ANNEXURE I
Construction Activity Still in Decline
But recovery expected despite global uncertainty

After declining since mid-1999, Australia’s non-residential building construction industry is forecast to recover modestly in 2001/02 before a stronger upturn in 2002/03. Nevertheless, this recovery will be dependent on the extent to which high valued projects under consideration move into construction while the weak and uncertain global outlook constitutes an added risk to future growth.

Results from the October 2001 Australian Industry Group Construction Outlook Survey reveal that the value of total construction turnover in current dollars declined by 1.1% in 2000/01 following a 5.3% decline in 1999/00. This downturn comes after a six year period which saw the industry expand at around 10% per annum.

Activity during 2000/01 was weighed down by falling levels of non-residential building construction, the completion of a number of key private sector infrastructure projects and the lack of any significant growth stimulus from heavy industrial and resource based projects. The impact of the decline was, however, cushioned by a strong lift in rail investment and a continuation of solid growth in telecommunications and electricity construction. In addition, higher oil prices helped to encourage increased levels of work in the oil sector.

The national survey of the non-residential construction industry was conducted in late September / early October 2001 in association with the Australian Constructors Association which represents the nation’s major construction contractors. The survey covered the responses of 100 companies employing some 33,500 persons with combined turnover of $3.2 billion or 25% of total industry activity.

The outlook for 2001/02 is for industry growth of 4.8%. This expansion will be supported by a broader base of activity, with stronger impetus from the heavy industrial and resource based sectors and the commencement of some major civil engineering and infrastructure projects. Other positive influences include a stronger mining sector on the back of the low Australian dollar and firm global energy prices, while non-dwelling construction is expected to rise modestly after two years of decline.

Activity is forecast to record a more significant lift of 10.1% in 2002/03 as a large number of new projects come on stream. All market segments are expected to record growth with the utilities (electricity infrastructure, water supply and storage) sector and rail projects expected to be the strongest areas of expansion.

The outlook is also for a strengthening of non-dwelling construction while road funding driven by State Government programs is set to boost prospects for road construction.

Further Key Findings were:

- Total employment fell by 1.3% in the year to June 2001 due entirely to a reduction in workers principally engaged on site. The forecast is for growth of 2.3% between June and December 2001, followed by a further increase of 6.2% in the first six months of 2002.

- The average level of industrial/construction capacity used in September/October was 77.5%, down from a level of 80.5% recorded in mid 2000.

- Industry activity declined to a nine year low in the second half of 2001 with 43.8% of companies reporting very busy or busy activity levels. The outlook is for an improving trend during 2002 and 2003.

- The value of private sector work which accounts for over 60% of total industry turnover fell by 1.0% in 2000/01 following a 9.6% decline in 1999/00. This reflects the continued weakness in private building activity with positive offsets in 2000/01 coming from growth in private infrastructure works, mining related activity and manufacturing construction.

- Turnover derived from public sector work also fell by 1.0% in 2000/01. An increase of 2.5% is however expected in 2001/02 due mainly to an anticipated rise in Federal Government funded projects.

- The overseas business of construction firms grew modestly in 2000/01, although the size of the export market for construction companies (6.6% of total industry turnover) remained below the 10% plus level of two years ago.

- The infrastructure market continues to account for an increasing share of total industry activity. Approximately 38% of all industry turnover was derived from infrastructure projects in 2000/01 compared with less than 20% a decade earlier.
A total of 100 companies engaged in the construction industry, employing 33,541 persons and with annual turnover of $9.2 billion responded to the survey.

These companies included the key market leaders and covered the full spectrum of construction activity.

The four primary construction activities identified by respondents were as follows:

1. Building construction (25.1% of total turnover)
2. Civil engineering construction (26.6%)
3. Heavy engineering and heavy electrical plant and equipment, including telecommunications equipment (21.5%)
4. Building and construction materials - fabrication/erection (6.8%)

Total construction turnover was reported to have fallen by 1.1% (current dollars) in 2000/01. This continues a decline which began in the second half of 1999 and follows a six year period of annual average growth at around 10% per annum.

Activity during the year was adversely affected by continued declines in revenue derived from non-residential building (-12.4%) and road construction (-4.2%) - both major market segments by value of work done.

In addition, only a modest pick-up was recorded in the total value of resource based construction, covering mining (+3.9%) and resource related industrial projects (+4.6%). This is despite a 10.6% rise in work done on oil projects reflecting the boost to project viability from a competitive Australian dollar and high oil prices.

The overall decline in work levels during 2000/01 was moderated to a large extent by a strong pick-up in revenue from rail projects (+53.7%), and continued strength in electrical power generation and supply (+19.4%) and telecommunications (+8.3%).
The outlook for 2001/02 is for a modest upturn in industry turnover of 4.5% as key projects move gradually into construction.

Within the infrastructure market, sewerage, drainage and water storage (+14.8%), pipelines (+22.0%), rail projects (+10.1%) and telecommunications (+10.4%) are expected to provide the main stimulus to growth.

With higher levels of industrial and resource based construction expected to come on line in 2001/02, growth of almost 10% is expected for the total industrial construction market. Work on the “other” industrial markets segment is forecast to rise by 14.9% while the North West Shelf will help to sustain growth in the oil sector (+7.0%).

Non-dwelling construction is forecast to expand by 4.4% following two years of declining activity. This is in line with recent positive trends in the office property sectors and a higher level of projects committed in education, health and community services.

Respondents also expect a higher levels of mining construction (+6.2%) in 2001/02.

Further ahead, prospects are for construction activity to strengthen by 10.1% (current dollars) in 2002/03. Growth through the year is forecast across all sectors with both the non-dwelling and infrastructure building markets projected to record annual increases of between 11% and 12%.

Within the infrastructure market, growth is expected to be boosted by an upturn in work done on road projects (+12.9%) combined with solid growth in rail works (+19.6%), the utilities sector, covering electricity infrastructure, water supply and storage (+14.4%) and telecommunications (+8.8%). Pipeline construction is expected to maintain a particularly high rate of growth (+35.5%) driven by deregulation of the gas market.

Other positive influences on activity include a strengthening in the total value of non-dwelling construction (with public up by 12.7% and private up by 10.1%), and further growth in revenue from mining work (+8.5%).
The survey identifies changes in the focus of activity within the industry.

- Infrastructure projects have continued to account for an increasing share of total construction activity reflecting the trend to private provision of new infrastructure, particularly major toll roads and rail networks. In 2000/01, 37.6% of total turnover was attributable to infrastructure work, as compared to 35.2% in 1999/00 and less than 26% in the early 1990's.

- In line with weak levels of new investment in resource related projects, the share of turnover from heavy industrial construction remained at an historically low level of 5.9% in 2000/01. It was 12.7% two years ago and almost 25% in the late 1980's.

- Non-residential construction remains a major market, accounting for one quarter (25.3%) of all turnover in 2000/01. Nevertheless, weakness in property construction and the absence in particular, of any significant growth contribution from private building activity in the past three years, has seen the size of this market steadily decline from 35.6% in 1996/97 to 25% in 2000/01.

- A strengthening in mining activity has seen the size of the mining market recover, albeit modestly, over the past two years from 21.2% in 1998/99 to 22.8% in 2000/01. Longer term trends show, however, that the share of revenue from mining and related activities has increased almost four fold since 1991/92 (6.0%).

The survey confirms the significant weakness in levels of construction activity.

In total, 43.8% of firms reported busy or very busy activity during the six months to June 2001. This is down from 47.8% in the preceding six months period and is the lowest activity reading in the past nine years.

A further easing in activity levels is forecast during the second half of 2001 (39.8% busy or very busy). Thereafter, a recovery is projected with this proportion rising to 47.0% in the six months to June 2002 and to above 50% of companies during the second half of 2002 (53.3%) and during 2003 (61.6%).
Declining activity levels and soft investment demand have led to further reductions in employment. In the year to June 2001, total employment fell by 1.3% following a decline of 3.1% during the previous year. Also, with the completion of a number of large scale projects, employment reductions were more prevalent among employees principally engaged on-site (-2.7%) and sub-contract tradesmen (-1.3%).

However, higher work levels in 2001/02 will help to support job gains. Total employment is expected to increase by 2.3% over the remainder of 2001 reflecting an increase of 2.6% in both sub-contract labour and on-site employment.

During the six months to June 2002, the jobs recovery is poised to strengthen with increases in total employment rising to a 6.2% rate of growth. Increases are forecast in on-site employment (+1.7%), off-site employment (+3.0%) and sub-contract labour (+9.2%).

The survey identifies changes in the value of work by major client sectors.

- Although the private sector constitutes the industry’s largest customer, the share of turnover derived from private sector work has trended down in recent years - falling to 62.8% in 2000/01 from a peak of 74% two years ago. Nevertheless, the private sector’s share of work is expected to rise modestly in 2001/02.

- Public funding provided just over one third (35.9%) of industry revenue in 2000/01. Public work was dominated by State Governments (the industry’s second largest customer) which contributed 28.4% of all turnover. This was an increase on the previous year (26.7%), but well down on the proportion of turnover generated by State Governments in the mid 1980’s (approximately 40%). This reflects the shift in recent years from public to private sector provision of infrastructure.

- After contributing 7.4% of construction turnover in 1999/00, the share of revenue from Federal Government work fell to 6.2% in 2000/01, although a rise to 8.0% is forecast in 2001/02.
## INFRASTRUCTURE

### Utilities
- Electrical Power Generation & Supply: 1.1, 19.4, -24.8, 20.0
- Sewerage, drainage and water storage: 2.3, -1.2, 14.8, 12.7
- Sub-total: 3.4, 4.6, 2.1, 14.4

### Transport Infrastructure
- Roads and freeways: 14.6, -4.2, -0.4, 12.9
- Rail projects: 5.5, 53.7, 10.1, 19.6
- Sub-total: 20.1, 6.8, 2.5, 14.9

### Transmission and telecommunications
- Transmission and telecommunications: 5.4, 8.3, 10.4, 8.8
- Other civil projects: 7.9, 7.3, 4.1, 4.8
- Pipelines: 0.8, 19.4, 22.0, 35.5
- Sub-total Infrastructure: 37.6, 5.5, 4.3, 12.3

### Mining, Mineral Processing etc.
- Mining, Mineral Processing etc.: 22.8, 3.9, 6.2, 8.5

## INDUSTRIAL CONSTRUCTION

### Chemical, petro-chemical plants etc.
- Chemical, petro-chemical plants etc.: 1.5, 1.6, 3.3, 3.0

### Oil refineries and depots etc.
- Oil refineries and depots etc.: 1.5, 10.6, 6.7, 2.5

### Other industrial plants
- Other industrial plants: 2.8, 5.2, 14.9, 0.1
- Sub-total Industrial Construction: 5.9, 4.6, 9.7, 1.3

## NON DWELLING CONSTRUCTION

### - Private Sector
- Private Sector: 13.7, -8.6, 4.7, 10.1
- Public Sector: 11.6, -16.5, 4.2, 12.7
- Sub-total Non-Dwelling Construction: 25.3, -12.4, 4.4, 11.3

## EXPORT BUSINESS
- 6.6, 2.5, 3.8, 5.8

## OTHER
- 1.8, -36.9, 3.6, 17.6

## TOTAL
- 100, -1.1, 4.8, 10.1
### Infrastructure (1)

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<td>1.8</td>
<td>1.9</td>
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#### TOTAL:

|       | 100.00 | 106.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

(1) Power stations, transmission towers, lines, sewerage plants, civil projects, pipelines.
(2) Chemical, petro-chemical, oil refineries, etc.

### Six months to June 2000

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<th></th>
<th>23.0</th>
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### Expected

| Six months to December 2001 | 15.1 | 24.7 | 38.4 | 12.3 | 9.5  |
| Six months to June 2002    | 19.1 | 32.9 | 30.1 | 16.4 | 1.4  |
| Six months to December 2002 | 13.6 | 39.7 | 38.4 | 6.8  | 1.4  |
| During 2003                | 15.1 | 46.5 | 32.8 | 4.1  | 1.4  |

### On-site employees

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<td>Off-site employees</td>
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<td>Sub-contract labour</td>
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#### TOTAL:

|       | -1.3 | 2.3  | 6.2  |
### Proportion of Total Turnover

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<th>Property Development</th>
<th>Mining and Processing Companies</th>
<th>Manufacturers</th>
<th>Infrastructure</th>
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<td>1.8</td>
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<td>2000/01</td>
<td>6.2</td>
<td>28.4</td>
<td>1.4</td>
<td>35.9</td>
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### Expected

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<th>Mining and Processing Companies</th>
<th>Manufacturers</th>
<th>Infrastructure</th>
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<td>24.8</td>
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### % Change in Annual Value of Turnover

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<th>Mining and Processing Companies</th>
<th>Manufacturers</th>
<th>Infrastructure</th>
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<td>2000/01</td>
<td>-18.2</td>
<td>5.0</td>
<td>-19.7</td>
<td>-1.0</td>
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### Expected

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<th>Year</th>
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<td>2001/02</td>
<td>36.4</td>
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