

PRESS RELEASE

“Two-speed” building sector as government spending holds firm while private spending plummets

Evidence of a “two-speed” non-residential building sector – with government-funded sub-sectors holding up and even increasing, while private spending continues to fall sharply – has been confirmed by the latest forecasts from the Australian Construction Industry Forum’s Construction Forecasting Council (CFC).

“Private sector spending has collapsed in non-residential construction, and government spending and stimulus packages – while very welcome to the industry – are not able of themselves to offset this private sector spending collapse,” said Peter Barda, executive director of the Australian Construction Industry Forum (ACIF).

“In the residential construction sector, the short-term outlook is beginning to look encouraging, while the medium-term outlook for single unit dwellings is very good,” he said. “Residential building in 2008/09 and 2009/10 will be steady in real terms, before increasing moderately in 2010/11.

“Also looking quite positive is engineering construction, where – aside from mining infrastructure, which has seen massive expenditure on the back of the resources boom, and a corresponding large slump in spending as commodity prices have fallen – the outlook for infrastructure construction means much of this sector should avoid a collapse in activity,” said Barda.

However, in terms of employment in the total building and construction sector, the forecast remains grim, with 75,000 to 80,000 construction worker jobs expected to be lost before the recovery.

“It also appears that among construction industry professionals: architects, quantity surveyors, engineers and the like, job losses will be significant. While no firm figures are available, anecdotal evidence points to reduced work opportunities resulting in a significant loss of professionals to the industry.”

Barda said that spending in the education sub-sector of **non-residential construction**, through a combination of the Rudd Government’s “Education revolution” and its stimulus packages, is set to increase significantly in the short and medium terms, as is spending on health and aged care.

“Both are forecast to increase by around 5% each over 2008-09, further increasing to around 16% each next financial year, and both will show average growth in spending of about 10% a year over the next five years,” he said.

“However, while both sub-sectors are showing growth – and work opportunities for contractors and suppliers servicing them – the forecast growth in spending will not be sufficient to offset the steep falls in private sector spending and activity.

“With public sector spending accounting for only around 30% of non-residential expenditure, overall growth for the non-residential sector is expected to be flat for 2008/09, dropping 16% for 2009/10 – despite the impact of spending in education and health – and further falling an average of 2% a year for the next five years.

“Overall, activity in this sector will be patchy, with substantial negative growth for at least the next two years.”

In **residential building** while approvals have continued to slide in recent months, substantial pent-up demand remains for housing and there will be a strong upturn in the near future, said Barda.

“After falling by 17.6% in the December quarter 2008, total approvals were down a further 16.4% in the March quarter 2009, with all categories falling.

“Approval levels in the investor-sensitive unit/townhouse market have almost halved in the past six months, while house approvals have fallen by more than a quarter since the September quarter of 2008.”

He said that while 2008/09, and 2009/10 total residential building activity was forecast to be flat in real terms, it would rebound strongly by 35% in 2010/11.

“Demand is still there for housing: stocks still remain in short supply, and rents are continuing to rise,” said Barda.

In addition, household debt levels have come down significantly, consumer confidence looks to be returning and bank lending for home borrowers is loosening up.

“Currently, the main negative is uncertainty over unemployment levels – which on the latest figures looks to have less impact than was being predicted a few months ago,” said Barda.

“As the economy turns around, and people start finding jobs again, residential will start to really take off.

“And once the commercial developers re-enter the market and house price growth starts to improve, this sector will record strong growth,” he said.

Engineering construction received a solid boost in the Federal Government’s May Budget, with higher spending announced for power generation, roads, rail and the early stages of the National Broadband Network (NBN) rollout, which should prevent a collapse of activity in this sector before the next economic upswing.

“Despite the global financial crisis, long project lags have meant that the major economic downturn will not be felt in this sector until 2010-11,” said Barda.

“The main impact on this sector will be in mining construction, spending on which is forecast to be down by more than half in 2010/11.

“On the positive side, the recent Budget announcements outlined \$3 billion in additional spending for carbon storage facilities and solar power plants.

“Many other projects announced in the Budget will be funded out of the Building Australia Fund, which has already been accounted for in previous CFC forecasts,” he said.

ACIF’s Construction Forecasting Council (CFC) produces twice-yearly forecasts of building and construction activity, covering short, medium and long-term prospects for the industry.

These forecasts are based on modelling of the economy by KPMG Econtech, and include short-term to long-term forecasts (10 years). The CFC’s latest forecast figures have been derived from the December 2008 quarter National Accounts and Australian Bureau of Statistic building approvals to the end of January.

Detailed forecasts, including sector-by-sector and state-by-state breakdowns, are available free of charge on the CFC website at www.cfc.acif.com.au.

Contact:

Peter Verwer, Chief Executive, Property Council of Australia
Phone: 02 9033 1926, mobile: 0407 463 842, email: pverwer@propertyoz.com.au
website: www.propertyoz.com.au

Peter Barda, Executive Director, Australian Construction Industry Forum Ltd
Phone: 1300 854 543, mobile: 0418 438 550, email: peterbarda@bigpond.com.au
website: www.cfc.acif.com.au

About ACIF: ACIF is Australia’s peak construction industry consultative organisation. Membership is open to any Australian building or construction industry association which has a national structure and focus, whose principal membership is comprised of individual persons and/or private sector business enterprises and which serves the interests of its members in one or more of the residential, non-residential, engineering or investment property sectors.

Members of ACIF are:

Air Conditioning & Mechanical Contractors Association of Australia (AMCAA)
Association of Consulting Architects - Australia (ACAA)
Association of Consulting Engineers Australia (ACEA)
Australian Institute of Architects (RAIA).
Australian Institute of Building (AIB)
Australian Institute of Quantity Surveyors (AIQS)
Construction Industry Engineering Services Group (CIESG)

Engineers Australia (IE Aust)
Facility Management Association of Australia (FMAA)
Fire Protection Association of Australia (FPAA)
Master Builders Australia (MBA)
Planning Institute of Australia (PIA)
Property Council of Australia (PCA)

About the CFC: ACIF's Construction Forecasting Council produces twice-yearly forecasts of building and construction activity in Australia. These forecasts are based on modelling of the economy by KPMG Econtech, and include short-term to long-term forecasts (10 years), derived from the National Accounts and Australian Bureau of Statistic building approvals, building and construction industry data from Reed Construction Data, plus input from representatives of industry, unions and government agencies

The table below shows CFC sector forecasts at a glance over the next 10 years.

CFC sector forecasts, Australia wide, 2008-09 to 2017-18

		2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
RESIDENTIAL											
Total residential building	\$ million	69,783	68,083	73,735	83,903	96,529	104,160	108,813	117,349	126,908	139,441
	% change	1%	-2%	8%	14%	15%	8%	4%	8%	8%	10%
New houses	\$ million	25,715	28,058	29,550	32,781	38,490	38,047	38,531	40,795	43,420	45,524
	% change	0%	1%	13%	11%	11%	4%	1%	6%	6%	5%
New other residential	\$ million	11,184	8,490	7,871	10,848	13,833	18,187	17,218	18,548	20,468	21,984
	% change	3%	-24%	-7%	35%	30%	17%	6%	8%	10%	7%
NON-RESIDENTIAL											
Total Non-Residential Building	\$ million	32,118	27,067	25,880	27,583	29,000	30,893	33,161	34,957	38,622	40,509
	% change	1%	-16%	-4%	7%	5%	7%	7%	5%	5%	11%
Retail/Wholesale trade	\$ million	5,458	3,668	3,172	3,853	4,162	4,862	5,374	5,648	5,901	6,825
	% change	-9%	-33%	-14%	15%	14%	17%	11%	5%	5%	12%
Offices	\$ million	8,160	6,112	4,412	4,405	4,732	5,553	6,438	7,122	7,650	8,377
	% change	8%	-25%	-28%	0%	7%	17%	16%	11%	7%	10%
Other commercial	\$ million	1,102	703	679	741	815	873	911	936	976	1,103
	% change	4%	-36%	-4%	9%	10%	7%	4%	3%	4%	13%
Industrial	\$ million	4,924	3,416	2,714	3,015	3,282	3,511	3,706	3,883	4,077	4,504
	% change	-6%	-31%	-21%	11%	9%	7%	6%	5%	5%	10%
Educational	\$ million	3,810	4,226	4,982	5,288	5,194	4,927	5,089	5,285	5,472	6,422
	% change	6%	17%	18%	6%	-1%	-5%	3%	4%	4%	17%
Health and aged care	\$ million	3,058	3,503	4,462	4,758	4,607	4,509	4,854	4,823	5,005	5,388
	% change	5%	15%	27%	7%	-3%	-2%	3%	4%	4%	8%
Entertainment and recreation	\$ million	2,336	2,167	2,163	2,268	2,435	2,599	2,714	2,780	2,838	3,001
	% change	12%	-7%	0%	5%	7%	7%	4%	2%	2%	6%
Accommodation	\$ million	1,434	1,241	1,119	1,182	1,326	1,459	1,554	1,622	1,681	1,773
	% change	4%	-13%	-10%	8%	12%	10%	7%	4%	4%	5%
Miscellaneous	\$ million	32,118	27,067	25,880	27,583	29,000	30,893	33,161	34,957	38,622	40,509
	% change	1%	-16%	-4%	7%	5%	7%	7%	5%	5%	11%
ENGINEERING CONSTRUCTION											
Total Engineering Construction	\$ million	77,145	76,403	68,778	66,361	73,499	80,049	85,522	89,107	91,892	95,409
	% change	26%	-1%	-10%	-4%	11%	9%	7%	4%	3%	4%
Roads	\$ million	17,592	17,448	14,753	14,778	16,059	17,449	18,582	19,395	20,193	21,233
	% change	40%	-1%	-15%	0%	9%	9%	6%	4%	4%	5%
Bridges, railways, harbours	\$ million	6,782	8,291	6,821	5,509	5,784	6,331	6,887	7,342	7,794	8,474
	% change	17%	23%	-20%	-17%	5%	10%	9%	7%	6%	9%
Electricity, pipelines	\$ million	12,800	13,440	15,249	15,832	15,979	17,004	18,088	18,853	19,377	19,980
	% change	37%	5%	13%	4%	1%	6%	6%	4%	3%	3%
Water and sewerage	\$ million	7,127	7,488	6,983	7,484	8,371	9,203	9,886	10,489	11,092	11,252
	% change	-3%	5%	-7%	7%	12%	10%	7%	6%	6%	1%
Telecommunications	\$ million	4,453	6,013	6,515	6,697	6,849	6,914	6,893	6,835	6,846	6,982
	% change	0%	35%	8%	3%	2%	1%	0%	-1%	0%	2%
Heavy industry incl. mining	\$ million	24,845	20,493	15,649	12,802	16,697	18,778	20,343	21,011	21,073	21,545
	% change	29%	-18%	-24%	-18%	30%	12%	8%	3%	0%	2%
Recreation and other	\$ million	3,585	3,230	3,008	3,259	3,780	4,370	4,845	5,183	5,517	5,943
	% change	53%	-9%	-7%	8%	16%	16%	11%	7%	6%	8%

The biggest winners, and biggest losers, by sub-sector, over 2009-10 and 2010-2011

WINNERS		LOSERS	
Telcos	+43%	Offices	-53%
Health, aged care	+42%	Industrial	-52%
Education	+35%	Retail	-47%
Electricity, pipelines	+18%	Mining	-42%
New houses	+14%	Accommodation	-23%

SNAPSHOT ANALYSIS

Engineering construction (roads, ports, railways, telecoms, water and sewerage, mining infrastructure) has received a solid boost from Budget announcements around electricity, roads and rail. This, combined with the NBN, should prevent a collapse in activity for this sector before the next economic upswing.

Residential building activity has been flat, with approvals lower across the board. Uncertainty over unemployment will hold back recovery, even with very low interest rates. Recovery in this sector will commence in 2010/11 as employment recovers and housing shortage supply effects begin to dominate.

Non-residential building is forecast to be very weak during the next few years. Private sector approvals have fallen further in the March quarter of 2009, and will only be partly offset by government-funded education and health projects.

WHEN WILL THE SECTORS TURN BACK UP?

The graph below shows when the CFC expects activity levels across the three key construction sectors to return to growth.

Engineering construction (the blue line) will begin to show a rise in activity at the beginning of 2010-11.

Residential building (the red line) will begin to show a rise in activity at the beginning of 2009-10.

Non-residential building (the green line) will begin to show a rise in activity at the beginning of 2009-10.

