ACIF Construction Forecasting Council
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Brisbane Forecasting Breakfast

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June 2009

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Outline

- **Forecasting Backdrop**
- **Recent Developments**
- **Overview of Forecasts**
- **Residential Building**
- **Non-Residential Building**
- **Engineering Construction**

CFC project

- Forecasting construction to improve the industry's knowledge base
- 1st CFC forecasts were published March 2002.
- CFC forecasts are updated half-yearly and published free on: www.cfc.acif.com.au
- The 16th CFC forecasts begin from 2009Q1
- Three broad construction sectors:
  - residential building
  - non-residential building
  - engineering construction

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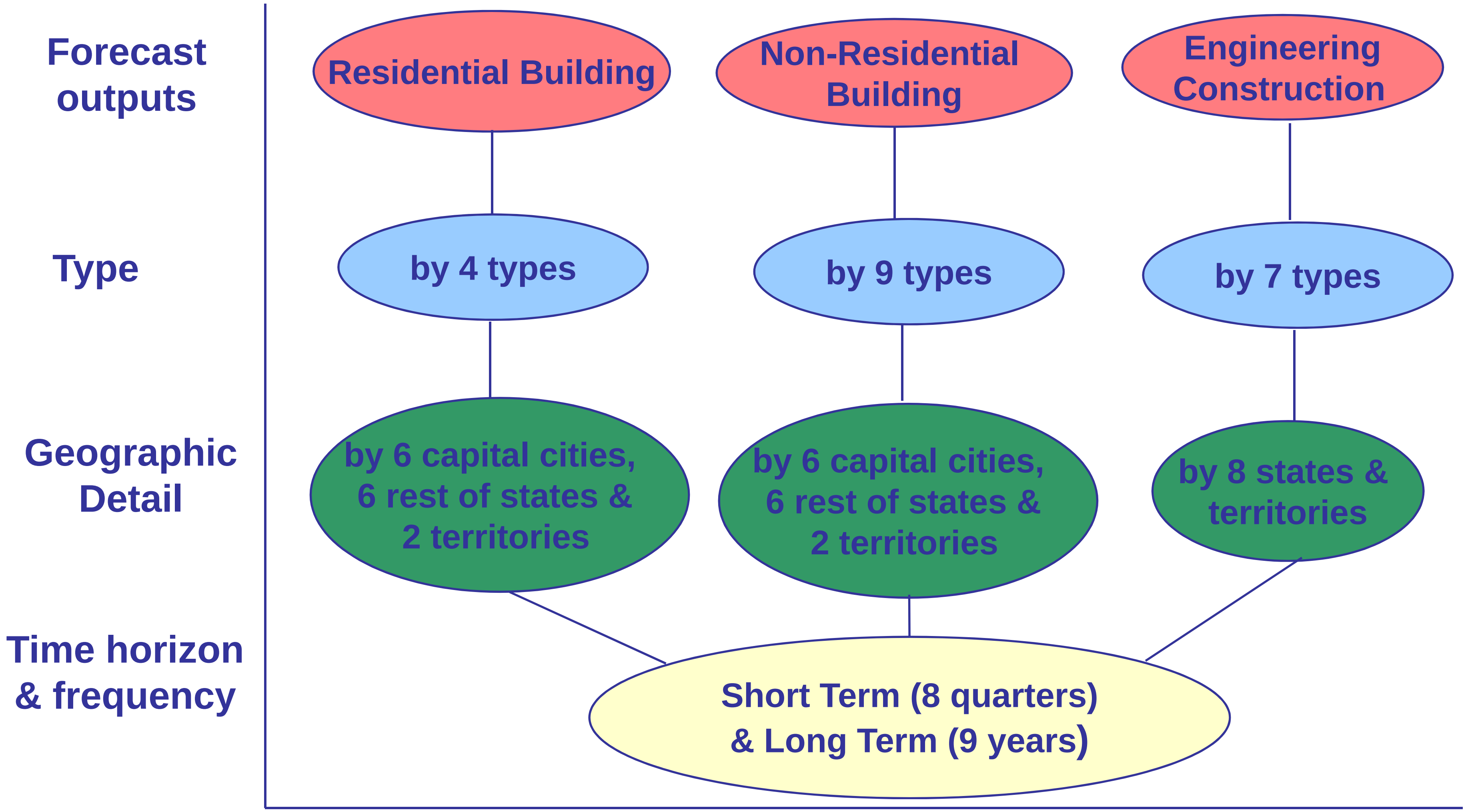
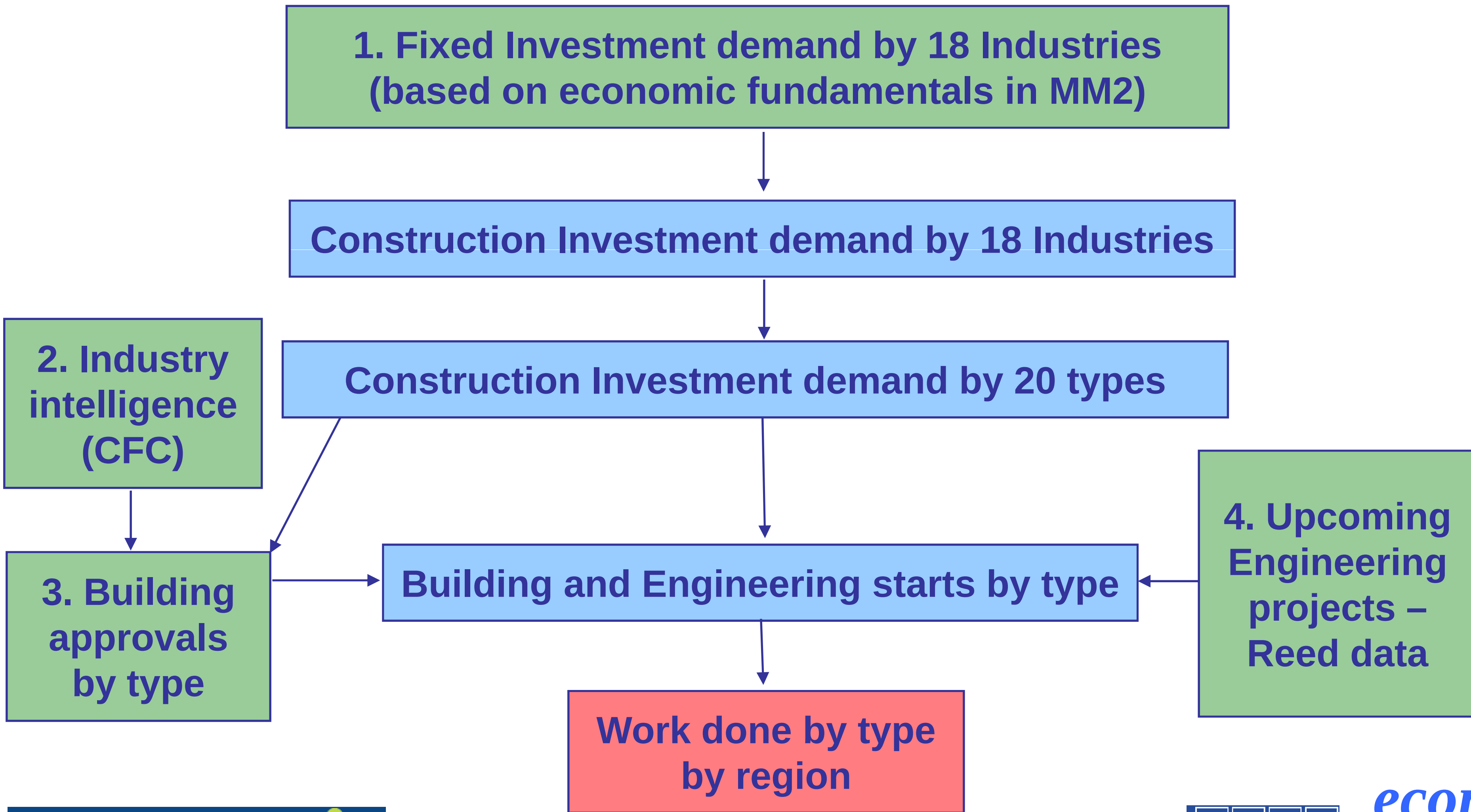
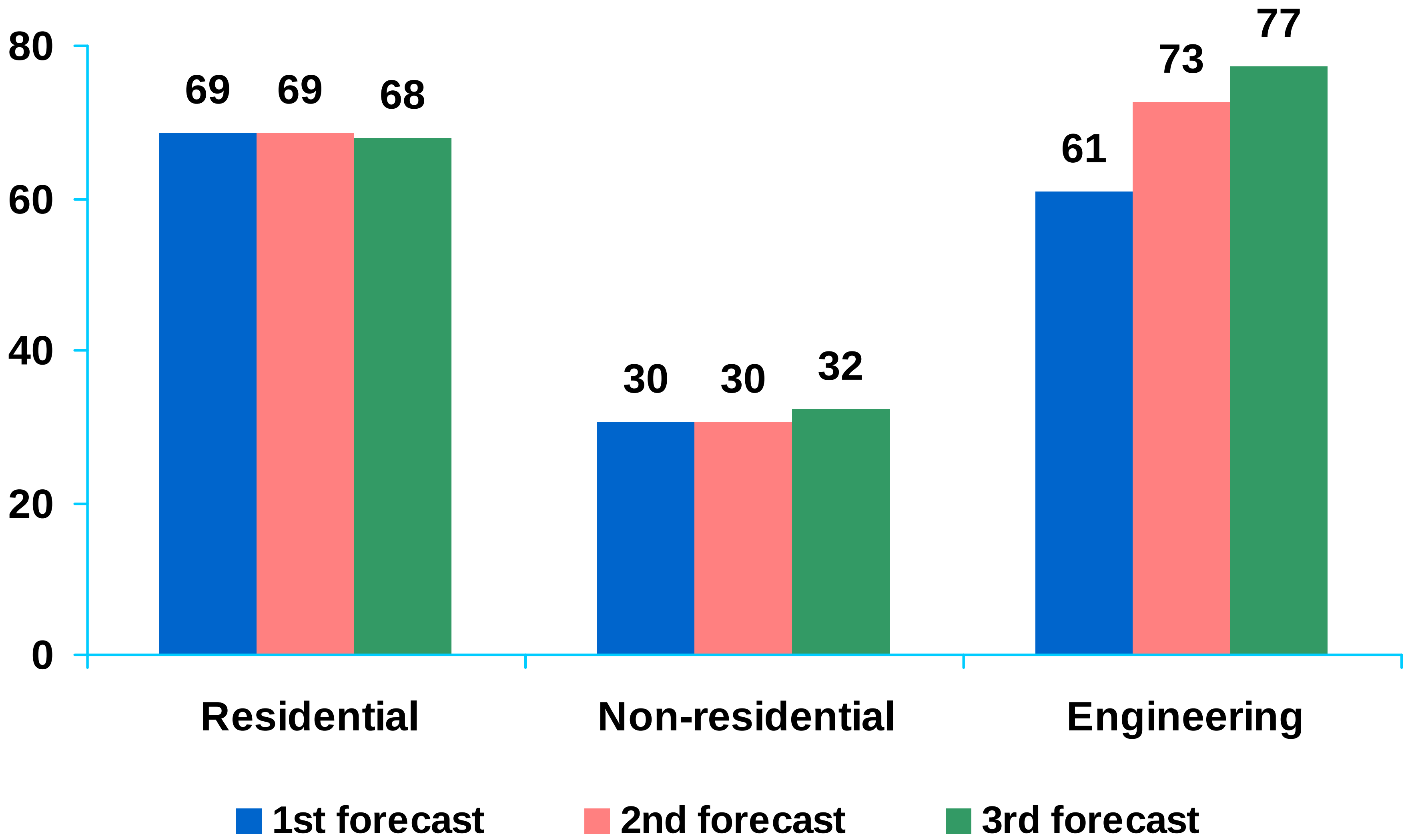
20 Construction types



4 Elements to Forecast Work Done



2008/09 Forecast Revisions ($bn/yr)

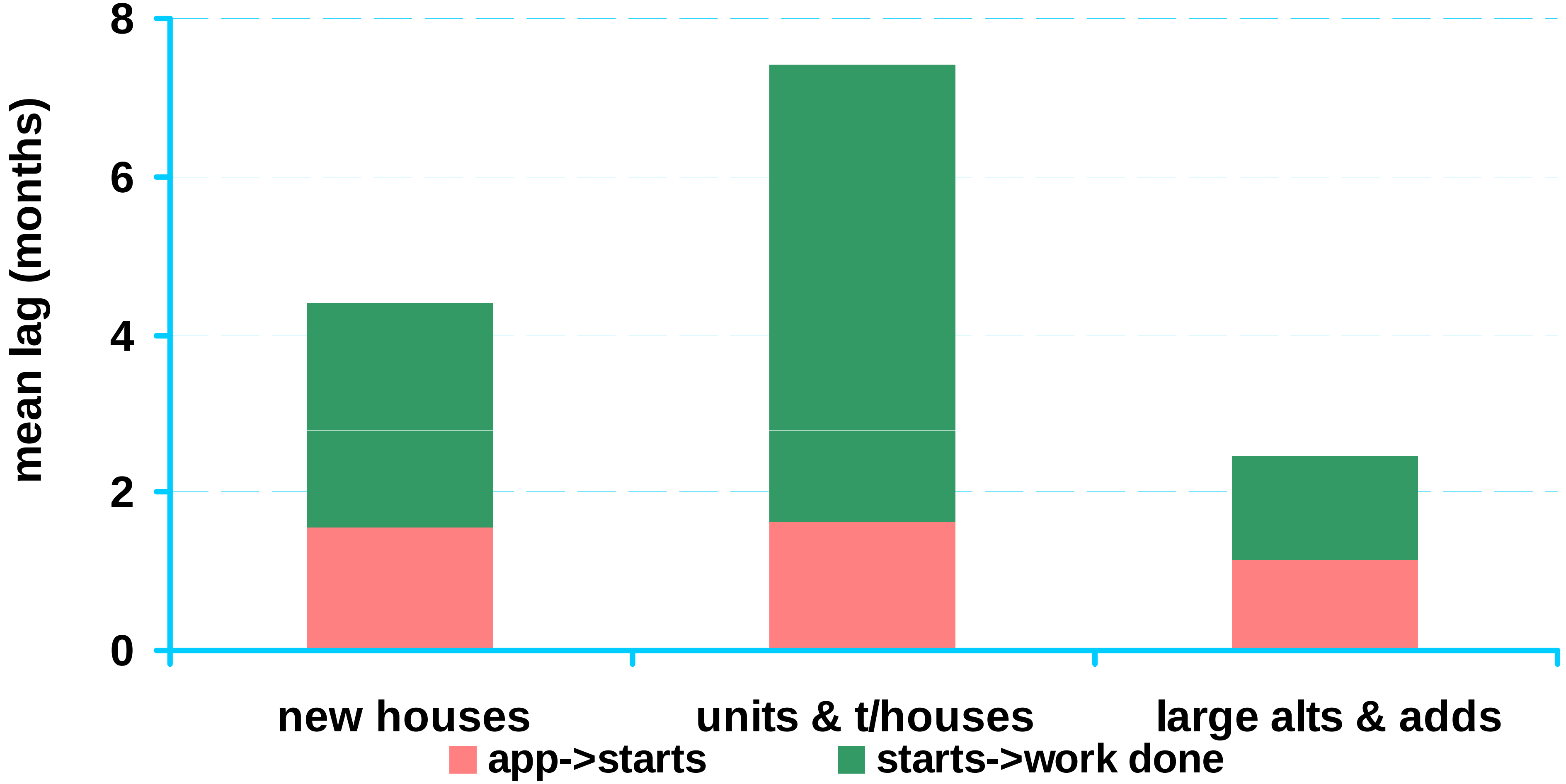


Macro Assumptions

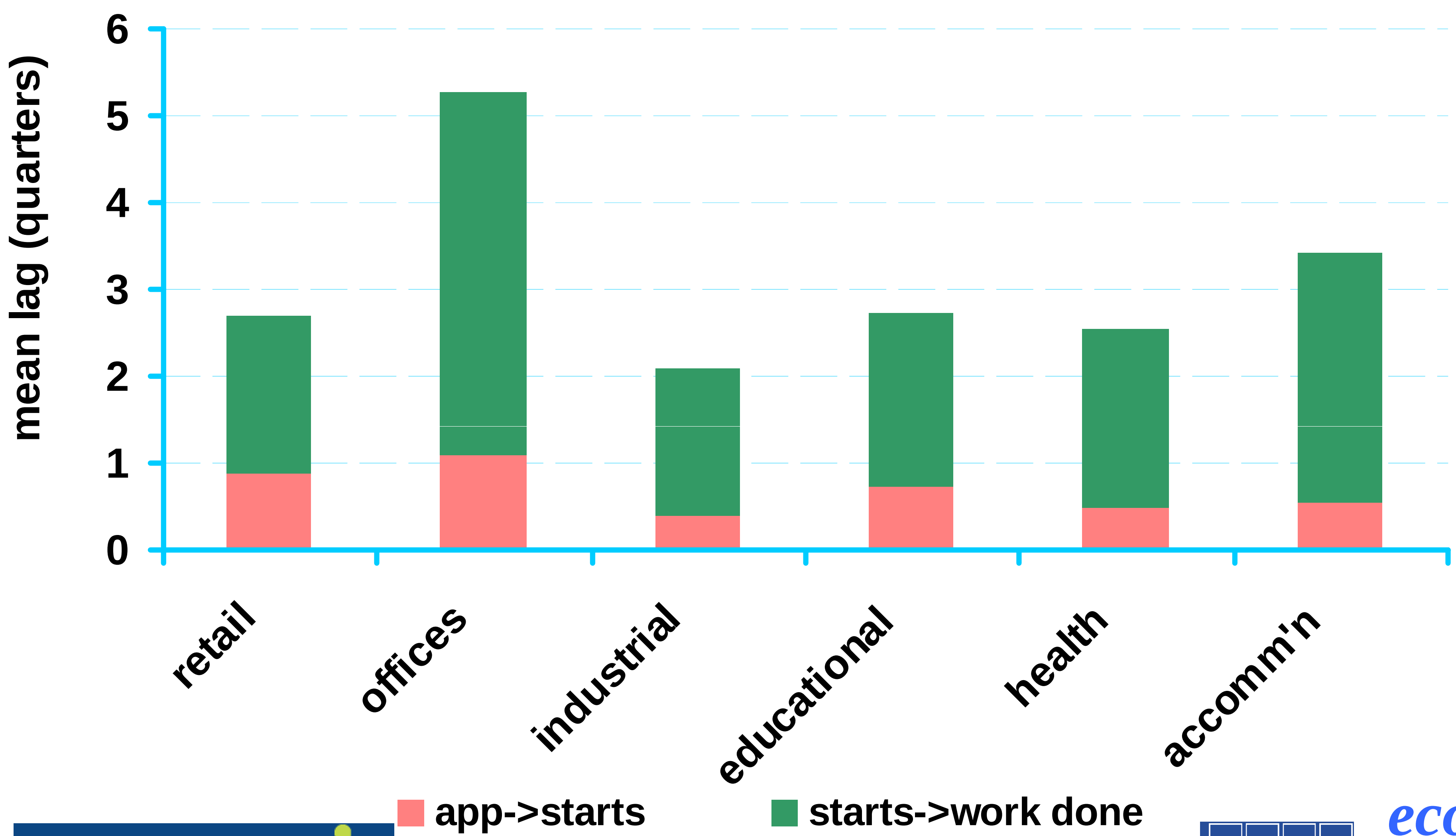
	latest	in 12 months	10 years
Wage inflation	4.8 (to 08Q4)	1.5	4.2
Unemployment	5.4 (Apr 09)	7.4	5.4
CPI inflation	2.5 (to 09Q1)	0.0	2.6
GDP (rolling year)	2.1 (to 08Q4)	-1.7	3.0
Cash rate	3.0 (May 09)	2.75	5.0
10-year bond	5.4 (May 09)	4.6	5.5
$A (US cents)	78 (May 09)	63	62

- The GFC has sent Australia into recession with other advanced economies. We expect negative GDP growth for 2009. Unemployment is set to peak at 8% in 2010-11.

Mean Lags – Residential Building



Mean Lags – Non-res Building



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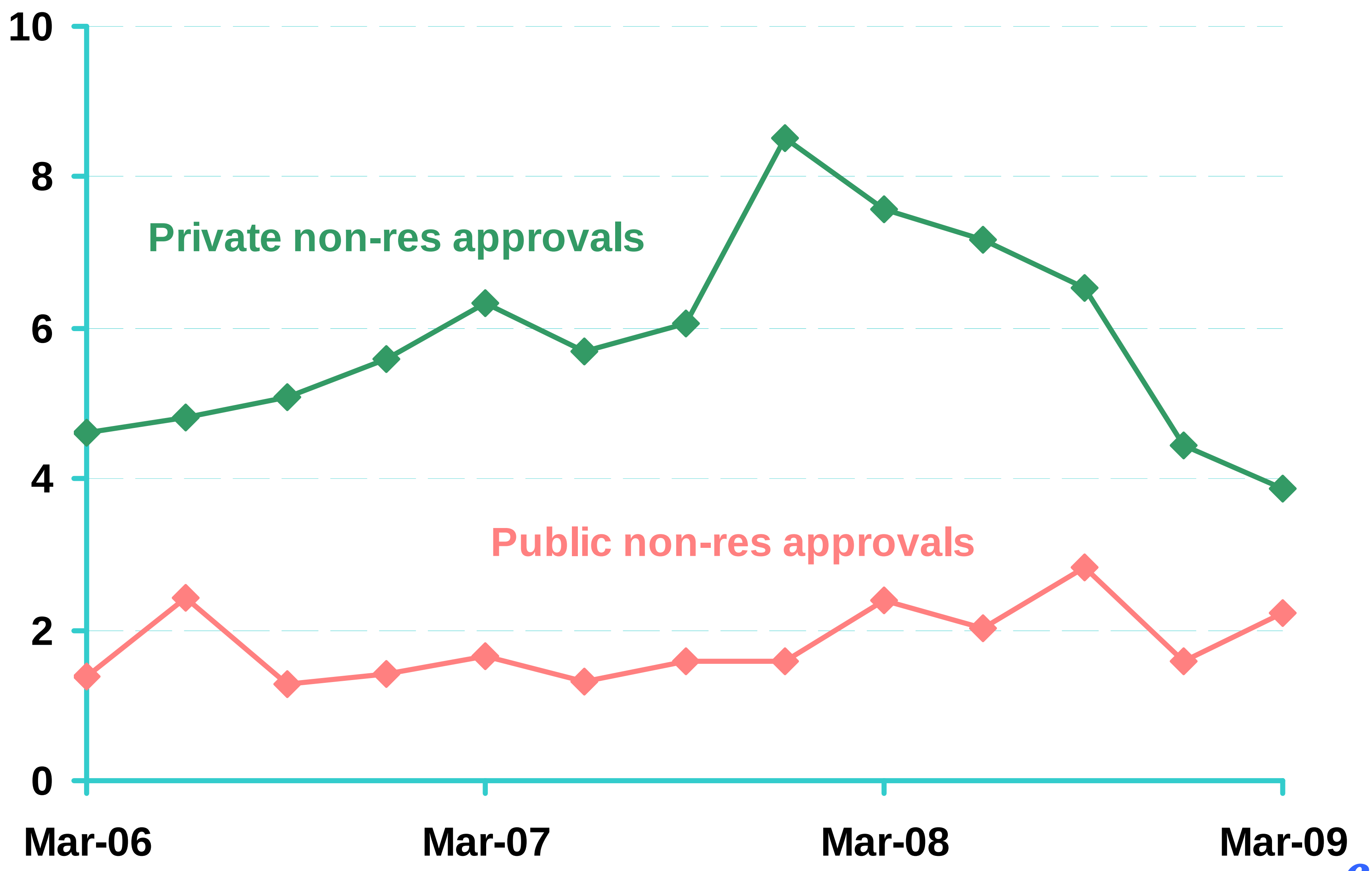
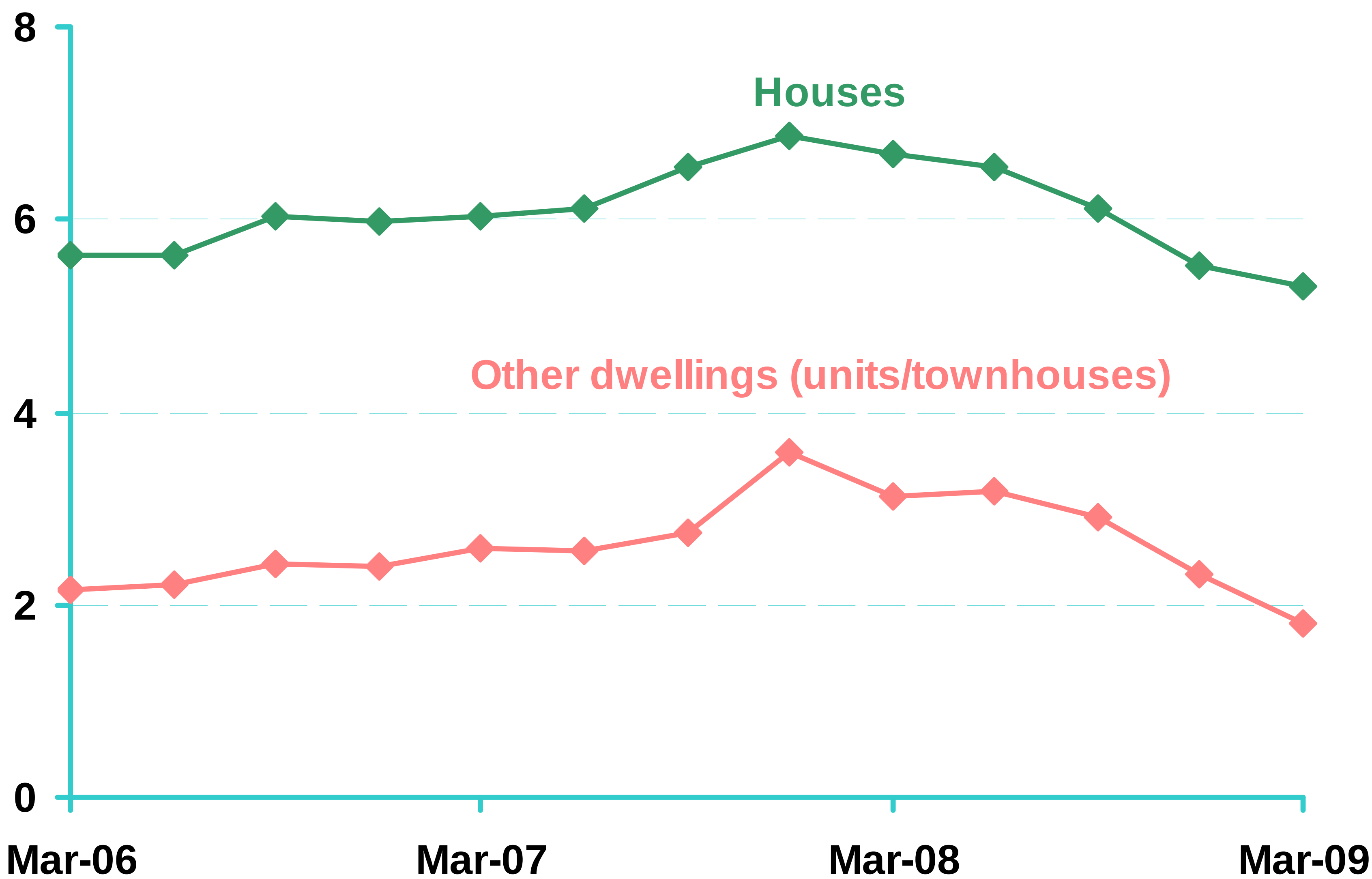
Approvals – non-res ($bn nom sa)



Approvals – residential ($bn nom sa)



Federal Budget

- The Budget contained $22bn in infrastructure related announcements
- Wayne Swan suggested in the Budget Speech that this would lead to construction occurring in 35,000 sites across Australia
- The bulk of the projects announced in the budget will be funded out of already-established funds, mainly the Building Australia Fund (which we have already incorporated into past CFC forecasts)
- The 4 solar towns and Carbon capture and storage initiatives are the only big construction generating projects to receive *new* funding in this Budget

Recent Developments: Summary

- Approvals for residential are very weak. Residential housing is only being kept up by the first home buyer market.
- Non-res approvals are being held up by the public sector. Private sector non-res approvals continued to fall in the March quarter.
- Engineering commencements have begun to soften, but work done was still very strong in the Dec quarter 2008.
- Although the pipeline is looking shaky, additional government spending may sustain engineering construction in electricity and roads, and continue to support non-res construction in health/hospitals and education.

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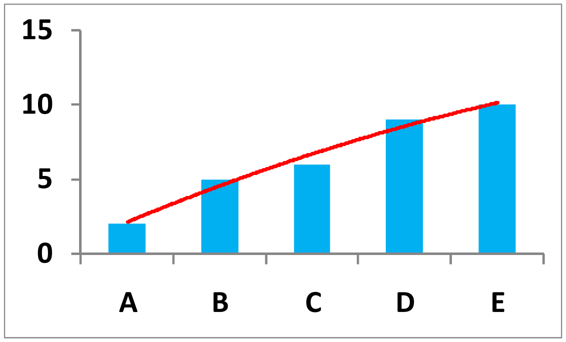
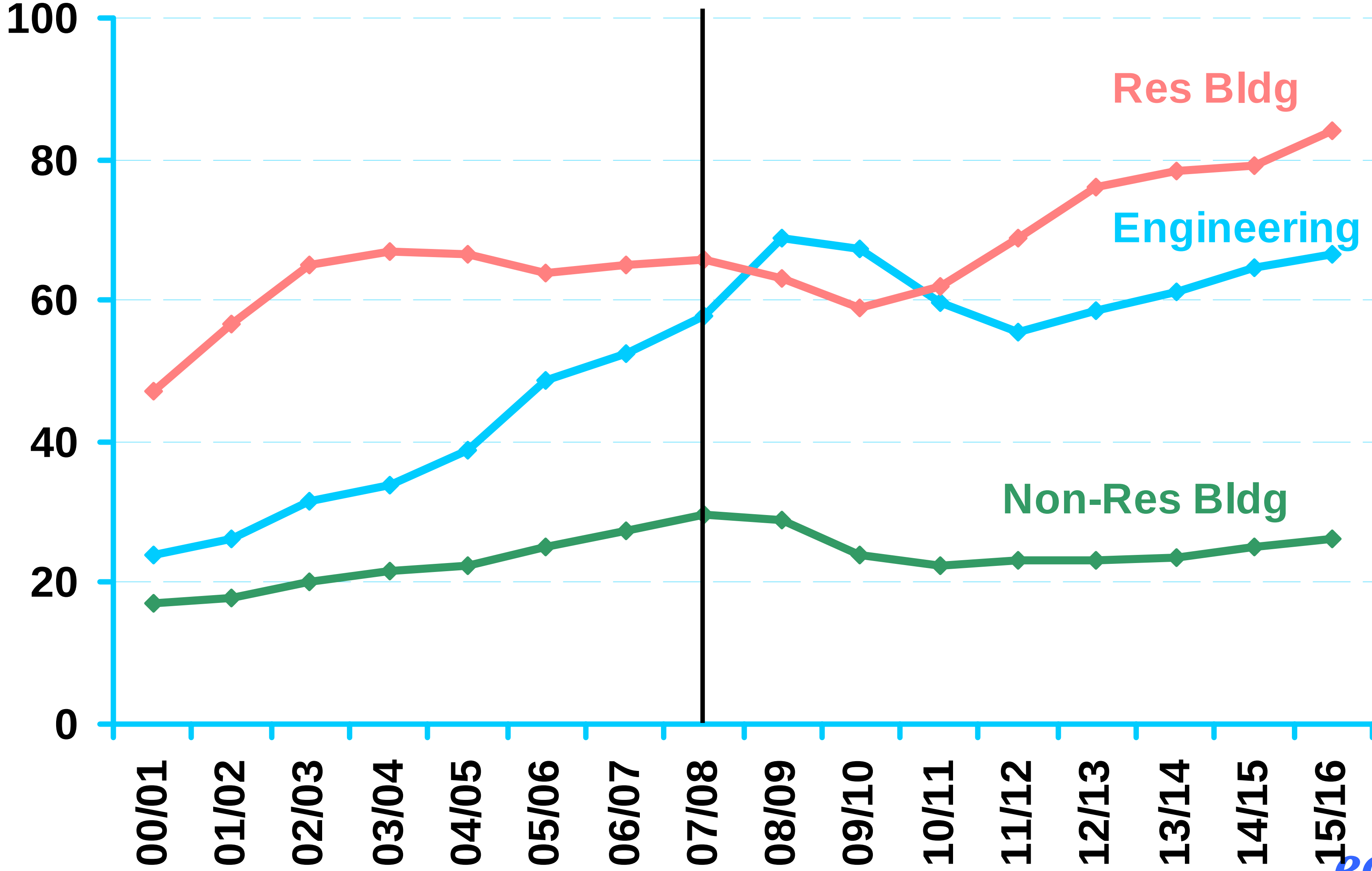


Real Activity, $bn/year, 06/07 prices



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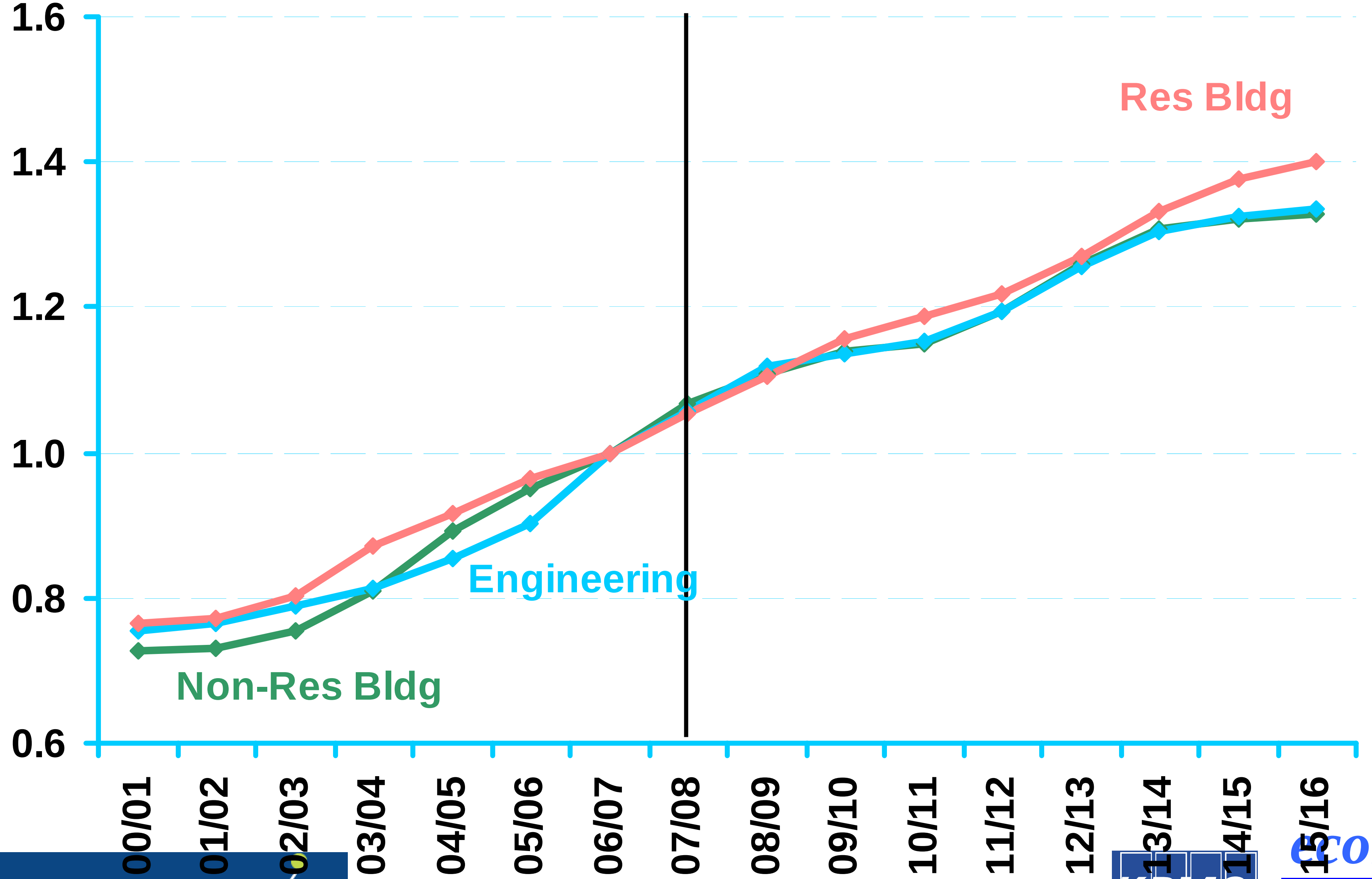
Price Indexes, 2006-07 = 1



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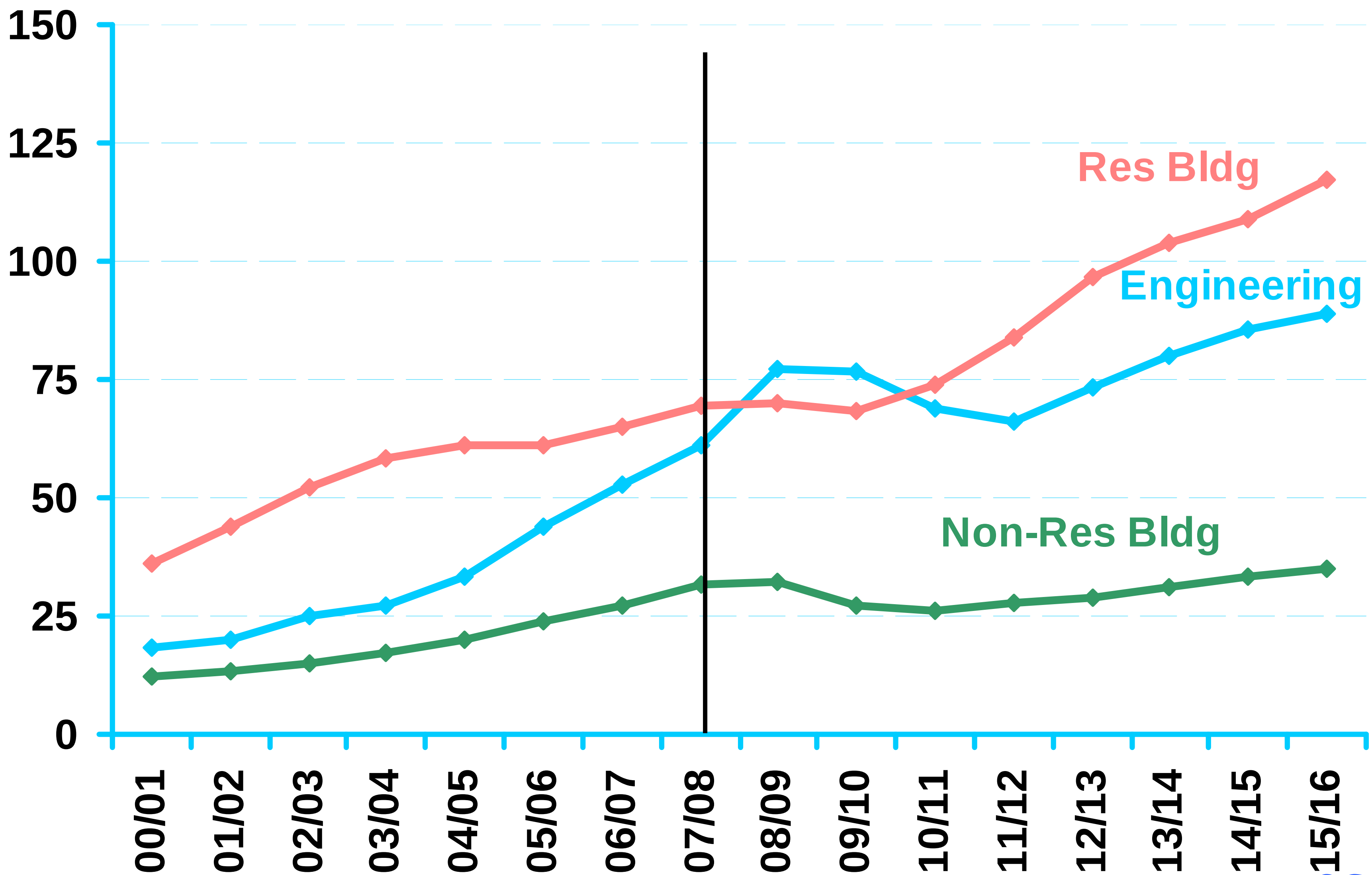
Nominal Activity, $bn/year



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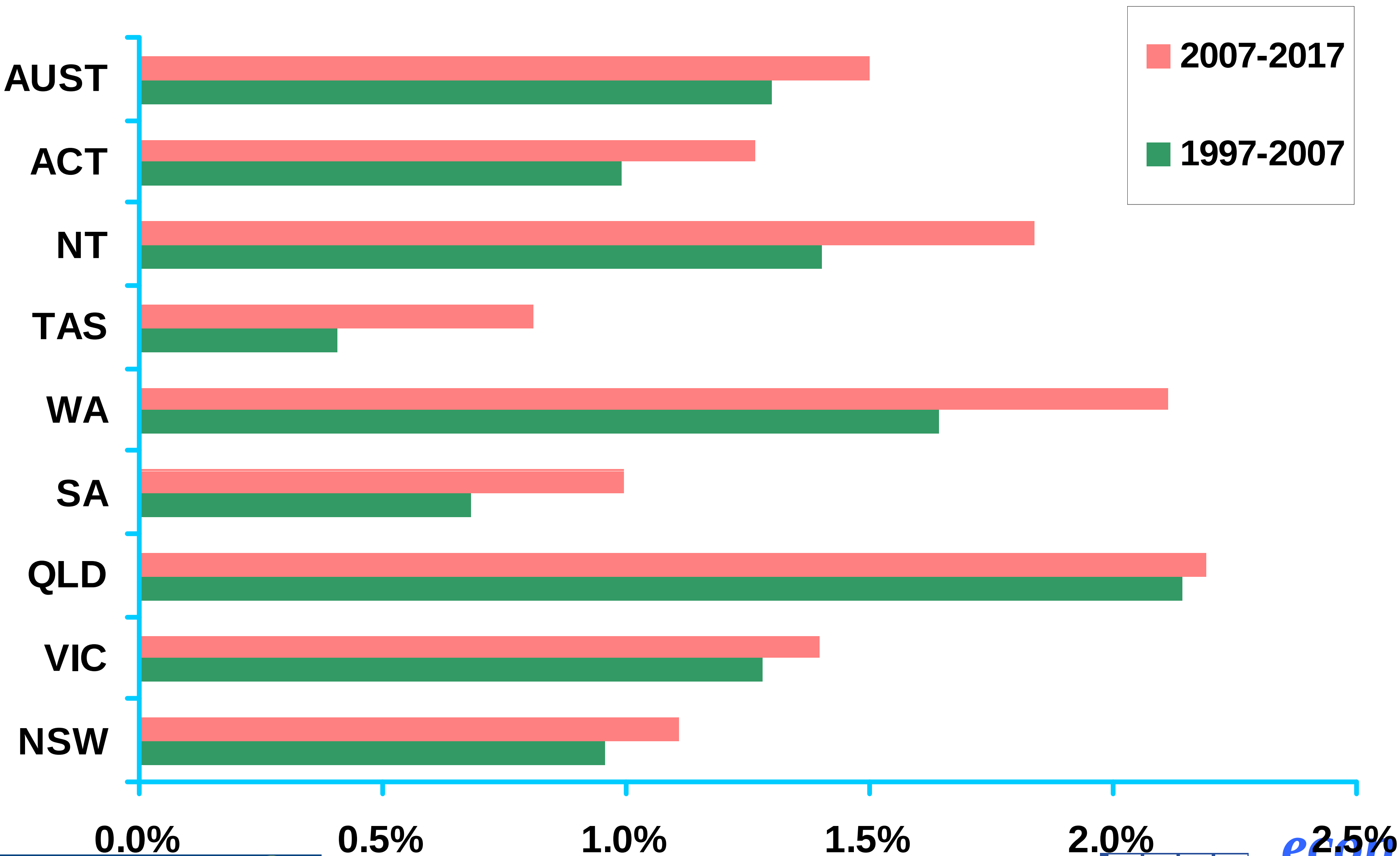
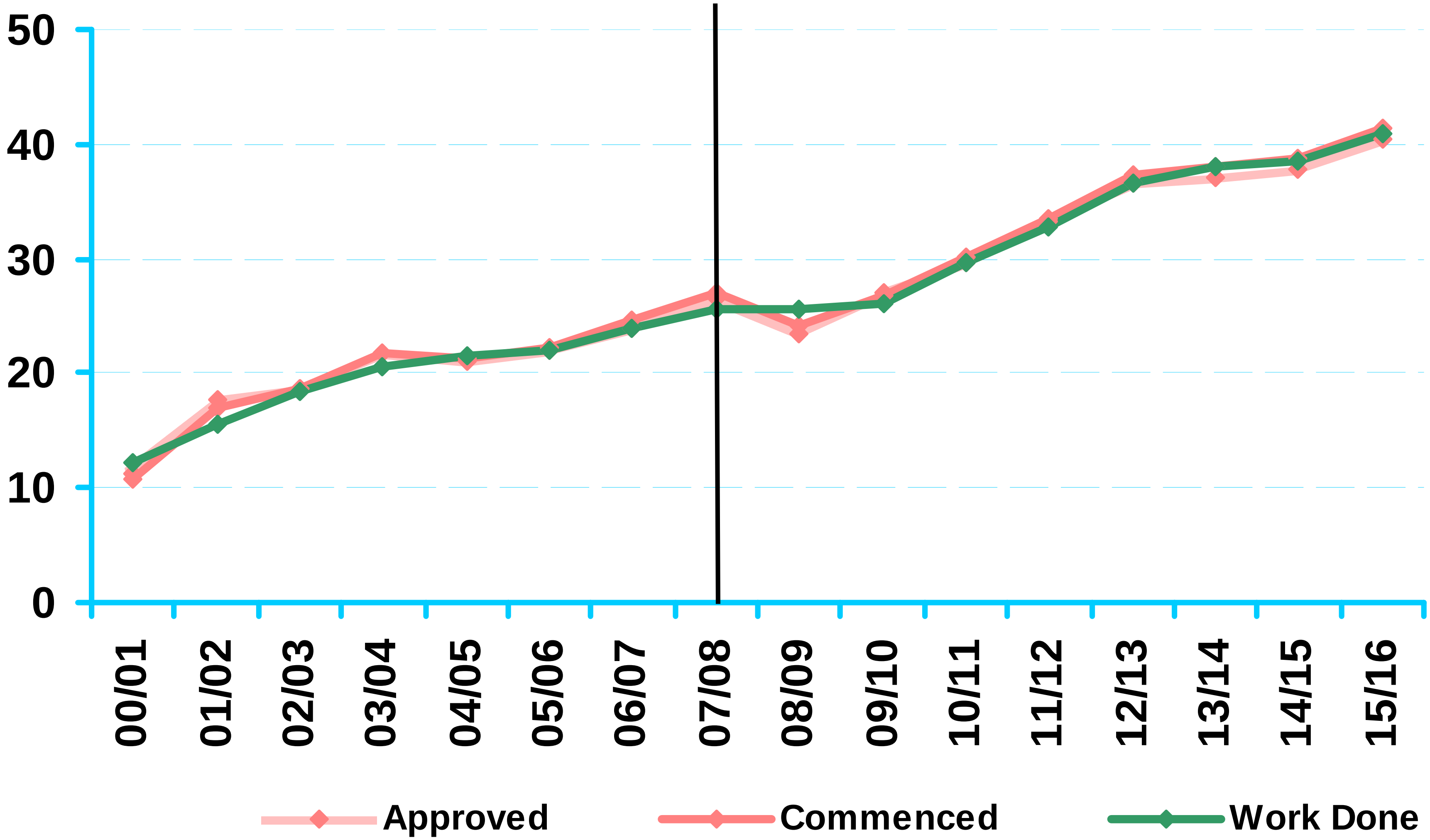
Population, average annual growth



New Houses, $bn per year



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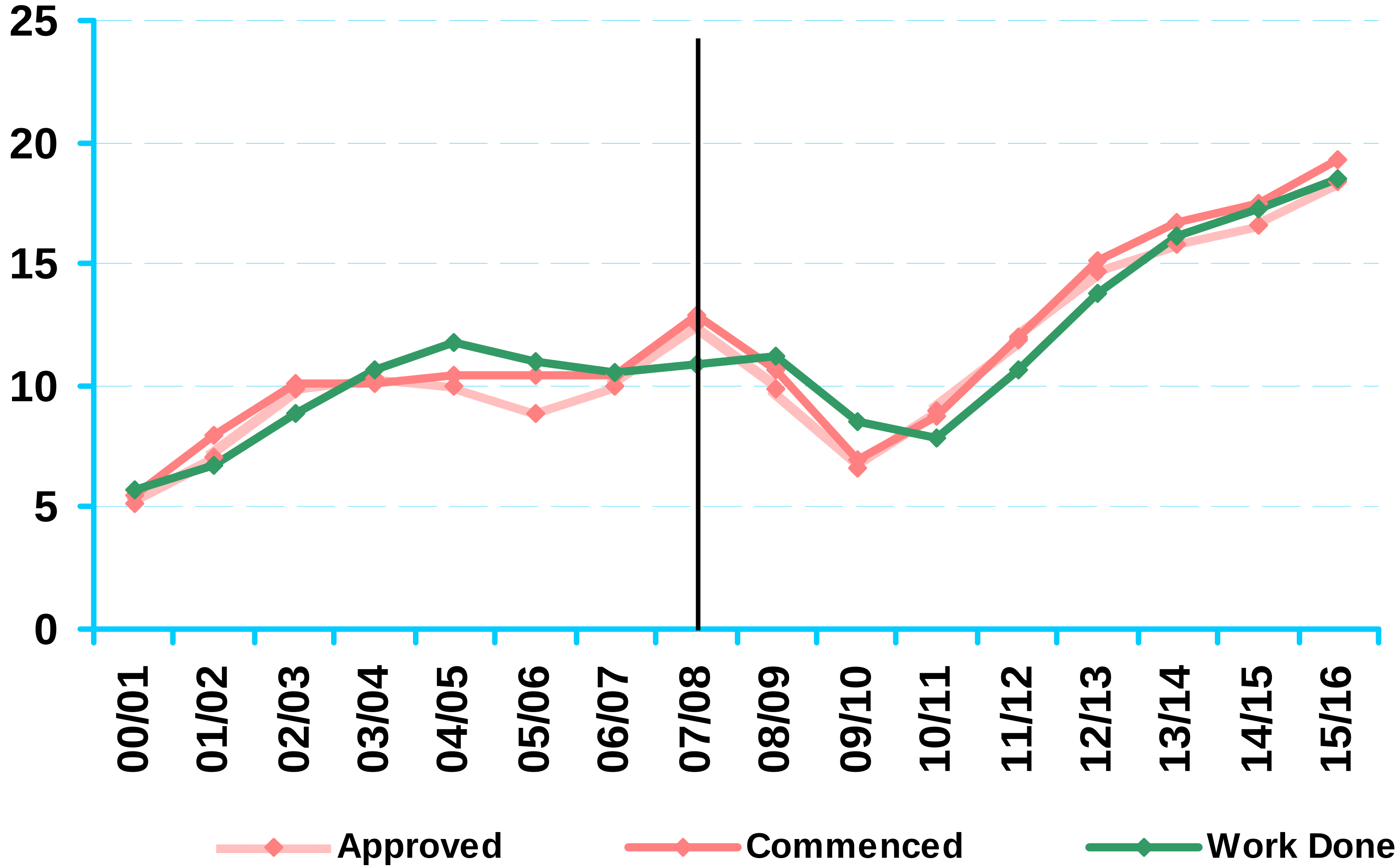
Units & Townhouses, $bn per year



Large Alterations & Additions, $bn/yr

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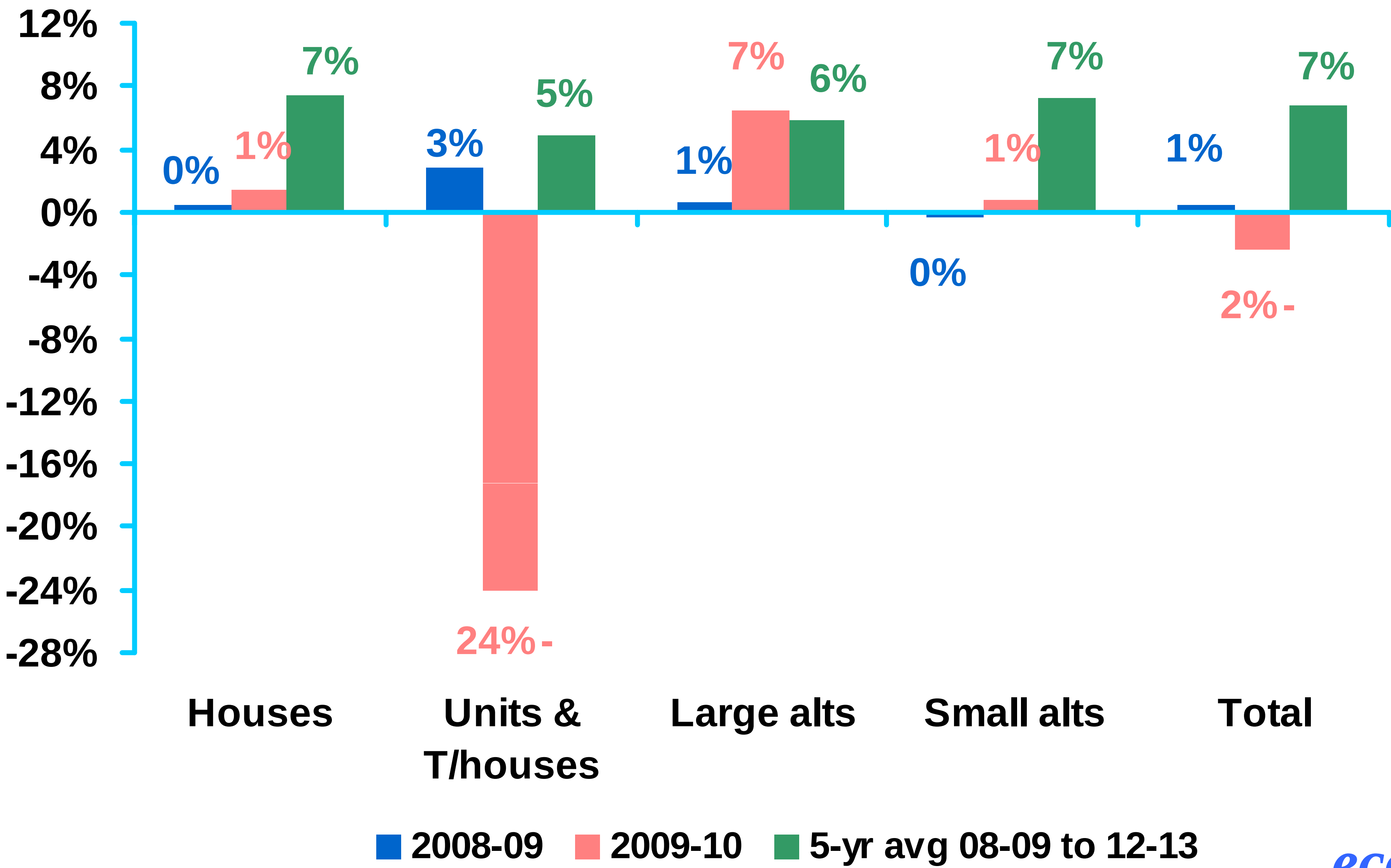
Annual Growth Rates



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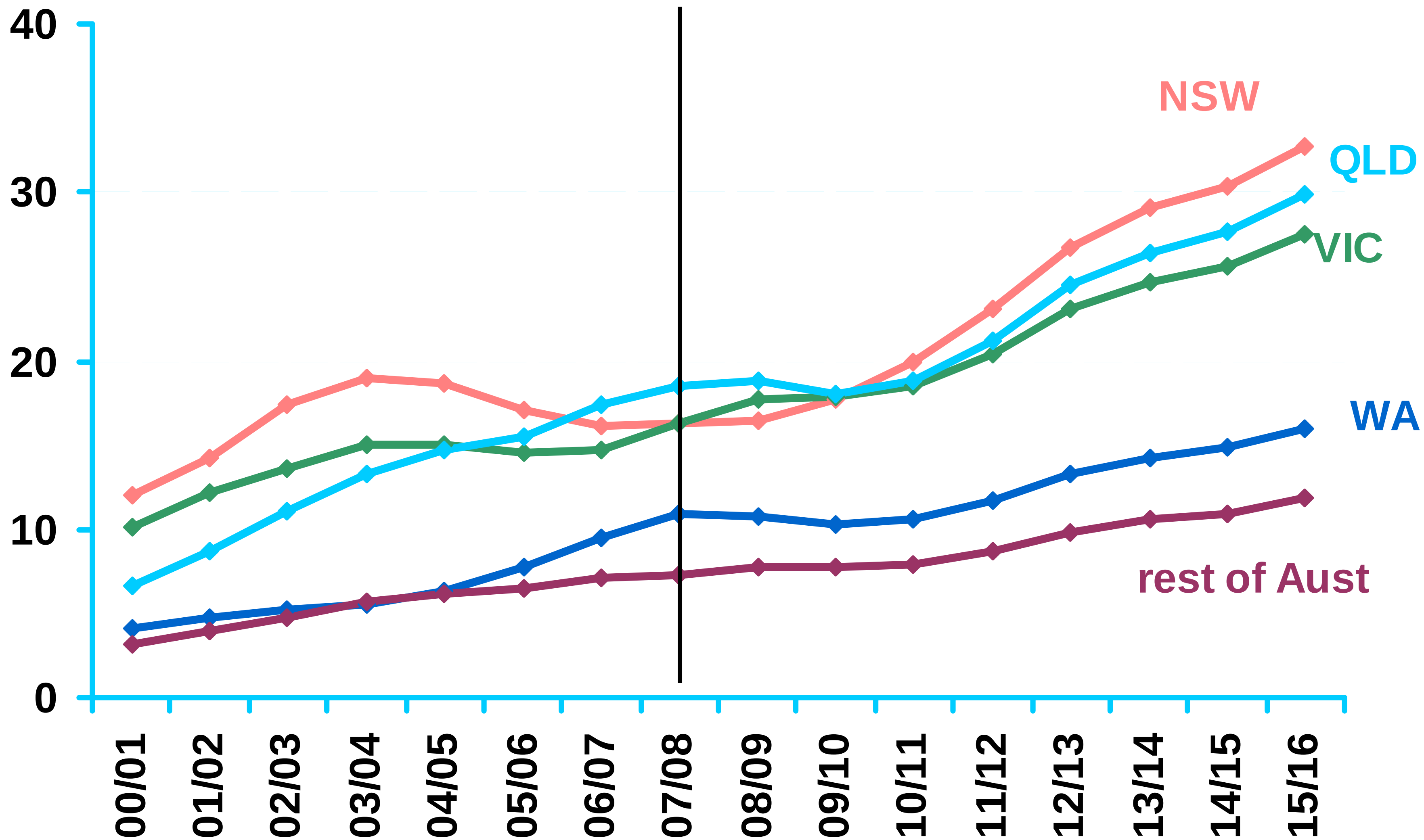
Residential - Larger States, $bn/yr



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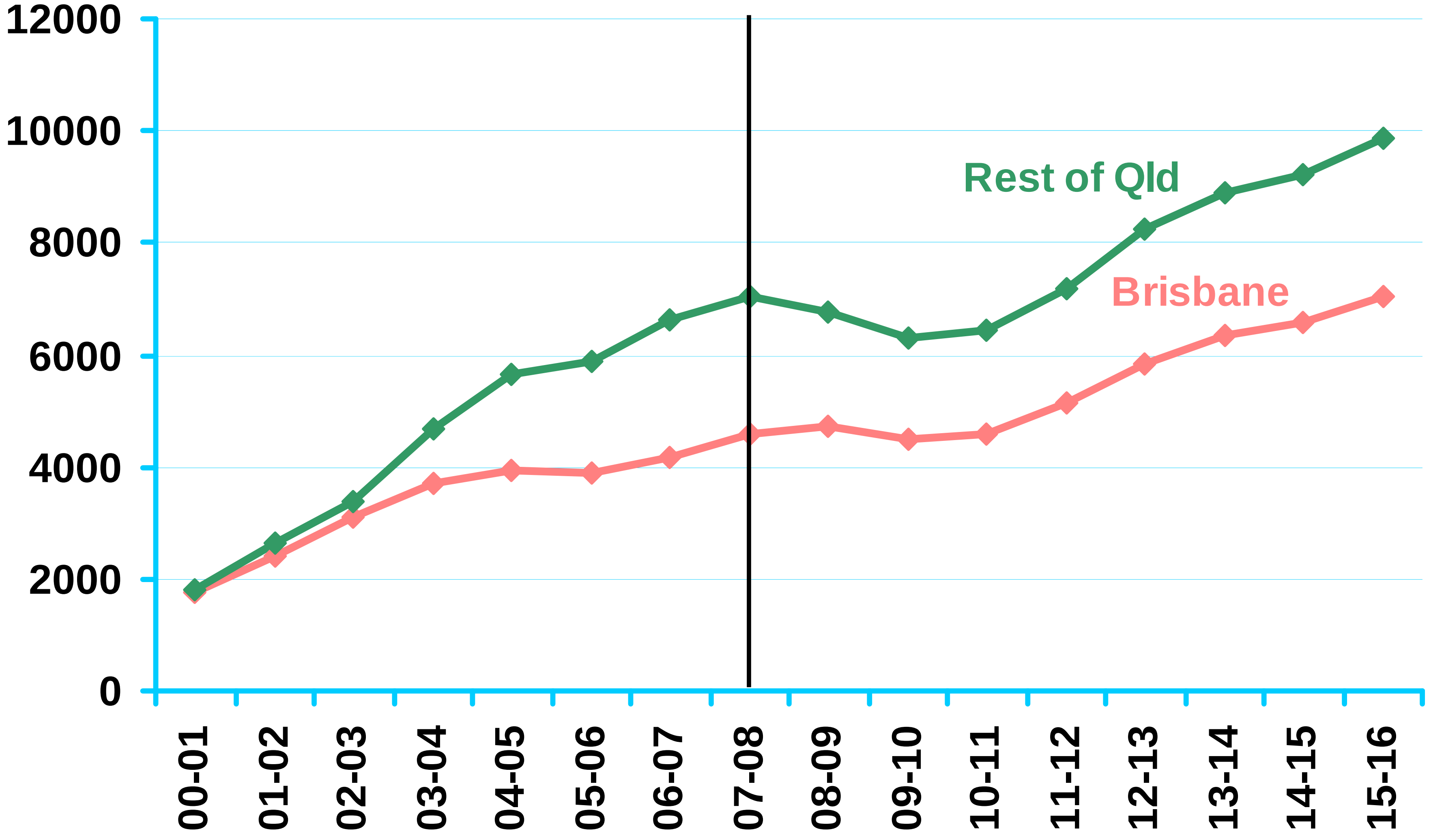
Qld Residential Building $bn/yr



Residential Building Conclusions

- Residential building approvals have continued to slide. After falling by 17.6% in the December quarter 2008, approvals were down a further 16.4% in the March quarter 2009.
  - All categories have fallen. Alterations and additions are holding up the best but have still gone backwards.
  - The investor sensitive unit/townhouse market has almost halved in the last 6 months
  - House approvals have fallen by more than a quarter since September quarter 2008
- In 09/10, residential building nationally is forecast to fall in real terms, before rebounding strongly in 10/11.
- In Queensland, residential construction levels surged ahead of NSW and Vic during 2008. We expect residential work done in Qld to slow during 2009 and 2010 to more sustainable levels.

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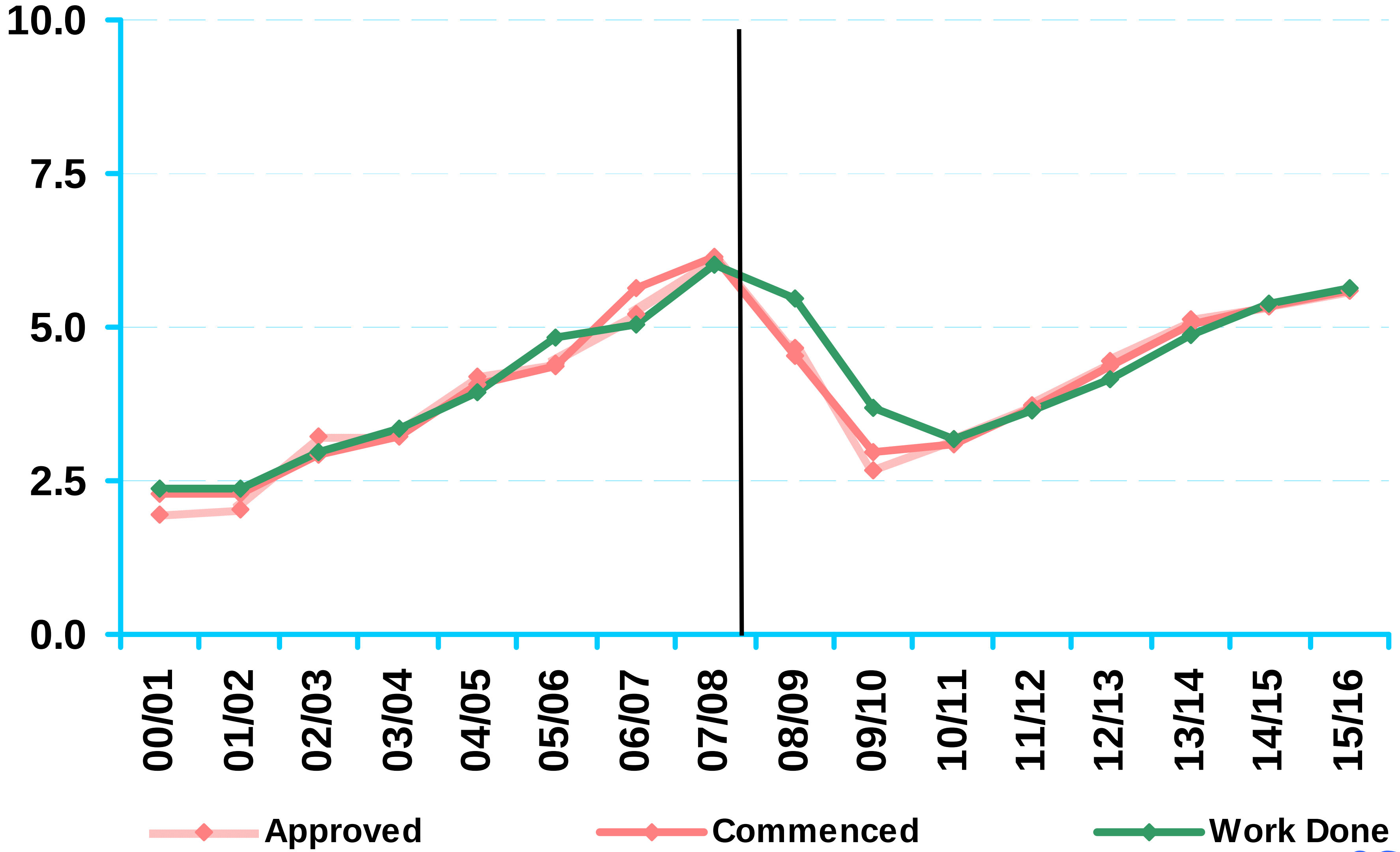
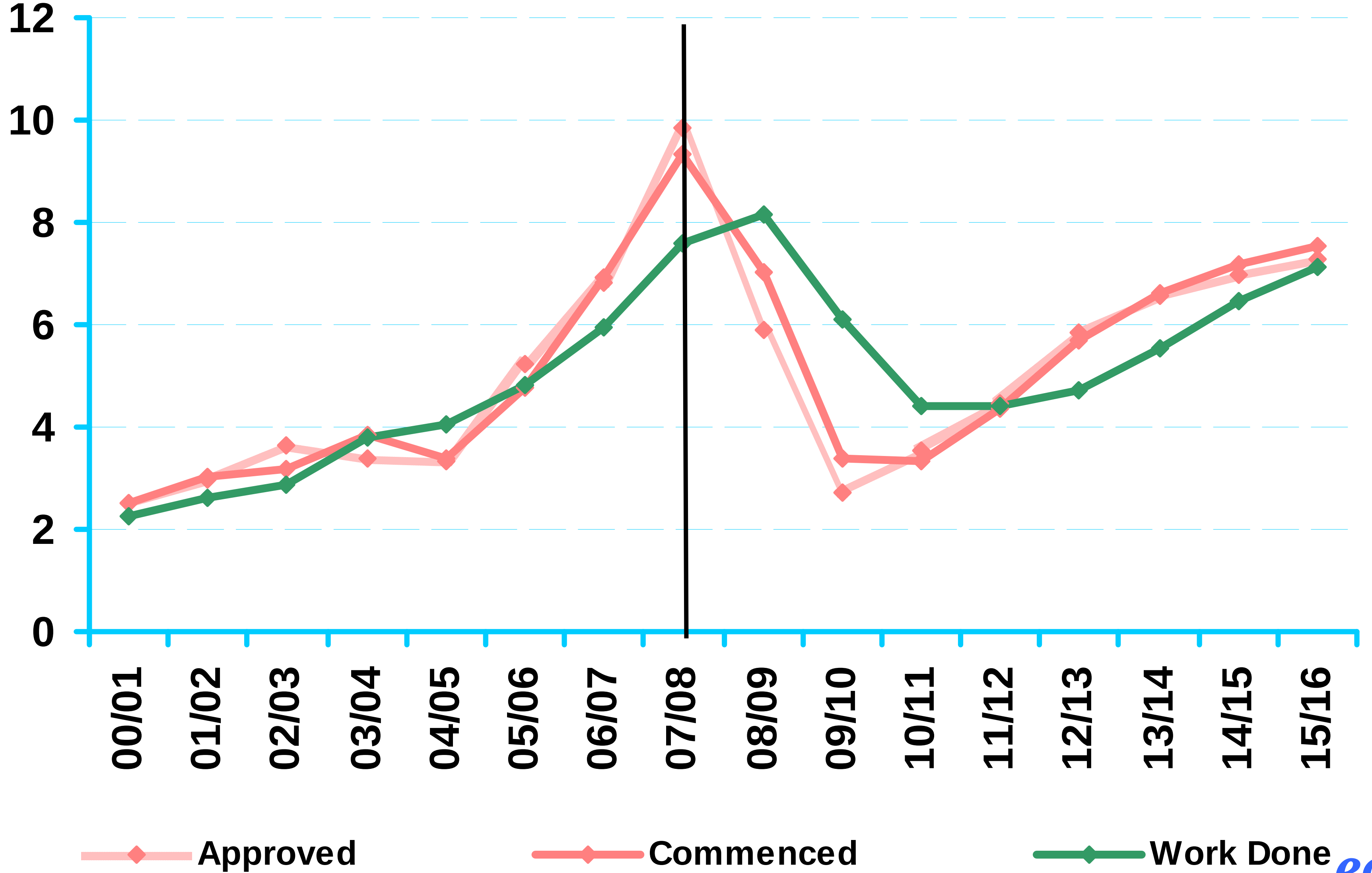
Retail/Wholesale Trade, $bn/yr



Offices, $bn/yr



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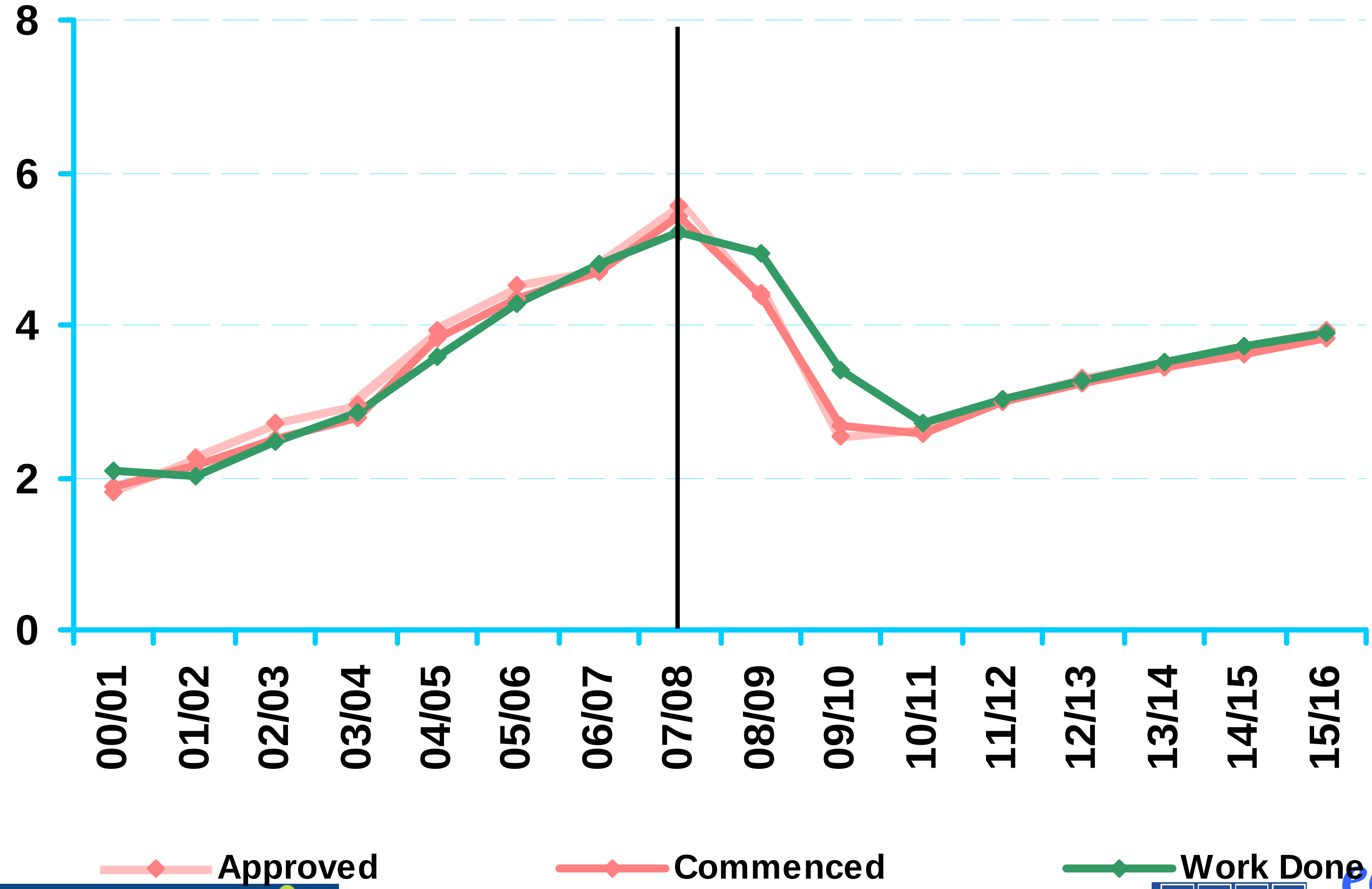
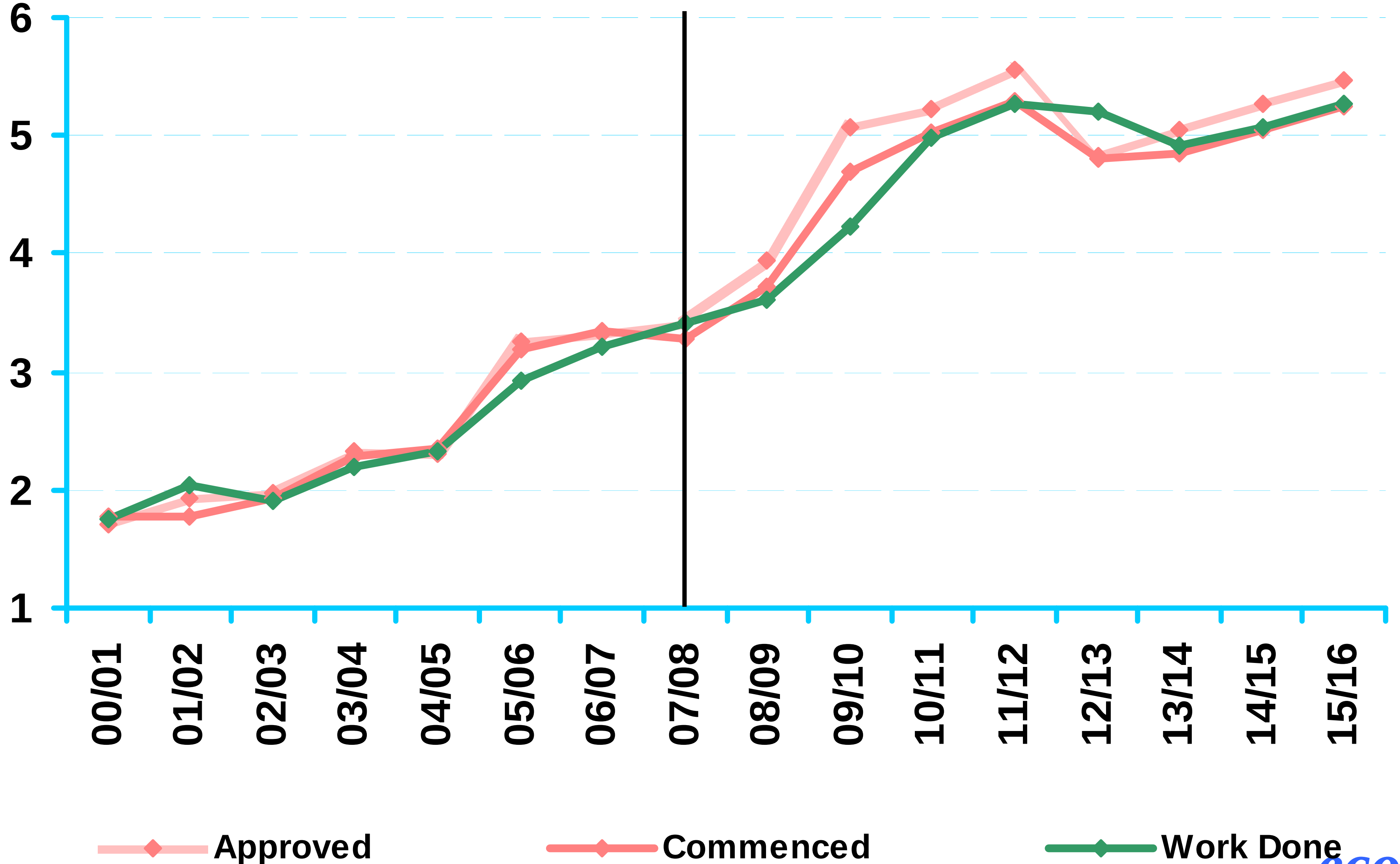
Industrial, $bn/yr



Educational, $bn/yr



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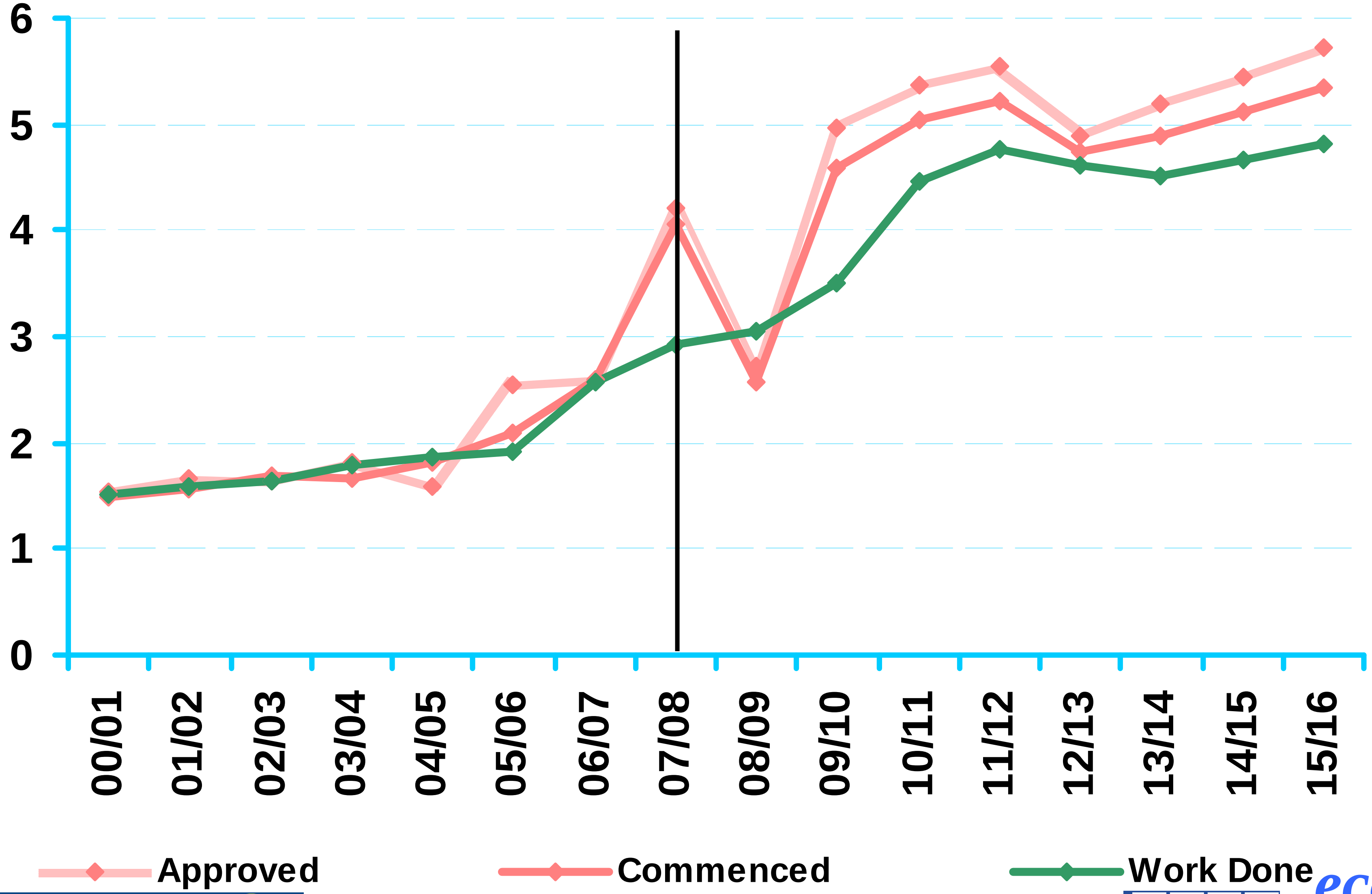
Health & Aged Care, $bn/yr



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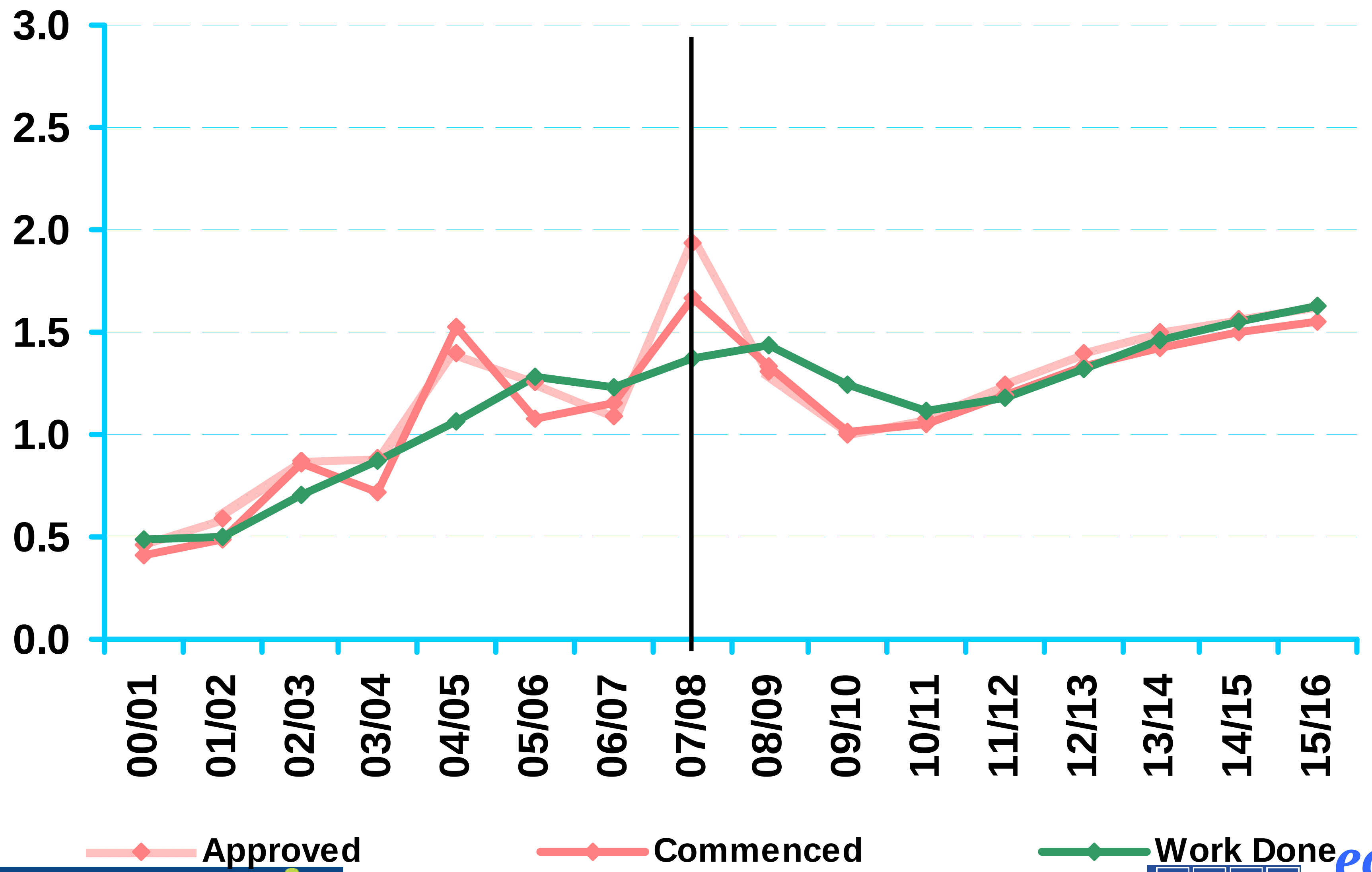
Accommodation, $bn/yr



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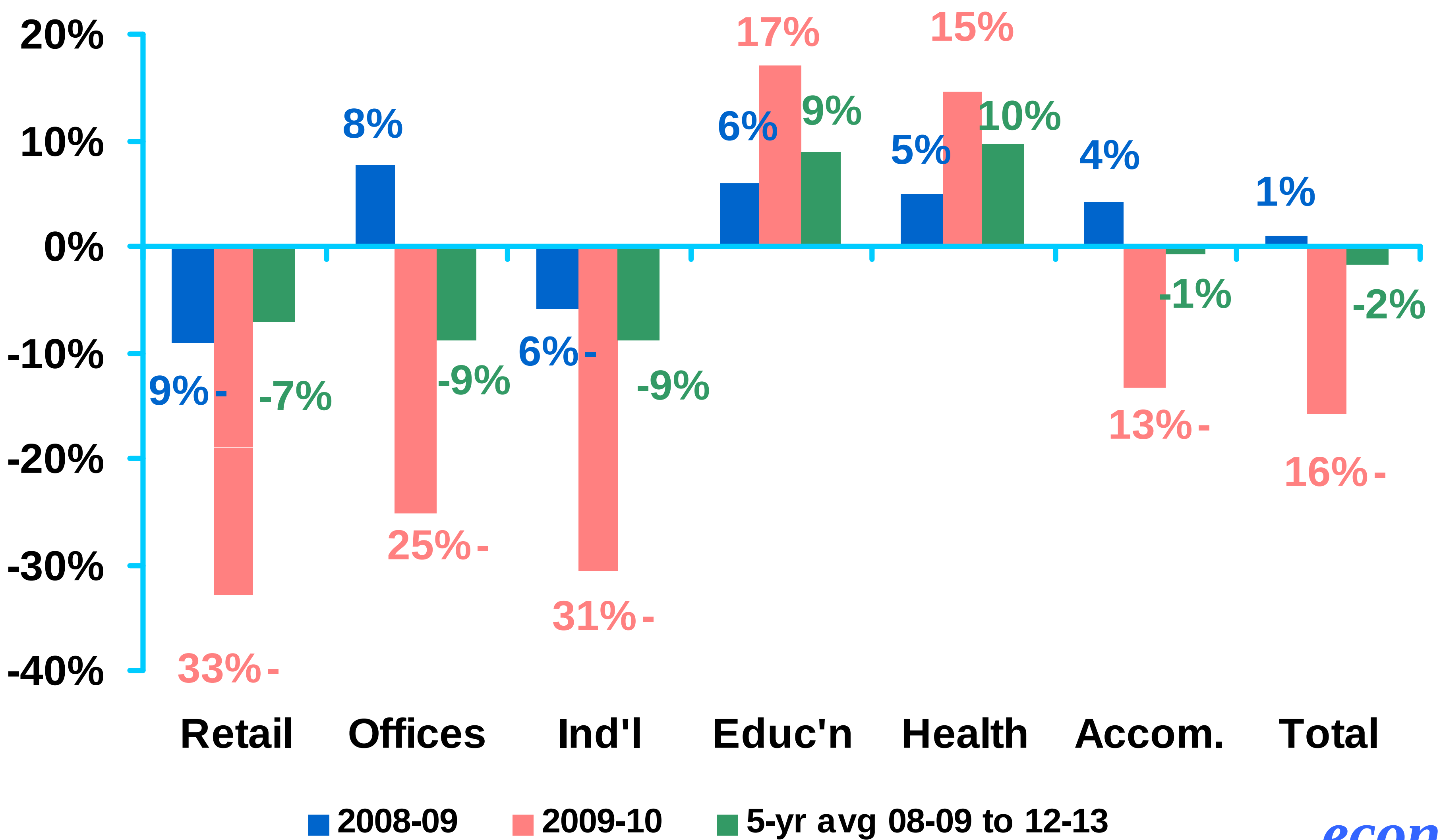
Annual Growth Rates



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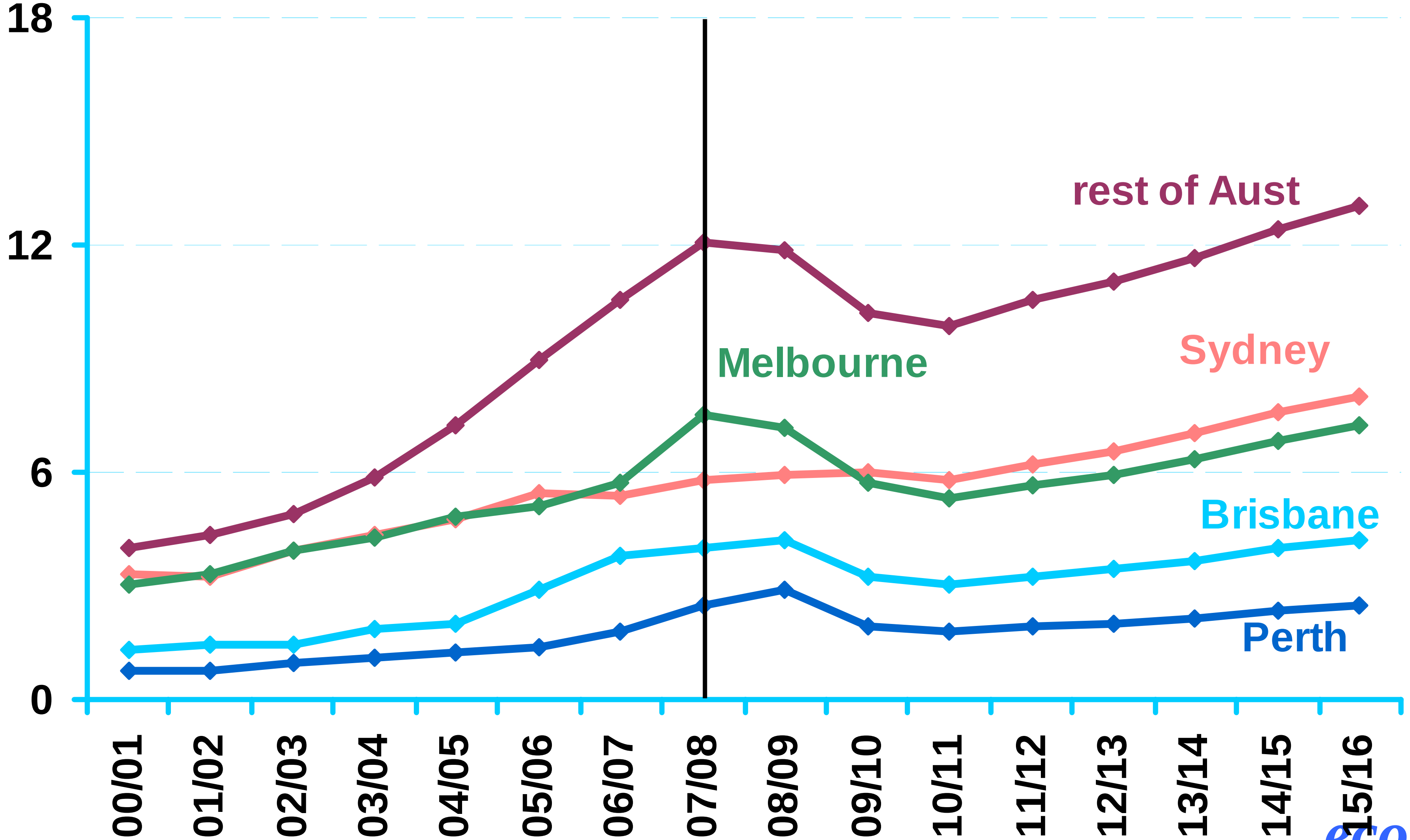
Larger Capital Cities, $bn per year



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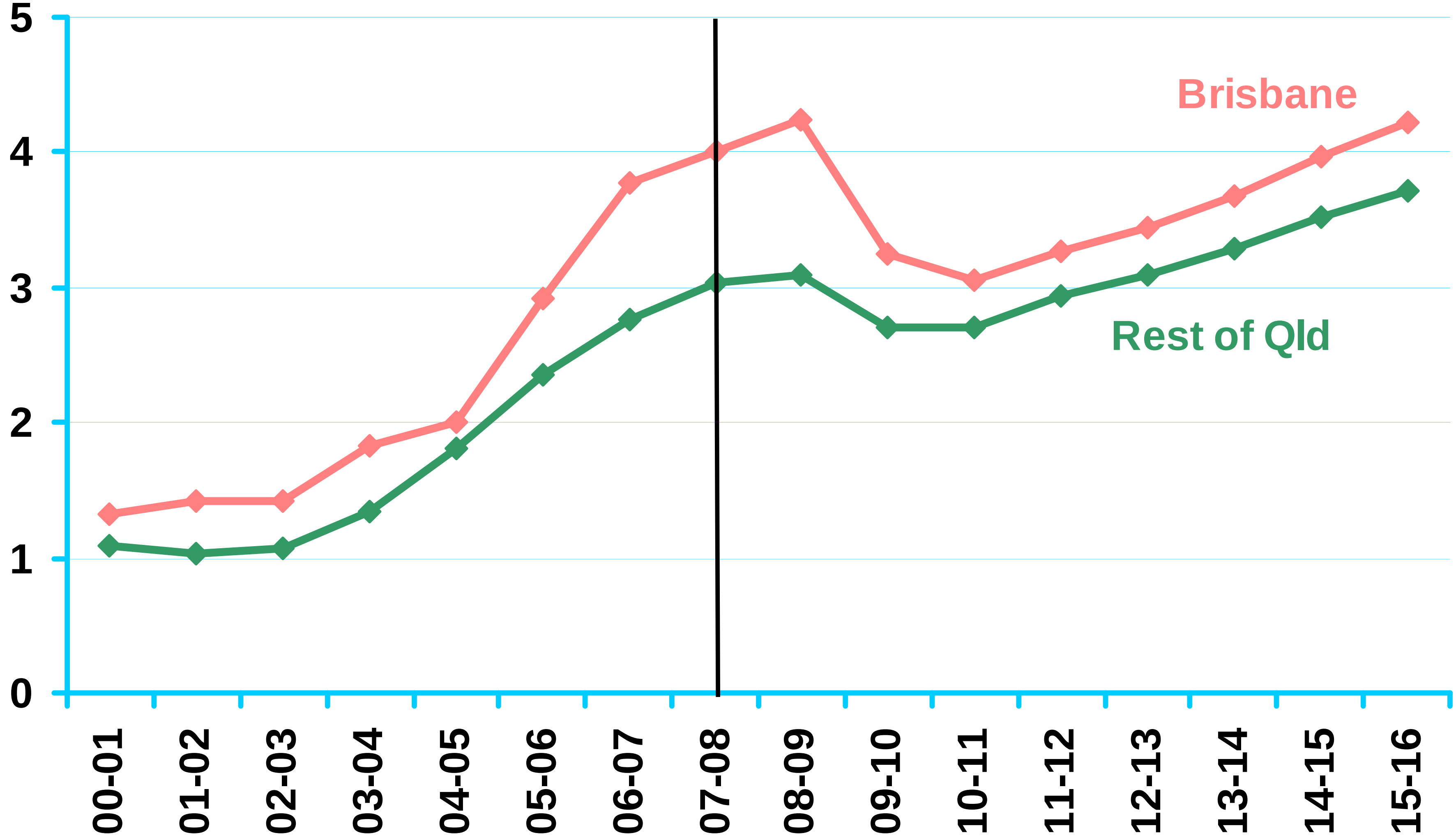
Non-res building in Qld $bn/yr



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Non-Res Building Conclusions

- **Analysis of the latest building approvals numbers show non-res activity in the private sector is still falling**
  - **solid public sector figures hiding further weakness in March quarter 2009 in private sector approvals**
  - **commercial developers still finding it difficult to borrow due to the GFC and declining asset values pushing up gearing ratios**
- **No strong recovery expected over the forecast horizon**
  - **total non-residential building to be very weak, especially 09/10 (nominal terms) due to retail, office and industrial construction collapsing due to weakness in the REIT sector**
  - **government spending on education and health will only slightly cushion the sector**

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Forecast major engineering starts

project	type	target start	gross value ($bn)
Rapid Growth iron ore 4	WA Mining	11Q3	7.4
Olympic Dam Expansion	SA Mining	13Q2	7.0
CBD Metro Rail	NSW Road+Rail	10Q3	4.8
Queensland projects 2009/10			
Ipswich Motorway	QLD Roads	09Q3	1.0
Gold Coast Rapid Transit	QLD Rail	09Q4	0.6
Alpha Coal	QLD Mining	10Q2	7.5
Cairns Busway	QLD Roads	10Q2	0.5
Goonyella Mine Exp	QLD Mining	10Q3	0.7
Gladstone HP Nickel	QLD Mining	10Q4	1.0

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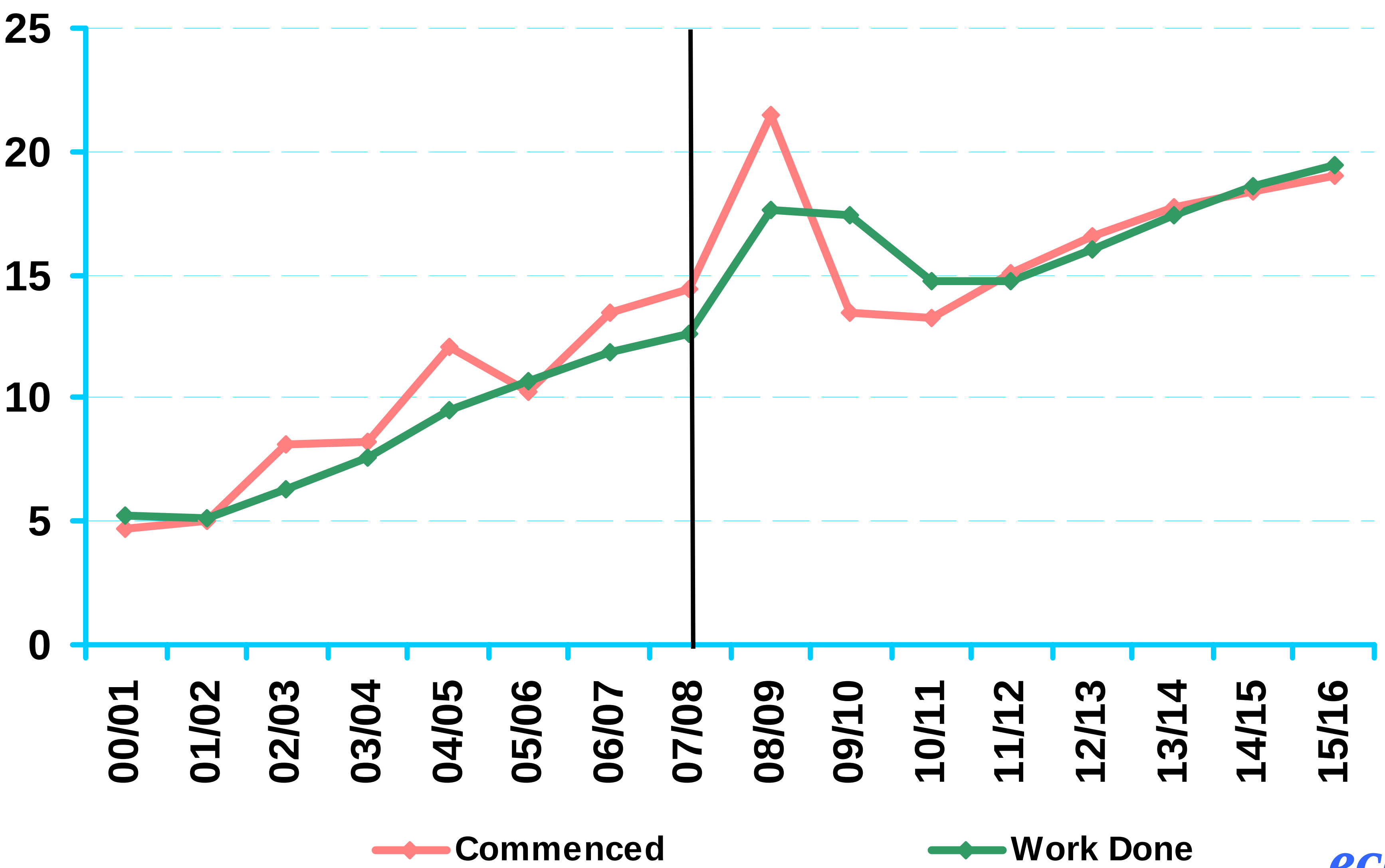
Infrastructure Announcements – Budget

- Clean Energy Initiatives – almost $3bn new money
  - Carbon Storage and Solar Flagship Communities initiatives
- Rail projects (out of Building Australia Fund)
  - funding for: Vic regional rail express, Gawler (SA) rail line, Noarlunga to Seaford (SA), Metro west preconstruction (Syd), East West tunnel (Melb), Northbridge Rail link (WA)
- Roads projects (Out of Building Australia Fund)
  - Hunter Expressway (NSW), Pac Hwy Kempsey bypass (NSW), Ipswich Motorway (Qld)
- “Possible” funding assistance for ports
  - “Possible” funding listed for Oakajee (WA) and Darwin ports, and the Gold coast light rail
- National Broadband network (Building Australia Fund)

Roads, $bn/yr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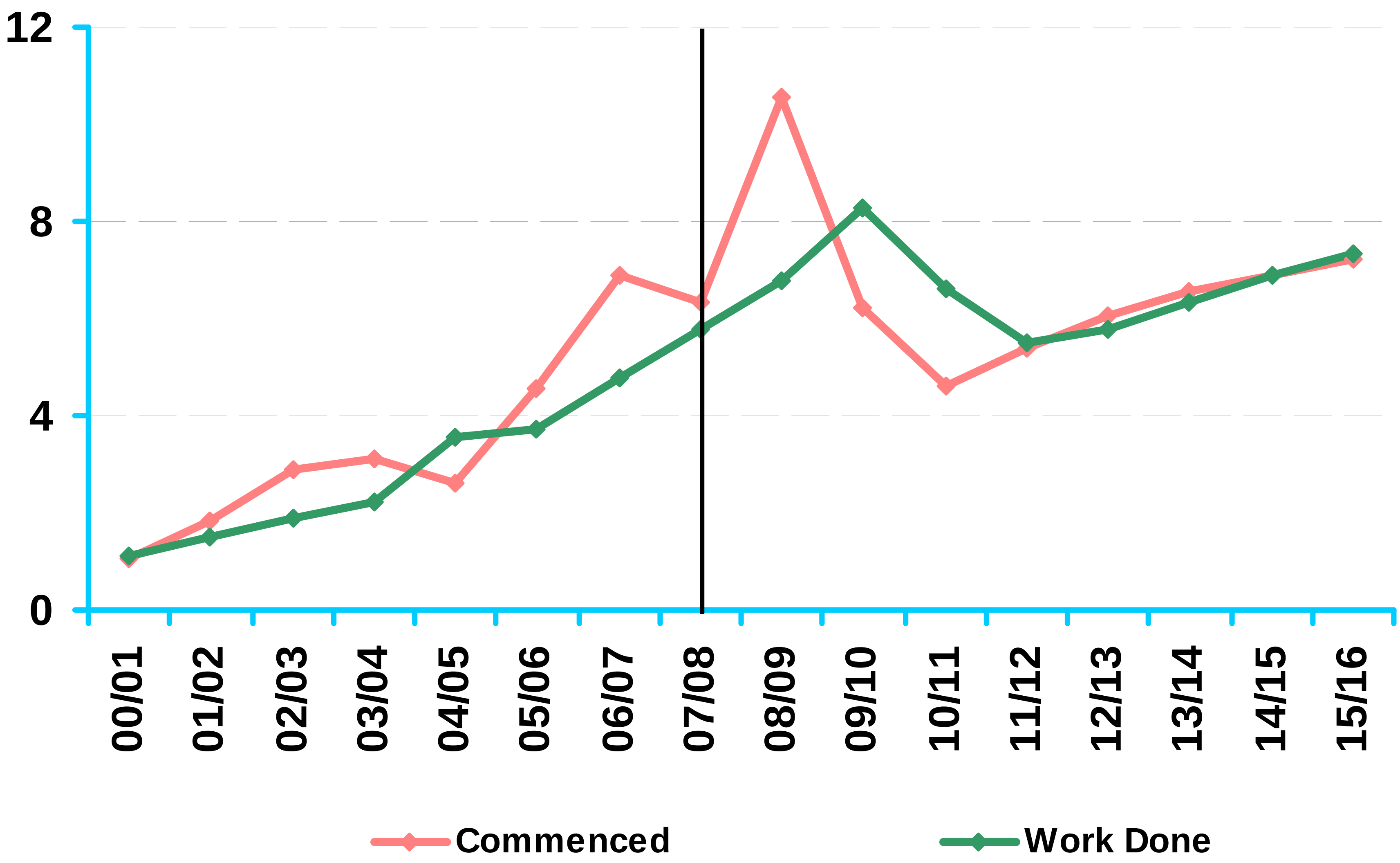
13/14
14/15
15/16
Commenced
Work Done

Bridges, railways, harbours, $bn/yr



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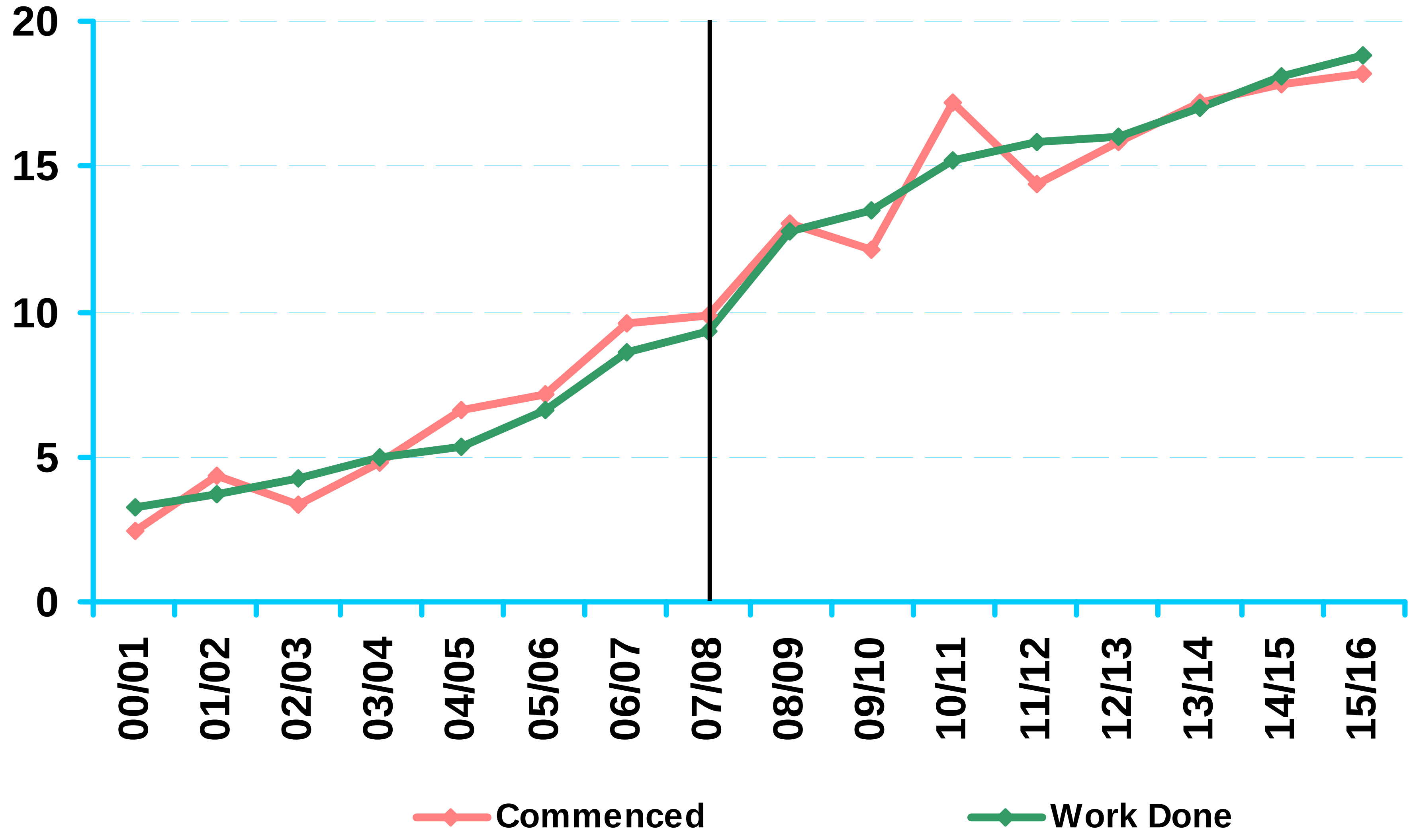
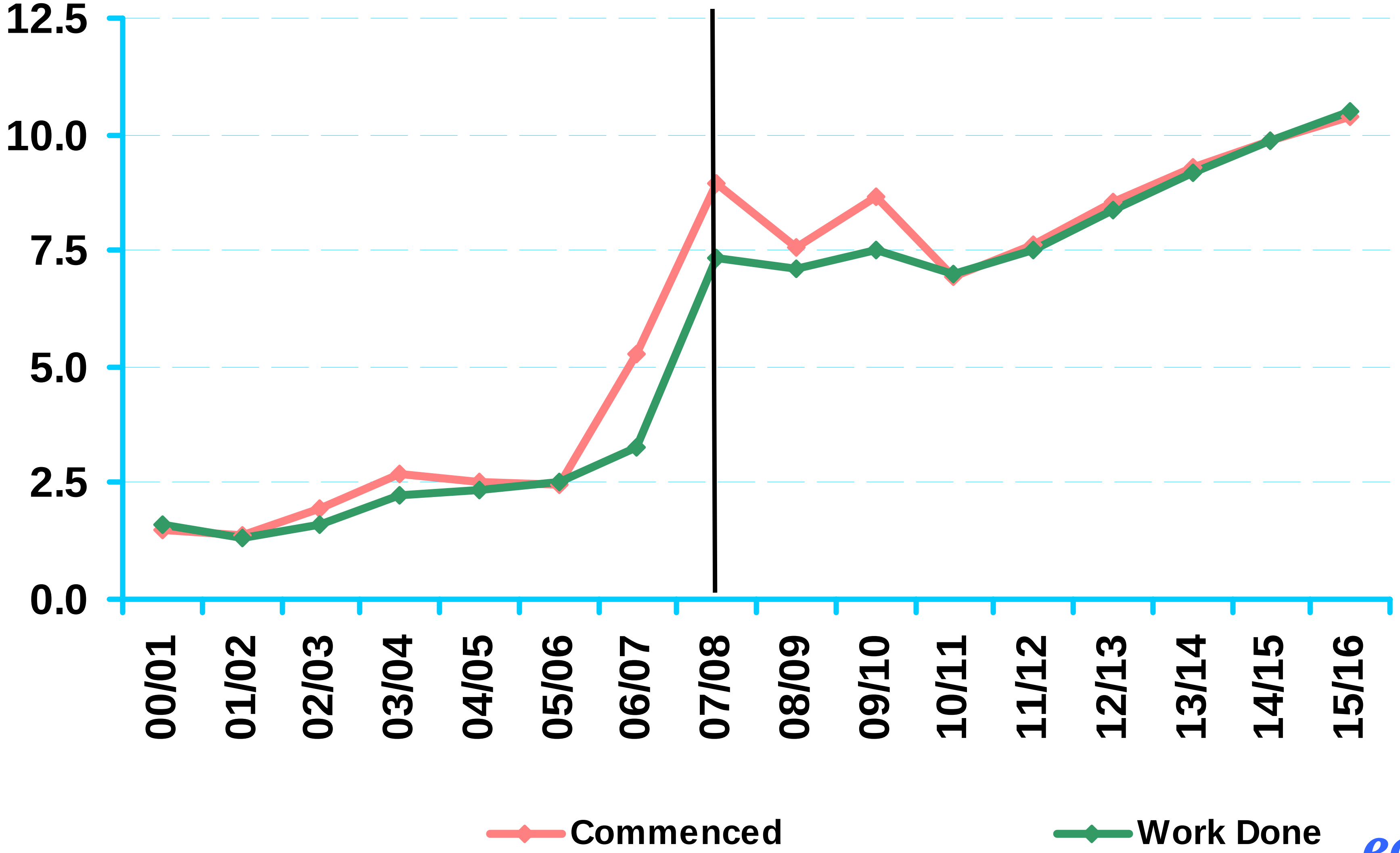
Electricity, pipelines, $bn/yr



Water & Sewerage, $bn/yr



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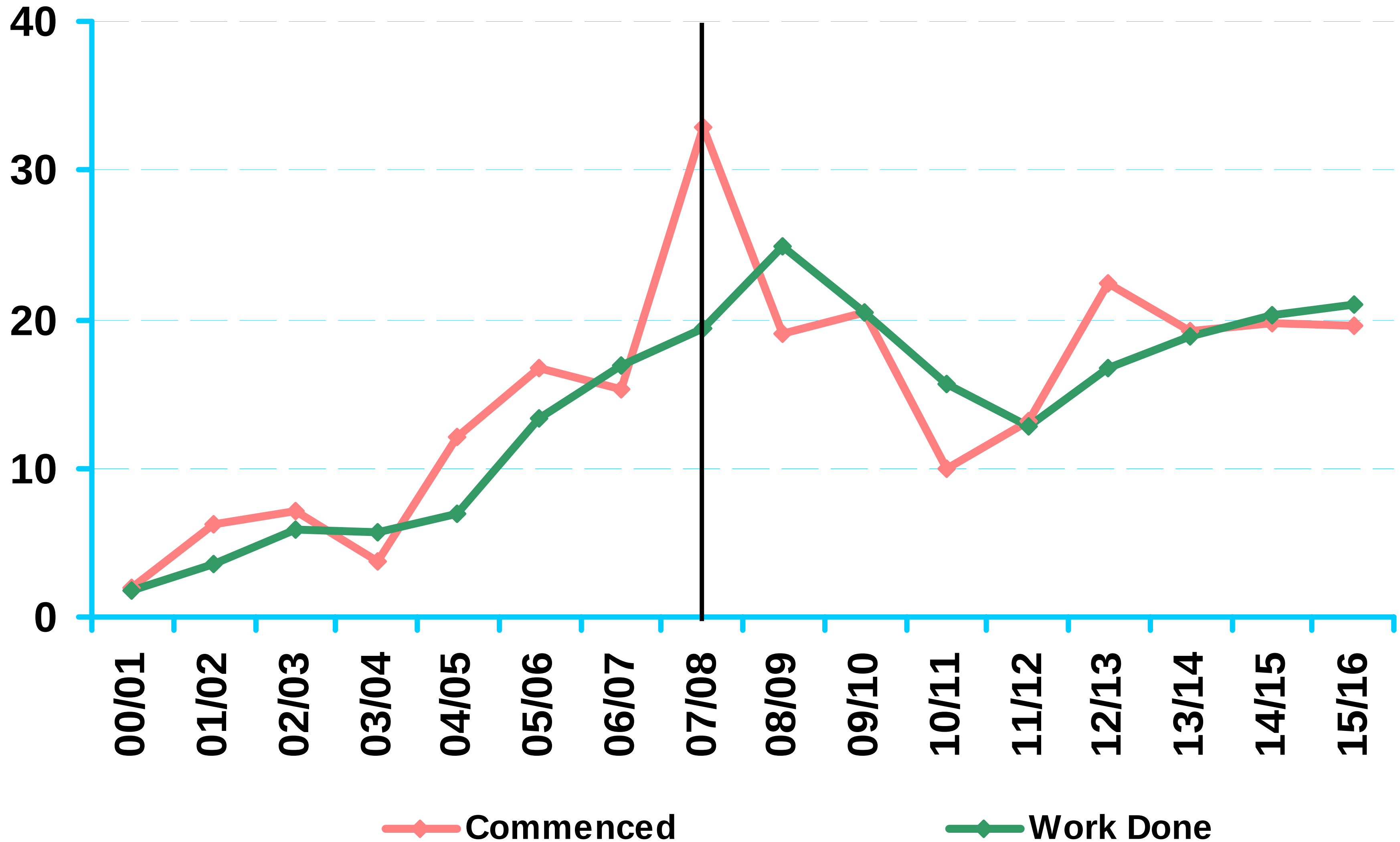
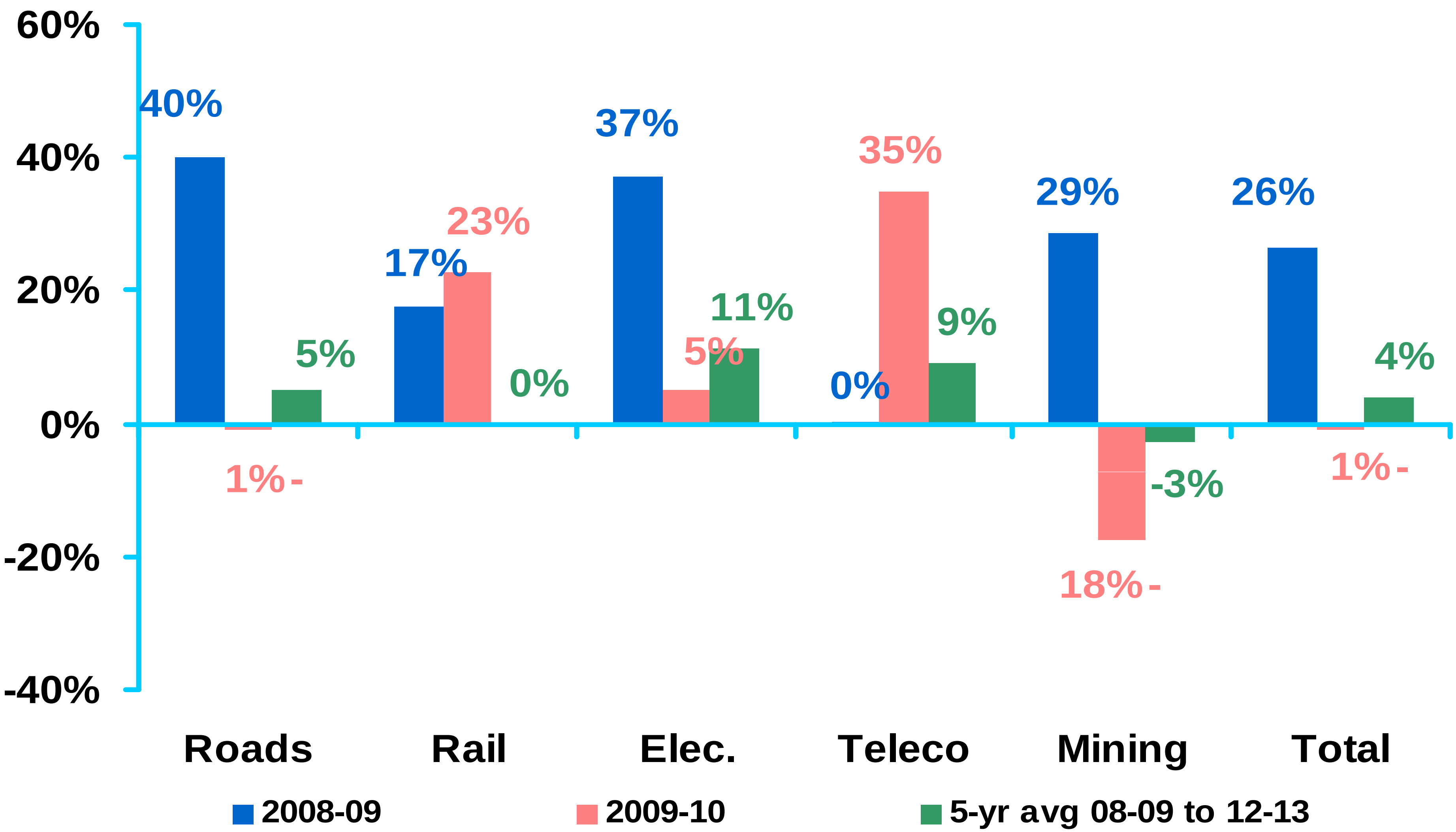
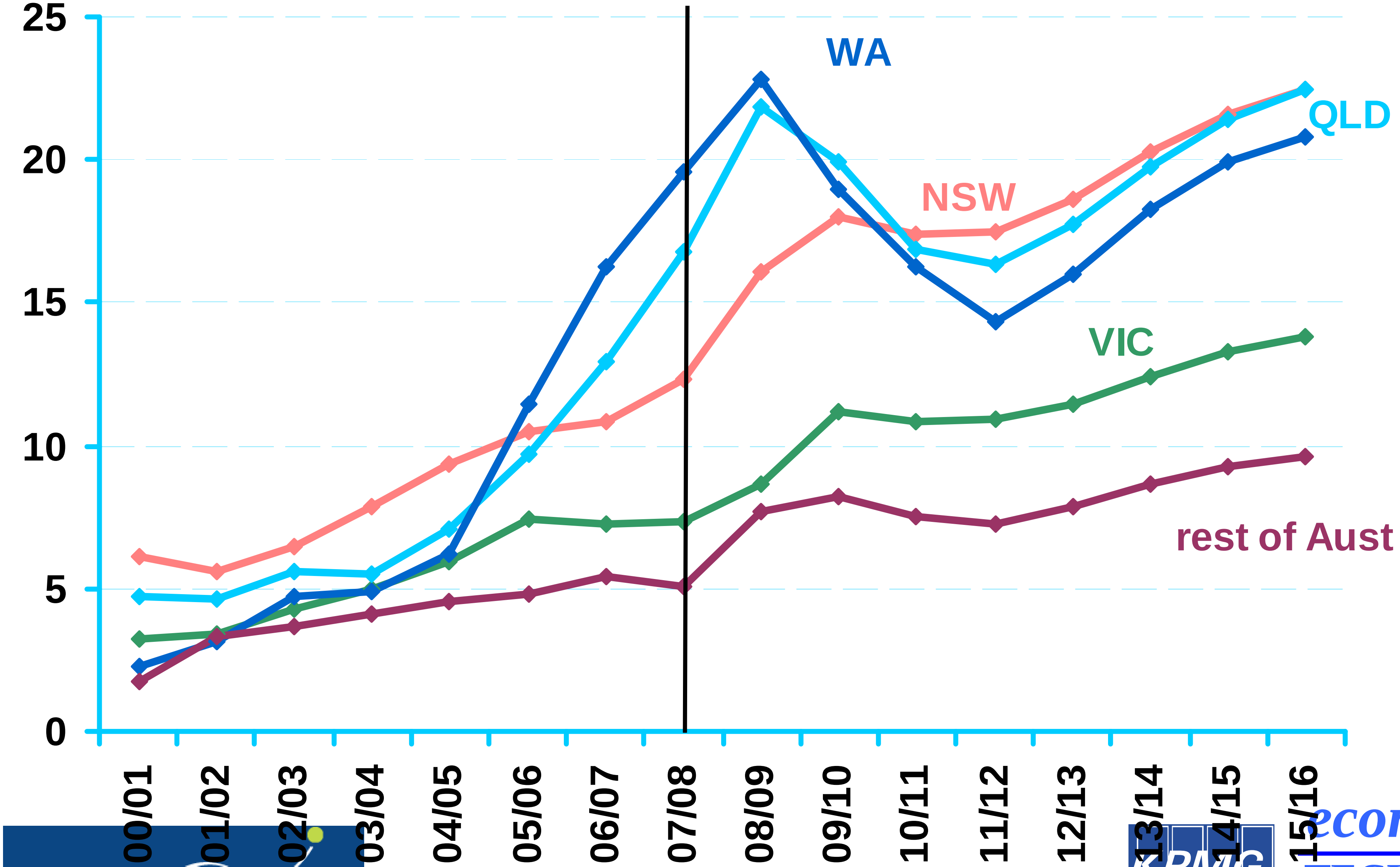
Heavy industry incl. mining, $bn/yr



Annual Growth Rates



Larger States, $bn/yr



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Engineering Const’n Conclusions

- Despite the onset of the GFC, long project lags mean that the major economic downturn will not be felt in the Engineering sector until 2010-11
  - latest work done figures support solid pipeline story
- Budget announcements welcome but only $3bn new money for carbon storage facilities and solar power plants
  - Most projects to be funded out of Building Australia Fund, which has already been accounted for in previous rounds
  - not clear when NBN construction will begin
- mining construction forecast to be down by more than half in 2010/11

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16th Forecast: General Conclusions

- **Residential building** appears to be very weak, with approvals lower across the board. Rising unemployment will hold back recovery even with very low interest rates. Recovery to commence in 2010/11 as employment recovers and housing shortage supply effects begin to dominate
- **Non-residential building** is forecast to be extremely weak during 2009/10. Approvals have fallen further in the March quarter 2009, and will only be partly offset by government funded education and health projects
- **Engineering construction** has received a solid boost from Budget announcements around electricity, roads, rail and the NBN which should prevent a collapse of the sector before the next economic upswing

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