



The Current Status and Future Trend of Construction in Australia

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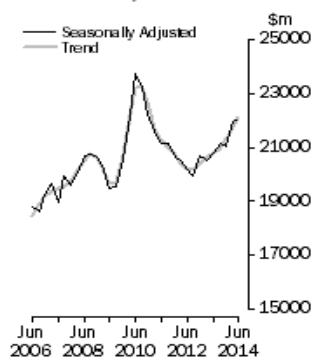
Building Activity in Australia, June 2014

JUNE KEY FIGURES

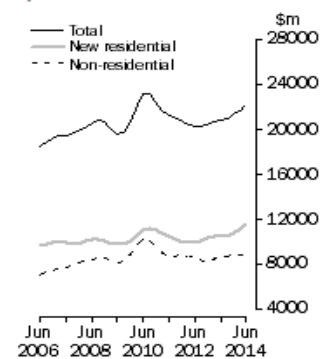
	Jun qtr 14 \$m	Mar qtr 14 to Jun qtr 14 %	Jun qtr 13 to Jun qtr 14 %
TREND ESTIMATES(a)			
Value of work done	22 095.4	1.8	6.2
New residential building	11 609.1	3.9	11.2
Alterations and additions to residential building	1 753.5	-0.1	1.4
Non-residential building	8 734.8	-0.5	1.1
SEASONALLY ADJUSTED ESTIMATES(a)			
Value of work done	22 054.3	0.4	6.0
New residential building	11 601.8	1.8	10.9
Alterations and additions to residential building	1 727.0	-3.0	-2.9
Non-residential building	8 725.5	-0.6	1.9

(a) Reference year for chain volume measures is 2011-12.

Value of work done, Chain volume measures

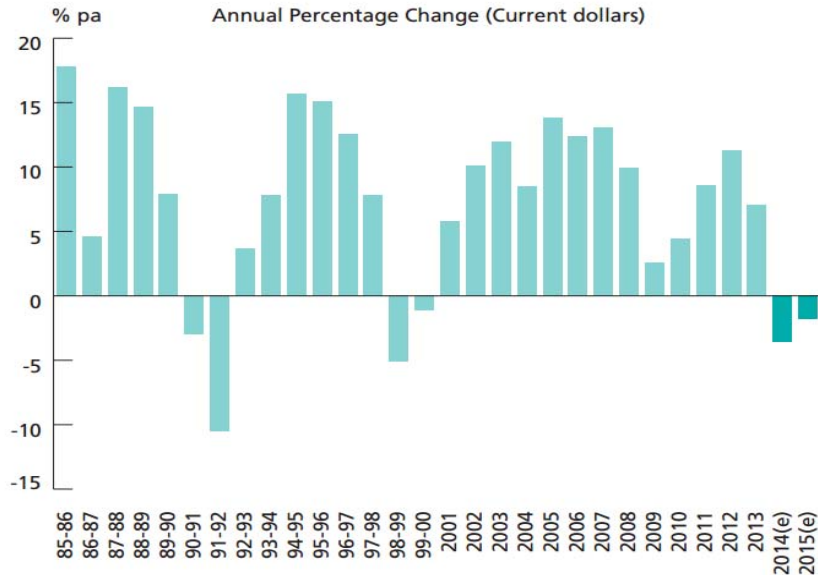


Value of work done, Chain volume measures - Trend estimates



Australia Construction Outlook

TURNOVER FROM CONSTRUCTION WORK



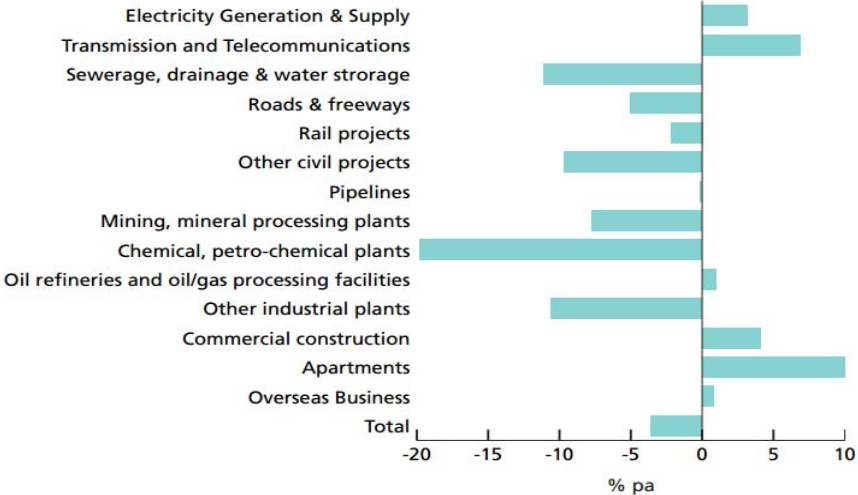
CONSTRUCTION TURNOVER - AUSTRALIA OUTLOOK BY MAIN SECTOR AT A GLANCE TO 2015

Sector	% Change p.a.		
	2013	2014(F)	2015 (F)
Infrastructure	9.2	-4.6	1.6
Mining	10.0	-7.7	-12.5
Heavy Industrial Construction	6.2	-3.6	-12.7
Total Engineering	9.0	-5.1	-2.9
Non-Residential Building (Commercial Construction)	-1.8	4.1	3.5
– Private sector	-3.0	2.8	5.1
– Public sector	-1.0	5.1	2.3
Apartments	2.1	10.0	9.6
Overseas Business	-1.8	0.8	0.5
Total Construction	7.1	-3.6	-1.8

- Australia's leading construction companies are forecasting a decline in total non-residential construction work through the 2014 and 2015 calendar years.
- Total employment is also forecast to decline through to mid-2015 in response to the weakening in resources and total infrastructure project activity.
- Mining related construction is expected to weaken through 2014 and 2015.
- Other notable declines are forecast in other civil projects and heavy industrial resource abased project, including oil and gas processing.
- Commercial construction sector is forecast to gain some momentum over the next two years.

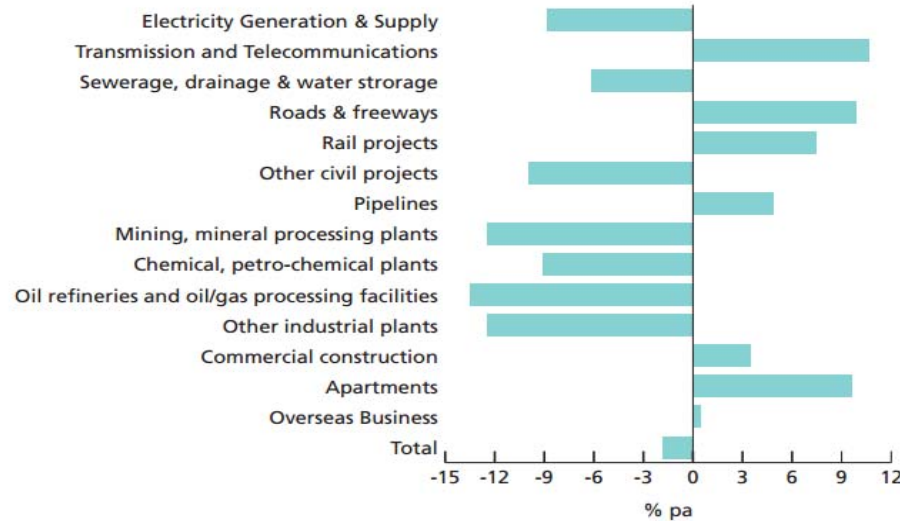
Australia Construction Outlook:2014 and 2015

2014 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



- Growth in total turnover from construction work is forecast to decline by 3.6% p.a.
- Total infrastructure construction is expected to turn down by 4.6% p.a.
- The value of mining sector work is expected to contract by 7.7% p.a. as mining investment reduces from peak levels.
- Work on oil and gas processing projects (+1.0% p.a.) is forecast to be sustained at a high level underpinned by major LNG facilities still under construction.

2015 FORECAST ANNUAL PERCENTAGE CHANGE (CURRENT DOLLARS)



- The total value of construction turnover is forecast to decline by a further 1.8% p.a. during 2015.
- The value of infrastructure work is expected to remain broadly unchanged over the year.
- Consistent with a slowing resource projects pipeline, a further decline in mining related construction work of 12.5% p.a. is expected in 2015.
- A weaker outlook is also predicted for heavy industrial construction in 2015.
- Growth is forecast in turnover from commercial construction activity of 3.5% p.a.

*“However, the cost of building new LNG (Liquefied Natural Gas) projects is now about **20–30 percent** higher than that of the competition in North America and East Africa. ”*

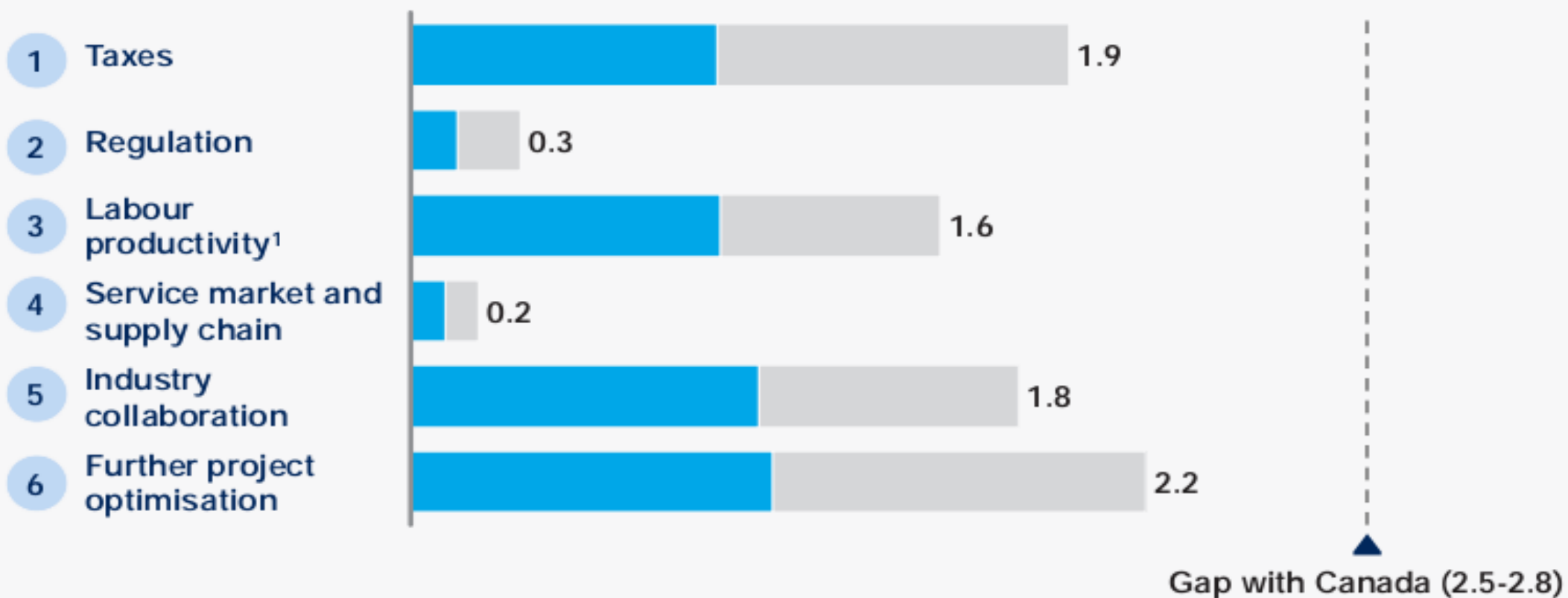
“Australia needs to reduce costs of LNG projects by 20–30 percent to remain competitive” .

— McKinsey & Company “Extending the LNG boom: Improving Australian LNG productivity and competitiveness” , May 2013

None of the improvement areas on its own is sufficient to close the cost gap with competing countries

Impact on breakeven landed costs in Japan in US\$/mmbtu, unconventional projects

Conservative
Optimistic



¹ Includes improvements to productivity (output per manhour) and stabilising labour rate increases to be in line with wage growth in other industries

SOURCE: McKinsey LNG-OMG model, IHS

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in this edition

Australian LNG can only realise its potential if government policy and project cost pressures are managed effectively. To keep the investment pipeline flowing, industry and government must work together.

“Industry must invest in innovation and technology to work smarter, more efficiently and more competitively,” Mr Krzywosinski says.