



CONSTRUCTION INDUSTRY SNAPSHOT

December 2009



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Executive Summary

The purpose of this quarterly report is to provide up to date data on economic, employment and training issues affecting the Construction Industry in Western Australia.

During 2009, the Global Financial Crisis caused major changes to employer optimism and the employment prospects of apprentices and trades-people within the Construction Industry with apprentice commencements still curtailed. The long-term effects of these changes may yet to be fully felt. The resumption of activity and the expected workforce demands of the resource sector need to be carefully considered within this context if we are to avoid the pervasive labour shortages of the past.

Looking forward, the near term economic outlook for WA appears to have turned the corner. Despite some contraction in the WA economy in the September quarter, of 1.2%, business investment falling by 6.1% during the same period, a rebound in imports and weaker commodity prices, other sectors of the economy have shown positive growth¹. Consumer spending rose, and dwelling investment has shown solid improvement with 6.7% growth, unemployment appears to have bottomed and business expectations have “soared to their highest level in 13 years” with 58% of businesses expecting the economy to improve in the days ahead.² Dwelling investment is forecast to grow by 3.25% in 2009-10.

Australia wide, the decline in business investment was impacted by lower investment in new buildings, with a 17.5% fall. However, in WA, there is still a pipeline of construction work to complete, which may provide a buffer while businesses put their expansion plans on hold.

In the Commonwealth Bank – CCI survey of business confidence, there was a feature question on labour shortages, and construction businesses expect to be worst affected in the year ahead, with 68 per cent believing that a lack of suitable workers will have a negative impact on their business one year from now. Almost half of all respondents from the construction, mining and services sectors believed that a lack of staff would have a negative impact on their business in five year’s time.

In terms of specific skills, businesses expect that they will be most in need of construction trades workers, with around 18 per cent of respondents indicating that labour shortages will be most acute in this occupational category in one year’s time. Nearly 54 per cent of construction businesses respondents believe that labour shortages will be most acute for construction trades workers, a view shared by the other sectors of mining (24 per cent), services (eight per cent) and manufacturing (four per cent).³

According to Prospect magazine, resource industry projects committed or under way will require 47,600 construction employees and 11,625 permanent operational staff⁴.

¹ Chamber of Commerce and Industry Outlook December 2009.

² Commonwealth Bank – CCI Survey of Business Expectations <http://www.cciwa.com/economics/>

³ Ibid.

⁴ Prospect, December 2009 –February 2010.

Comparison of WA with Australia

	WA	Australia
Population (June 2009)	2,236,901	21,874,920
CPI (annual rate,) Dec 09	2.6% (Perth)	2.1%
Merchandise Exports* (Sep 2009)	\$5,991m	\$15,695m
Merchandise Imports* (Sep 2009)	\$2,376m	\$17,637m
Unemployment Rate** (Dec 2009)	5.1%	5.6%

(ABS 1304.5 - Stats Talk WA, Dec 2009)

Consumer Price Index.

Western Australia's CPI grew by 0.6% (0.5% nationally) over the December quarter and rose by 2.1% (2.1% nationally) over the year to December 2009.⁵ The biggest contributor to the quarterly increase was housing (0.49 points), followed by food and recreation. Over the year, housing was the biggest contributor to the State's inflation, accounting for 1.78 points. There were price falls in transportation, health and household contents.

State Final Demand.

Domestic demand in Western Australia contracted by 1.2% during the September quarter 2009, following 3.6% growth recorded in the June quarter. Compared to the September quarter 2008, domestic final demand in Western Australia rose by 0.1% during the September quarter 2009 – its lowest rate of annual growth since the June quarter 2001. A 6.1% fall in business investment was the main contributor to the 1.2% contraction in the State's domestic demand during the quarter (detracting 1.9 percentage points). Household consumption rose by 0.9% during the September quarter with dwelling investment also up strongly (6.7%) after two quarters of contraction previously.⁶

Employment

Seasonally adjusted employment in Western Australia increased by 0.6% to 1,172,722 between November and December. Employment fell by 0.8% over the year and grew by 1.8% over the three months to December 2009. In comparison, Australia's seasonally adjusted employment rose by 0.3% to 10,905,875 between November and December. Employment grew by 1.0% over the 12 months.

The Construction Industry employs 10.7% of the state workforce.

Unemployment

The December 2009 rate of 5.1% for Western Australia decreased slightly in the last period by 0.1 percentage points between November and December and is down from the 5 year high reached in September. This is the lowest rate in Australia. The national figure stands at 5.6% for the same month.

⁵ Department of Treasury and Finance, Economic Note; Consumer Price Index, 2009. www.dtf.wa.gov.au

⁶ Ibid State/Domestic Final Demand, . Data sourced from ABS Cat. 5206.0 Australian National Accounts:

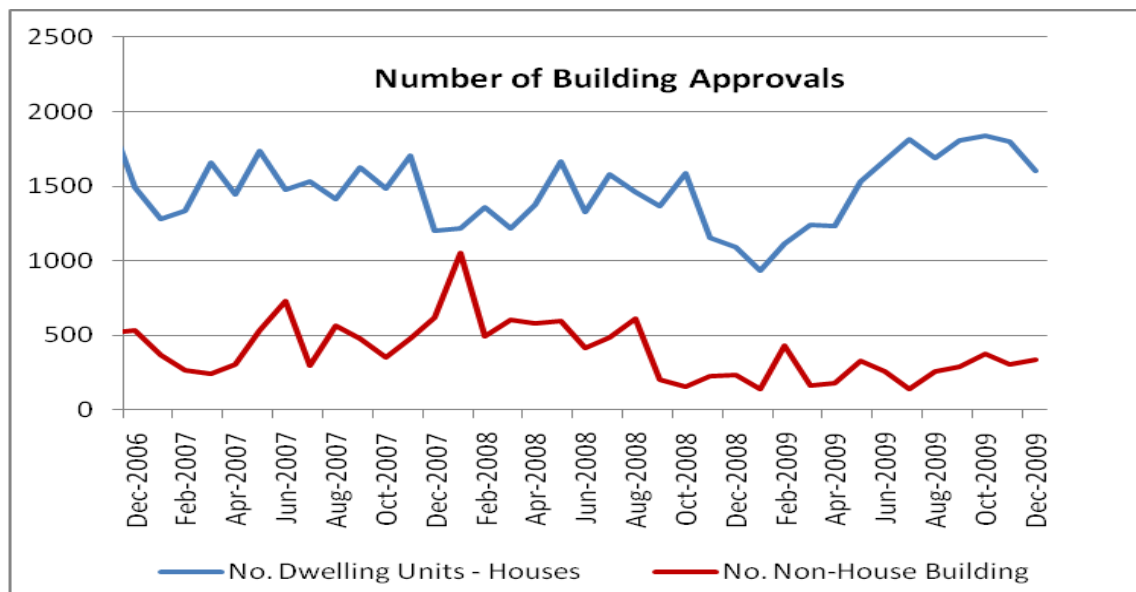
Contribution of the Construction Industry to the State Economy.

The construction industry is a significant contributor to the state economy and productivity. The industry:

- Contributes 9.0% to the Gross State Product ¹
- Employs 10.7% of the state workforce
- Employs 37% of WA's apprentices and 22% of all apprentices / trainees
- 71.4% of the workforce is employed in the metropolitan area
- 84% of the workforce is in fulltime employment
- 15% of the workforce is female

Number of Building Approvals

The graph shows that the picture for the number of buildings approved is down from a peak in 2006⁷. The most significant fall in activity is in the non-house building (other residential and non-residential) sector while house building has begun to show signs of sustained recovery.



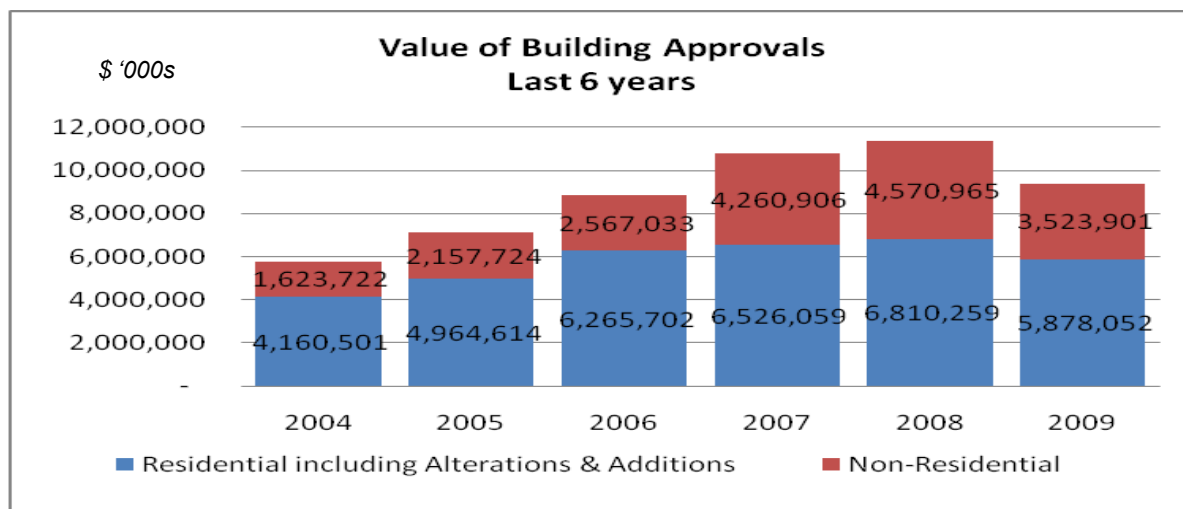
Note:

- Overall building activity for the year to December 2009 is down by 2% on 2008; most of the downturn is in non-house building with a fall of 43%, while house building is up by 12%.
- Activity for the month of December 2009 is up by 47% compared to December 2008 in housing, and up by 44% in non-housing for the same period.
- The low point in housing approvals for the year 2009 was in January, which had the lowest approvals for any month since April 2001.

House building activity is up significantly on the same period last year. Non Res and Other Res has begun to show some improvement.

7 8731.0 Building Approvals. Table 05. Number Dwelling Units Approved, Western Australia

Value of Building Approvals



- For 2009, the value of total building approval is down by 17% on 2008.
- The value of work approved for 2009 in the residential housing sector (which includes alterations and additions) is down by 14% for the year compared to 2008.
- In the non-house building sector, work is still lagging somewhat and is down by 23% on 2008.
- The month of December 2009 was substantially better than for the same month in 2008 by 49% in residential building, but still down in non residential by 7%.

The value of the non residential housing sector is still lagging somewhat for the year. The value of residential housing showed a solid second half of 2009.

Housing Finance Commitments

Finance commitments reached a new high for the construction of new dwellings as at November 2009 in terms of dollar value.

The table indicates that finance commitments for the construction of dwellings has increased somewhat since a low in November 2008, and has now surpassed the numbers seen in 2006 (the highest for any month in 2006 was in May with 1097, and there were 1595 for October this year – 45% higher). Finance for the purchase of new dwellings, however is down by 34% on the 12 months to November 2006 high of 4,908. In terms of value, finance commitments have reached a new high peaking at \$3,215,000 for the 12 months to November 2009 for the construction of new dwellings.⁸

Housing Finance Commitments

12 months to November of each year	Finance Commitments for Construction of Dwellings	Finance Commitments for Purchase of New Dwellings
Nov-2006	11,844	4,908
Nov-2007	9,382	4,371
Nov-2008	8,854	2,684
Nov-2009	13,931	3,215

⁸ ABS Table 10a. Housing Finance Commitments (Owner Occupation), By Purpose: State, Original

First Home Owner Activity.

Indications are that much of the increase in building has been generated by the government incentives such as the First Home Owner Grants, with 29% of all commitments by first home buyers. This compares with a 15% share in November 2007. The size of the average First Home Owner loan has reached a new peak of \$300,800.

While government initiatives such as the FHOG and the FHOB clearly influenced the housing market, grants to first home buyers have now been phased back. In October 2009, the total grant was first reduced and then again on 1 January 2010, the grant was further cut back to pre-2008 levels (\$7000 for both new and established homes). These reductions have been accompanied by a drop in new housing loan finance commitments. In November 2009, total commitments in Western Australia fell by 3.6% in original terms (which translates to a fall of 2.5% in seasonally adjusted terms). For first home buyers the comparable fall was 10.8% in original terms.⁹

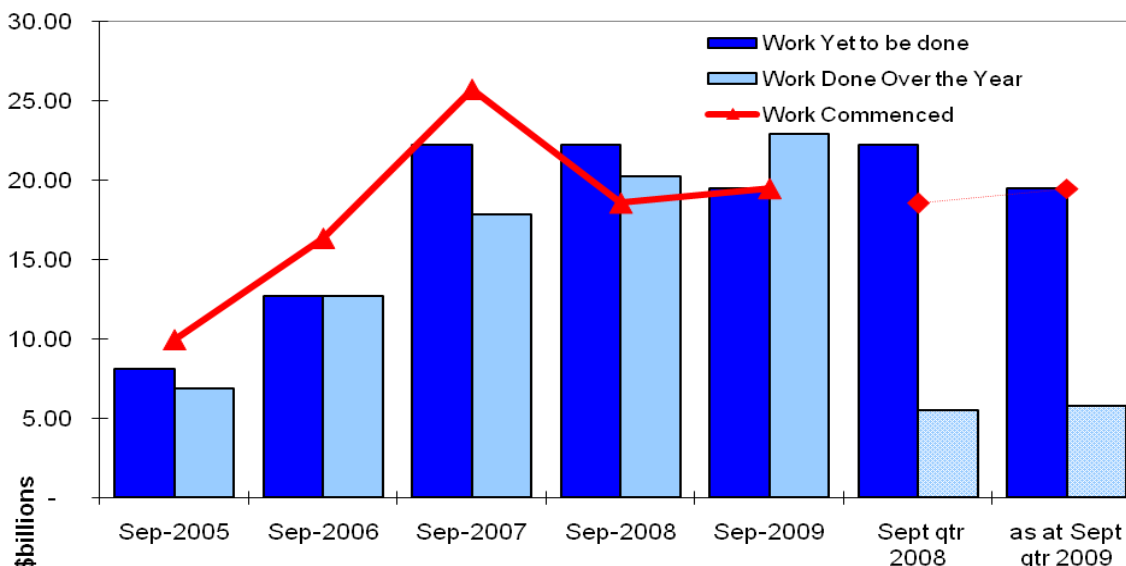
Indications are that the First Home Owner Grants were successful in stimulating activity in this sector of the market.

Engineering Construction Activity.

The value of Engineering Construction Work Done for the four quarters to Sept 2009 was \$22.9 billion worth of work in original prices, which is an increase of 13% on the same four quarter period to Sept 2008 but a decrease of 4.8% on the June 2009 quarter. Additionally, work in the pipeline has decreased. In Sept 2008, there was \$22.23 billion yet to be done, compared to \$19.47 billion dollars of work yet to be done as at Sept 2009, which represents a 12% decrease.¹⁰

The following table represents a comparison of the Value of Work Done, Yet to be Done and Work Commenced over the last 5 years.

Engineering Construction Activity



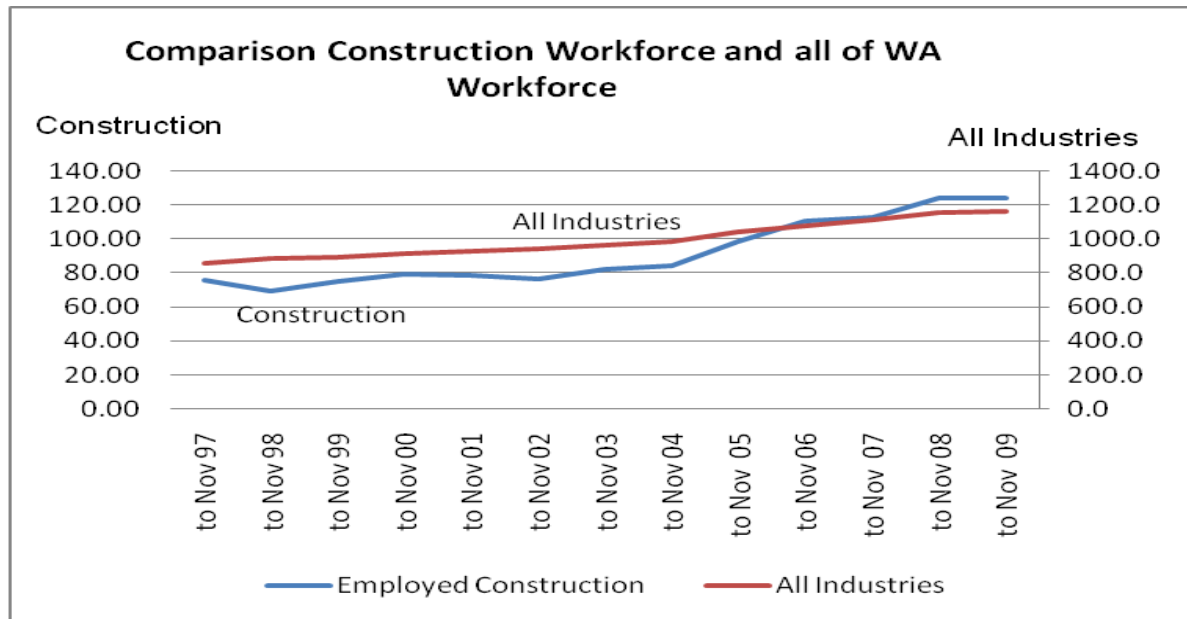
⁹ 1367.5 - WA Statistical Indicators, Dec 2009 Feature Article 2:- Subsidies For First Home Buyers

¹⁰ ABS 8762.0 Engineering Construction Activity Table 5. States and Territories Activity, Original Sept 2009.

Number of People Employed in the Construction Industry

The most recent indications to November 2009 are that employment in the WA construction industry has stayed reasonably steady, with a slight decrease from August 2009 to November 2009 to 125,400.¹¹ This is a 1% decrease in this quarter but 1% up on the workforce of November 2008. The chart below is configured using annualised data (the average over the four quarters for each year).

The construction workforce is performing relatively strongly compared to the rest of the state.



The construction workforce is performing relatively strongly compared to the rest of the state. Employment in all industries state-wide rose by 5.6 % (or 3,400 workers) during December, but still remains down by 0.8% compared to a year earlier.

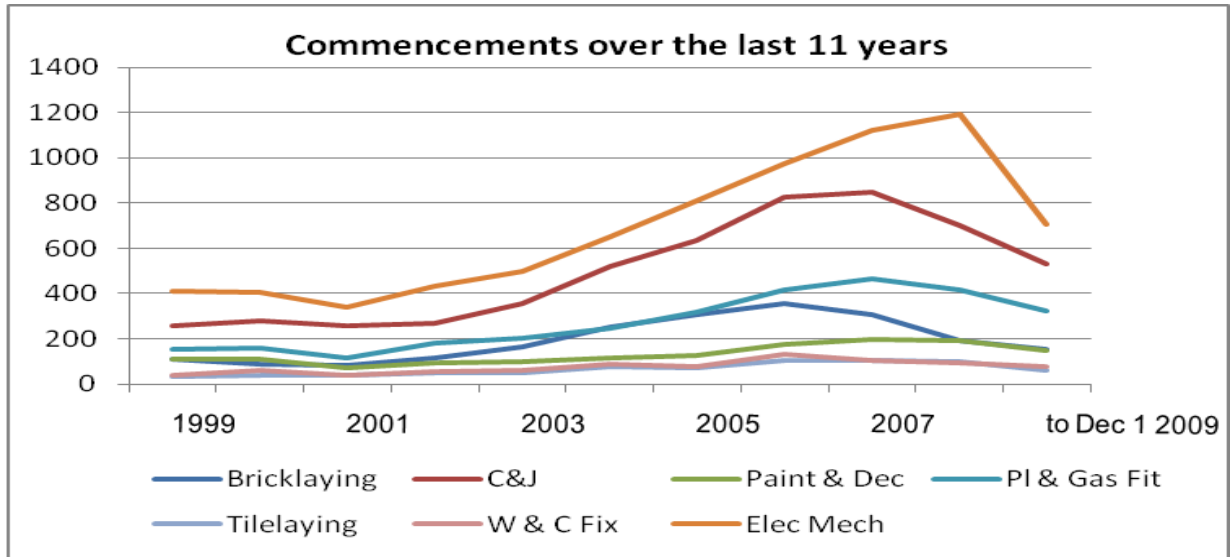
Apprentice Commencements

Apprentice commencements are aligned to the economic cycle and are an indicator of employer confidence in the market, particularly long term. Current trends in apprentice commencements indicate that employers are still exercising some caution.

The graph below compares the number of commencements for a number of construction trades for the 11 months to the end of November 2009 with the full year of commencements for the previous 10 years, it is still apparent that confidence is yet to return.

Confidence in the economy is yet to be reflected in the number of apprentices

¹¹ Australian Bureau of Statistics. Datacube ST E06_Aug94 Table 05. Employed persons by State and Industry. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/>



The table below, is useful for a comparison of commencement numbers in a number of trades, as it tracks apprentice commencement numbers for the first 11 months of the year over a three year period. It also compares the percentage reduction in comencements for 2007 (when commencements peaked) and for 2008 to the most recent measure, the 11 months to 1 December 2009. It is apparent that commencements are considerably reduced across the trades.

Apprentice Commencements								
11 month period	Brick-laying	Carpentry & Joinery	Painter & Dec	Plumb& Gas Fit	Tile-laying	Wall& C Fix	All B&C Trades*	Electrical Mechanics
Jan - Nov 07	300	807	184	442	100	97	2,244	1,046
Jan - Nov 08	192	676	184	403	93	94	1,813	1,133
Jan - Nov 09	153	531	146	324	58	78	1,431	706
% Reduction 07 & 09	-49%	-34%	-21%	-27%	-42%	-20%	-36%	-33%
% Reduction 08 & 09	-20%	-21%	-21%	-20%	-38%	-17%	-21%	-38%

*Note that "all building industry trades" is broader than the list shown, and includes all the trades across the industry, but excludes Electrical Mechanics.

Traineeships peaked in 2008 with 496 commencements, but as at the end of November 2009, they were also showing signs of slowing, with 305 trainees commenced during the 11 month period.

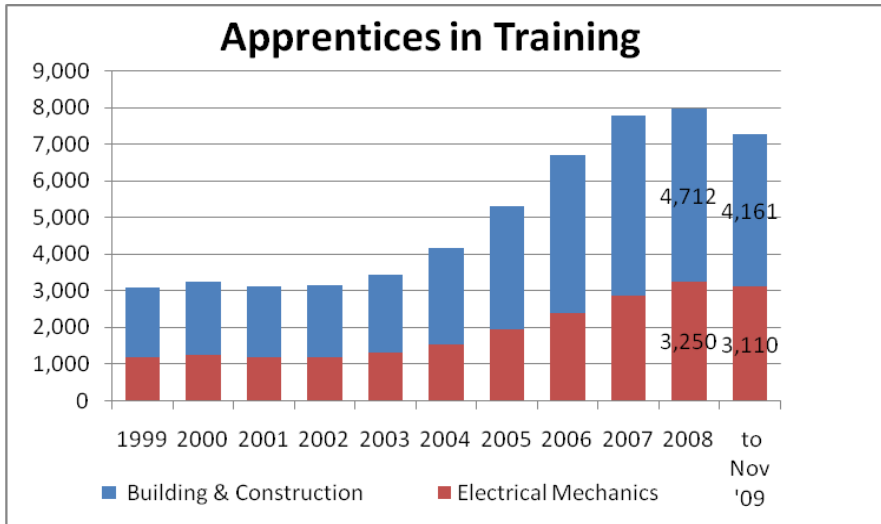
Apprentices Currently "In-training"

In training (national definition) measures the number of apprentices who at the selected time period were actively engaged in training, and includes contracts that were suspended at the end of the month.

In-training activity is reflecting the slowdown in commencements.

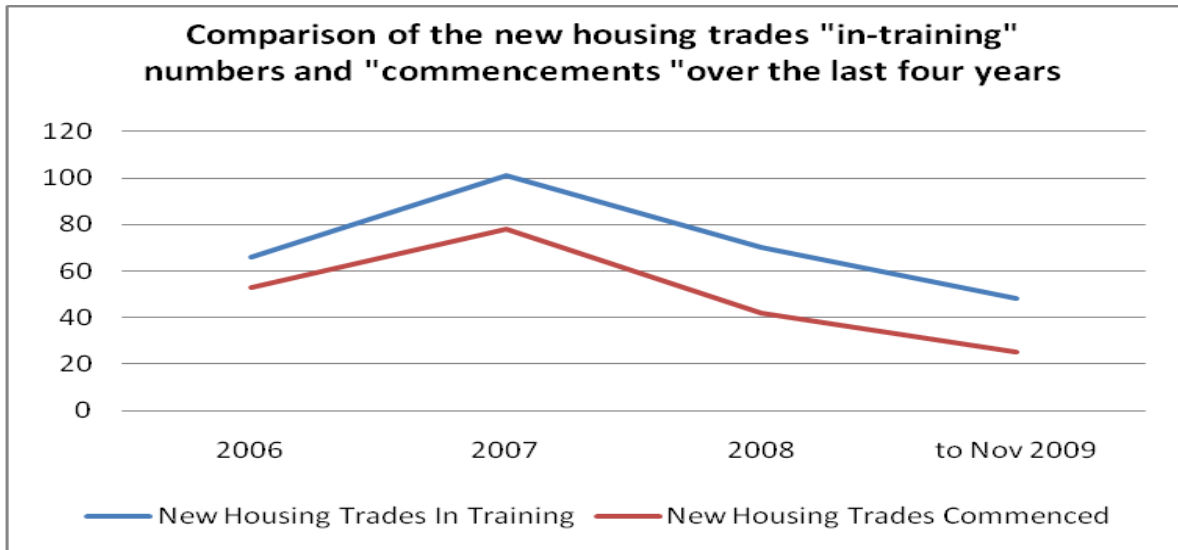
As at the end of November 2009, there were a total of 7,271 apprentices in training which is 1,030 or 12% down from the record level of 8301 in March 2008, due, in part to record commencements which had experienced a significant upward trend since 2001. In-training numbers are fairly static, as commencements have been slowing more recently.

The graph shows in training numbers for all of the industry, including Electrical Mechanics.



The new housing qualifications have now been in place for four years, and they are currently being reviewed. The following is a graph of the combined in training and commencements numbers for the eleven new two year housing apprenticeships. Completion rates for these trades have also been low.

Take-up of the new housing qualifications has been low, as are in-training numbers and completion rates.



Apprentice Completion Rates, Cancellations and Withdrawals.

The table is a snapshot of apprenticeship employment activity by cohort, and provides some insight into the employment patterns during highs and lows of economic activity.

Apprenticeships (excluding Electrical Mechanics)							
	Commence	Complete	Still Active	Completion rate so far	Best possible completion rate	WD*	Cancel
1999	767	459	0	60%	60%	15%	24%
2000	786	478	0	61%	61%	13%	24%
2001	658	441	0	67%	67%	12%	20%
2002	800	509	0	64%	64%	14%	22%
2003	1,009	595	1	59%	59%	16%	24%
2004	1,402	814	1	58%	58%	18%	23%
2005	1,734	1,022	21	59%	60%	15%	24%
2006	2,293	861	422	38%	56%	16%	26%
2007	2,342	199	1,105	8%	56%	17%	26%
2008	1,873	38	1,195	2%	66%	14%	18%
to Dec 1 2009	1,431	13	1,193	1%	84%	7%	8%

Note1: that the statistics for 2009 are preliminary, and it is too early to be conclusive about completion rates for recent years.

Note 2: Best possible completion rate only applies if all current active apprentices complete.

Note 3. *Withdrawals (WD) are when an apprentice leaves during probation, cancellations occur after registration.

Withdrawal rates have been consistent over the last 10 years, sitting at between 14% and 18% of all commencements. Around 1 in 4 apprentices cancel (20-26%), and this rate has also been fairly consistent in the same time period. The combined rates are still at an unacceptably high level, with less than 2/3 of all commencing apprentices completing. This wastage from the industry is of concern, in a time of aging population, and imminent skills shortage.

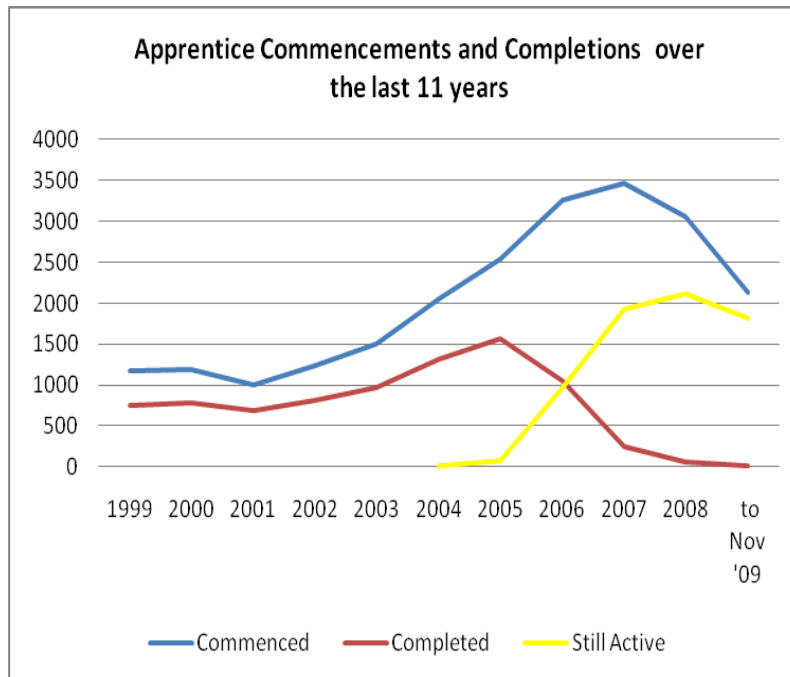
Around 1 in 4 apprentices leave before completing their training.

Electrical Mechanics are excluded from the above table, as they are not included in the Construction Training Council coverage, but they are subsidised by the Construction Training Fund, and provide an interesting comparison.

Electrical Mechanics							
	Commenced	Completed	Still Active	Completion rate	Best Possible Completion rate	WD rate	Cancel rate
1999	411	296	0	72%	72%	2%	33%
2000	407	297	0	73%	73%	2%	29%
2001	338	255	0	75%	75%	1%	30%
2002	431	305	1	71%	71%	2%	23%
2003	496	378	3	76%	77%	1%	25%
2004	654	495	6	76%	77%	2%	23%
2005	810	539	49	67%	73%	1%	27%
2006	972	186	546	19%	75%	1%	27%
2007	1121	47	824	4%	78%	1%	23%
2008	1192	27	920	2%	79%	1%	18%
to Dec 1 2009	706	7	626	1%	90%	0%	2%

The comparison between the 2 sectors highlights a number of issues. Factors that influence the differing rates of completion, as identified by previous research, are the higher entry level benchmarks for electrical mechanics, the higher number of students attracted to the apprenticeship, and the need to complete the training to be licensed and practice in the industry.

Electrical Mechanics have higher rates of completion, for a number of reasons.



The graph presents apprentice data, and shows the number of commencements and completions by year for the last 11 years. The graph is for all construction trades and includes electrical mechanics.

The table indicates that the trend in commencements has not kept pace with the trend in completions.

Group Training Organisations, are a significant employer of apprentices and trainees in Western Australia for this industry. It appears they have exercised some caution in their hiring of apprentices during the economic downturn. The table shows the percentage share of of apprentices who are currently employed by group training organisations, of all apprentices in training. Other apprentices are directly employed.

Percentage of Apprentice Commencements with GTOs			
Year	Construction Apprentices	Electrical Mechanic Apprentices	Construction Trainees
1999	54%	31%	82%
2000	49%	38%	84%
2001	50%	36%	50%
2002	45%	30%	37%
2003	50%	26%	40%
2004	44%	31%	20%
2005	41%	29%	13%
2006	45%	29%	31%
2007	42%	30%	24%
2008	39%	27%	20%
to Dec 1 2009	38%	24%	38%

It is anticipated that the new federal incentives available to employers, as well as the higher Construction Training Fund apprentice payments to the employer, will provide

impetus to encourage employers to take on an apprentice. This is regarded as a significant priority by the Fund and is being closely monitored.

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SUPPORTING SKILLS TRAINING IN THE WESTERN AUSTRALIAN CONSTRUCTION INDUSTRY