“A good leading indicator of engineering activity is the value of commencements,” says Hart. “Real private sector engineering construction commencements have fallen from around \$11-12 billion per quarter in 2008 to \$8 -11 billion per quarter in 2009. The Gorgon LNG project gave commencements a huge lift in the December quarter, but it should be remembered that this project will take six to seven years to complete – we will not see the bulk of this work take place in the next two years.

“Meanwhile, the completion or near completion of a raft of pre-GFC private sector projects including Pluto LNG, the Pyrenees oilfield, the Gladstone and Worsley alumina projects, the Waratah and NCIG coal terminals in Newcastle, the CLEM7 toll road in Brisbane, and BHP Billiton’s RGP5 iron ore expansion, will be a negative to growth in private engineering construction over the next two years.”

Rather than accelerating now, BIS Shrapnel is forecasting the next acceleration in private engineering construction activity to take place from 2012, as the next round of resources projects simultaneously ramps up across LNG, iron ore and coal. This, of course, depends on the global economy and industrial demand continuing to improve.

However, Hart cautions that skills shortages will constrain growth over the coming cycle.

“It is unlikely that future growth in engineering construction activity will be anywhere near as strong as the last five years, where activity has more or less doubled. The 2000s boom absorbed a lot of excess capacity and, despite the GFC, the constraints and skills shortages created by this boom have not really left. This, combined with uncertainties over the new resources tax is likely to dampen growth prospects over the next one to two 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.

# # #