



CONSTRUCTION INDUSTRY SNAPSHOT

September 2009

Version 2



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Executive Summary

The purpose of this report is to provide recent data to show the economic fluctuations that have occurred due to the Global Economic Crisis (GEC) of 2008/09, as well as the government stimulus package and how they are impacting on the Building & Construction Industry in Western Australia.

The report is provided on a quarterly basis to enable recent events to be monitored, evaluated and used as a basis for decision making.

The GEC has caused major changes to the employment prospects of apprentices and trades-people within the Building & Construction Industry. The long-term effects of these changes and the resumption in activity with the recent announcements of construction activity in the resource sector need to be carefully considered if we are to avoid a repeat of the previous five years of skills shortages.

Looking forward, the near term economic outlook for WA has improved slightly, in line with signs that the worst of the economic downturn may be over. According to the Chamber of Commerce and Industry (Outlook Sept 2009) there was some growth in the WA economy in the June quarter, of just 1.6%, and an overall increase of 2.5% on an annual basis. This will be the lowest annual growth rate in more than seven years but has occurred in an economic climate where other countries have recorded negative returns.

Business investment is a key driver of this growth, and investment in WA businesses grew by 5.6% in the June quarter, but again still below the rate of growth seen over the last few years. CCI is expecting further growth in business investment which is underpinned by the major construction projects remaining in the pipeline. Dwelling investment detracted from growth in the WA economy, and it appears that consumers are still cautious with dwelling investment down by more than 21% in the year. Additionally, the backlog of non-residential activity fell for the second consecutive quarter, and will represent the first annual decline since 2003.

A number of major investment projects for the state are expected to enter the construction phase earlier than initially expected and there are nearly \$192 billion worth of projects either under construction or in the pipeline for WA.¹

The recent announcements of a number of key projects has implications for the construction workforce which has seen growth in the last quarter, and is up on the August 2008 figures. The Gorgon project, for example will create around 10,000 construction jobs. According to Prospect magazine, resource industry projects committed or under way will require 41,500 construction employees and 12,300 permanent operational staff².

Comparison of WA with Australia

	WA	Australia
Population (Dec 2008)	2.2m	21.6m
CPI (annual rate, Jun 2009)	1.4% (Perth)	1.5%
Merchandise Exports* (Jul 2009)	\$6,002m	\$15,458m
Merchandise Imports* (Jul 2009)	\$2,199m	\$16,698m
Unemployment Rate** (Aug 2009)	5.5%	5.8%

(ABS 1304.5 - Stats Talk WA, Sep 2009 released 23 Sept 09)

¹ CCI Economic. Outlook – September 2009

² Prospect; September – November 2009.

2009 to Date

Consumer Price Index.

Western Australia's CPI grew by 0.8% (0.5% nationally) over the June quarter and rose by 1.4% (1.5% nationally) over the year to June 2009.³ The biggest contributor to the quarterly increase was transportation (2.8%), mainly automotive fuel. Housing over the quarter increased by 1%.

Employment State-wide

Seasonally Adjusted

The state's seasonally adjusted employment grew by 1.0 percentage points in August but an overall 1.3% for the year to date. Labour force participation fell by 1.0% over the year to 68.5% but grew by 0.3% over the quarter.

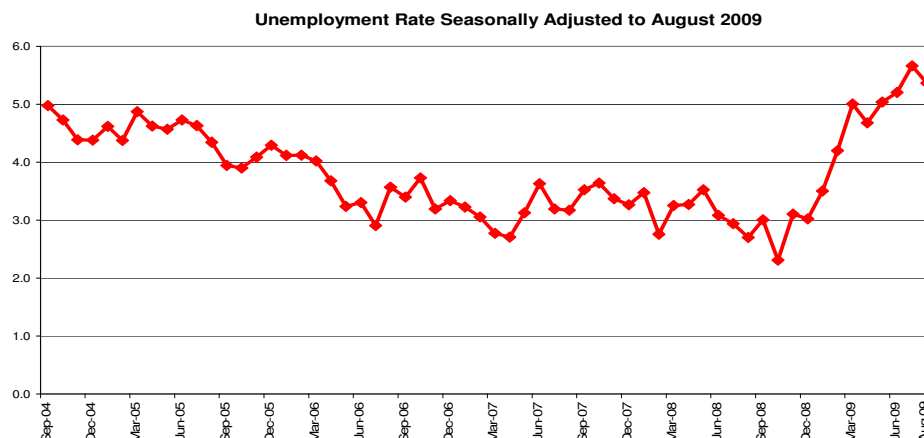
Trend

The trend employment rate in Western Australia fell by 1.0 percentage point over the year to August 2009, dropped by 0.5% in the three months to August and increased by 0.2% between July and August.⁴

Unemployment

The August 2009 rate of 5.4% represented Western Australia's highest level of unemployment for almost five years. However, this was well below the national figure of 5.8% for the same month. In August 2009, Western Australia had the third lowest unemployment rate in the nation, having recently exceeded the rate in the Northern Territory (3.6%) as well as the Australian Capital Territory (4.1%). All other states except Western Australia had rates above 5.4%, with Queensland having the next lowest rate (5.5 %) and New South Wales the highest (6.5%) with Victoria on 6.0%

The unemployment rate in Western Australia decreased slightly in the last period by 0.3 percentage points to 5.4% between July and August which was a 2.7% increase over the year to August 2009⁵ with 63,100 people looking for work in WA.



The unemployment rate in WA is well below that of the other major states

3 Department of Treasury and Finance, Economic Note; Consumer Price Index, 2009.

4 http://www.dtf.wa.gov.au/cms/uploadedFiles/_Treasury/Economic_Data/cpijune2009.PDF

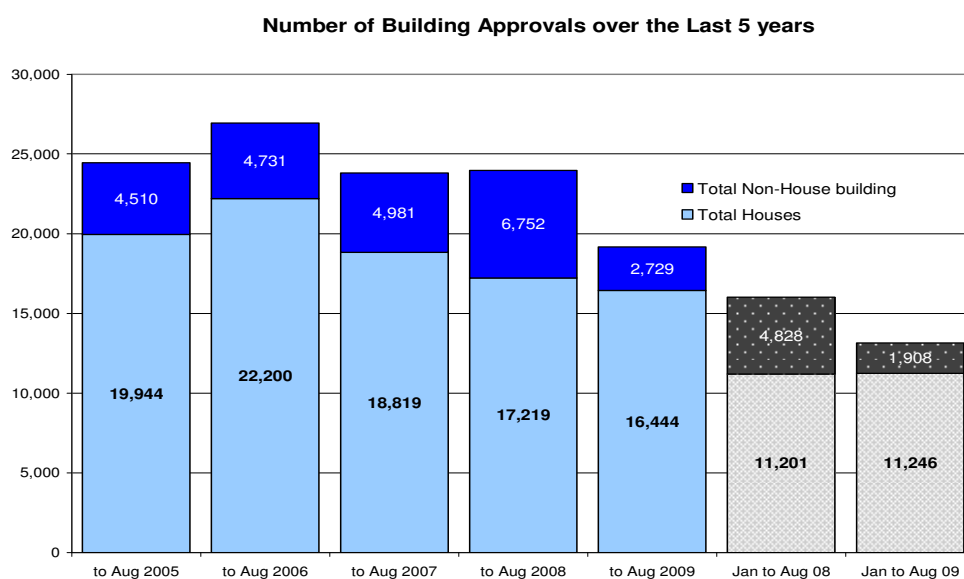
5 Department of Treasury and Finance, *ibid*.

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 8.0% to the Gross State Product
- Employs 10.4% of the state workforce
- Employs 37% of the state's apprentices and 22% of apprentices and trainees combined.
- 70.6% of the workforce is employed in the metropolitan area
- 80% of the workforce is in fulltime employment
- 12% of the workforce is female

Number of Building Approvals



The graph shows that the number of buildings approved is down from a peak in 2006⁶. The most significant fall in activity is in the non-house building sector. Note:

- Overall building activity for the year so far to August 2009 is down by 20% on the previous year; most of the downturn is in non-house building with a fall of 59.6%, while house building activity is down by 5%.
- For the first 8 months of the year to August 2009 house building activity has increased by 0.4% compared to the first 8 months of 2008; non-housing building activity is down by 60.5% for the same period.

It is clear that most of the activity is in new housing. Further examination of activity shows that other than detached housing activity other forms of building activity are experiencing difficulty; *apartment building 4 storeys and above* is down by 89%.

Overall building activity is down by 20%, but house building activity is beginning to turn.

The table below provides detail of the difference in dwelling activity in the first 8 months of this year and the first 8 months of 2008.

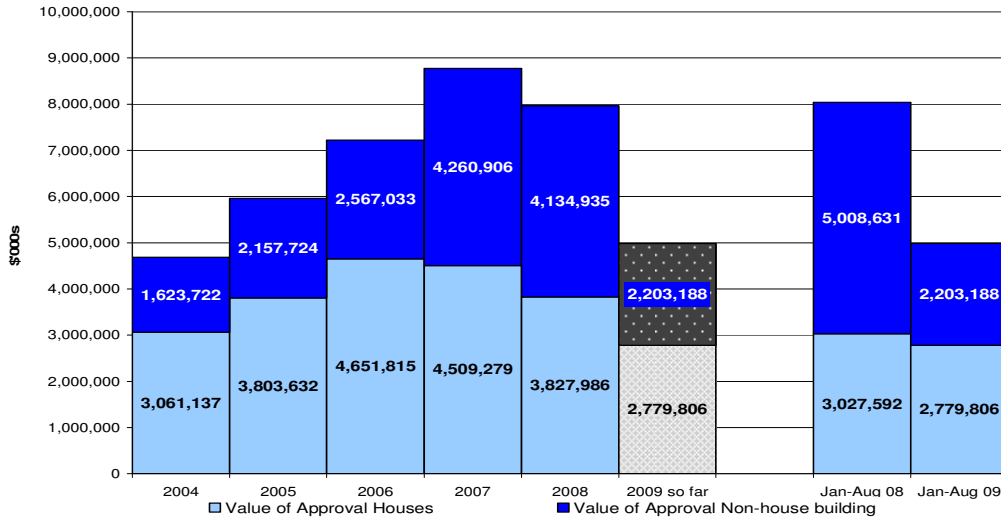
⁶ 8731.0 Building Approvals. Table 05. Number Dwelling Units Approved, Western Australia

Other Dwelling approvals:

Number of New dwelling units	Semi-detached, row or terrace houses, townhouses etc	Flat, unit or apartment 1-2 storeys	Flat, unit or apartment, 3 storeys	Flat, unit or apartment >4 storeys	Total Flats, units or apartments	Total new "other" residential
8 months to Aug 2009	1409	76	83	284	443	1852
8 months to Aug 2008	1842	104	218	2526	2848	4690
% total past year	10.76%	0.58%	0.63%	2.17%	3.38%	14.15%
Jan-Aug 08 & Jan-Aug 09	-24%	-27%	-62%	-89%	-84%	-61%

Value of Building Approvals

Value of Building Approvals over the last 6 years



- For the first 8 months of 2009 value of non residential housing approval is down by 56% compared to the first 8 months of 2008. Value of building in the housing sector is down by 8% over the same period.
- The value of work approved in August 2009 in the new housing sector is down by 9% on the previous month and still down by 4% on the value of work approved in August 2008.
- In the non-house building sector work is up by 41% on the value of work approved for the previous month, but it represents an overall fall of 36% for the first 8 months of this year compared to the first 8 months of the last year.

The non residential housing sector has experienced a considerable downturn compared to the value of approvals for same period last year.

Housing Finance Commitments

The table presents statistics on housing finance commitments made by significant lenders. This includes secured finance commitments for the construction or purchase of owner occupied dwellings and finance commitments for the construction or purchase of dwellings for rent or resale (investment housing). The table indicates that finance for the construction of dwellings has increased somewhat since a low in August 2008, but is not at the levels seen in 2006 (when it was 7% higher). Finance for the purchase of new dwellings is down by 38% on the 2006 high of 4758. Activity for the year so far peaked in June (with 1464 commitments) for construction of dwellings and in July for the purchase of new dwellings (297).⁷

The number of housing finance commitments has increased on the number of commitments for August 2008.

⁷ TABLE 10a. HOUSING FINANCE COMMITMENTS (Owner Occupation), By Purpose: State, Original (Number)

Housing Finance Commitments

12 months to August of each year	Finance Commitments for Construction of Dwellings	Finance Commitments for Purchase of New Dwellings
Aug-2005	12,154	3,009
Aug-2006	12,254	4,758
Aug-2007	9680	4546
Aug-2008	9045	2992
Aug-2009	11397	2970

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. The table below gives some credibility to this view.

Total number of First Home Owner Grants paid ¹			
	Established Homes	New Houses and Land	Total
12 months to Aug 08	12,196	2,984	15,180
Activity for Aug-08	1,041	239	1,280
Activity for Aug-09	1,249	729	1,978
12 months to Aug 09	15,769	6,414	22,188

First home owners have been active in the market, encouraged by the incentives and the increase in house affordability.

The number of FHOG for established houses increased by 20% for the year to August last year compared to August of this year. Grants for *new* houses and land increased by 205% for the month of August 2009 compared to August 2008, and 115% over the year to August 2009 compared to the same period to August 2008.

Underlying Demand

The status of the rental market puts pressure on the new housing market. The current vacancy rate in Perth as at the June quarter 2009 is 3.5% which is an increase of 0.6% in the last 3 months and 0.7% increase on the previous year. The median rent is \$360 which is no change in the last ¼ but a 2.9% increase in the last 12 months. Such increases, along with the fall in interest rates will make the purchase of a new house a more attractive proposition.⁸

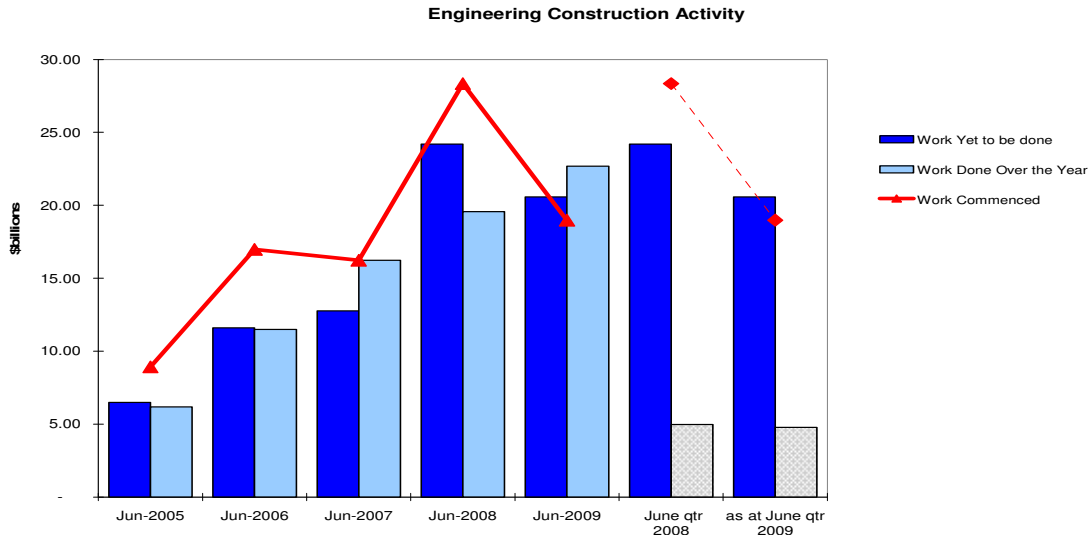
Other property market indicators, show that the median land sale price in Perth is \$240,000 which is a 9.1% increase in the last 3 months but overall no change over the last 12 months. In regional WA the median land sale price is \$150,000, which is a fall of 2.9% in the last 3 months and a 1.4% increase in the last year. These indicators are impacted by the number of people coming to live or stay in WA

Engineering Construction Activity.

The value of Engineering Construction Work Done for the four quarters to June 2009 is \$22.7 billion worth of work in original prices, which is an increase of 16% on the same period to June 2008 and an increase of 22.8% for the last quarter. However, work in the pipeline has decreased. In June 2008, there was \$24.2 billion yet to be done, compared to \$20.6 billion dollars of work yet to be done as at June 2009, which represents a 15% decrease.⁹

⁸ Property Market Indicators <http://reiwa.com/res/res-marketindicators-display.cfm>

⁹ 8762.0 Engineering Construction Activity, Australia Table 5. Activity, Original ABS October 2009.



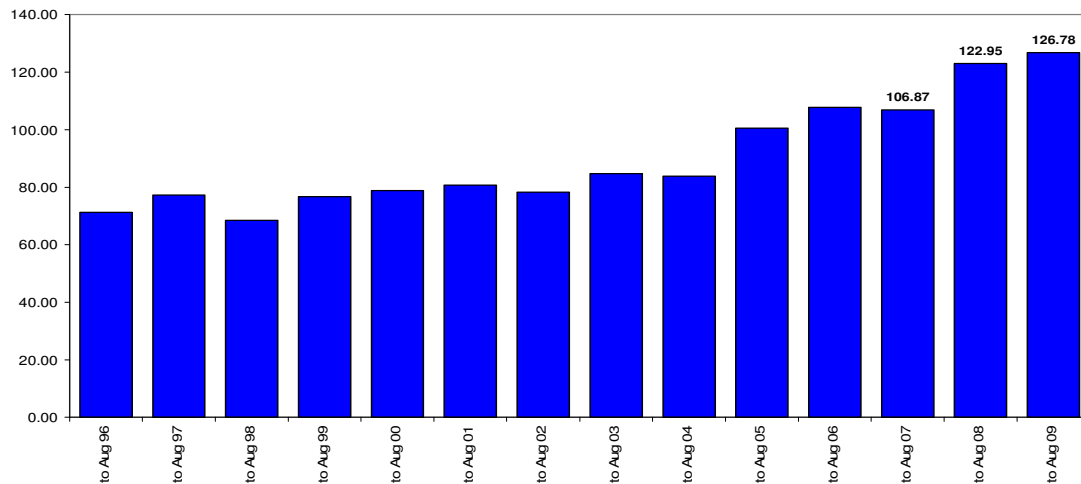
Number Of People Employed In The Construction Industry

The most recent indications to August 2009 are that employment has stayed reasonably steady, with a slight increase from May 2009 to August 2009 to 126,800.¹⁰ This is a 4% increase in this quarter and 3% up on the workforce of August 2008. The construction workforce is performing relatively strongly compared to the rest of the state.

Looking at employment in all industries statewide, total employment in WA rose by one per cent (or 11,600 workers) during August, but still remains down by 1.3% compared to a year earlier or 15,055 fewer workers employed.

Employment in the construction industry has remained fairly robust throughout the last 12 months.

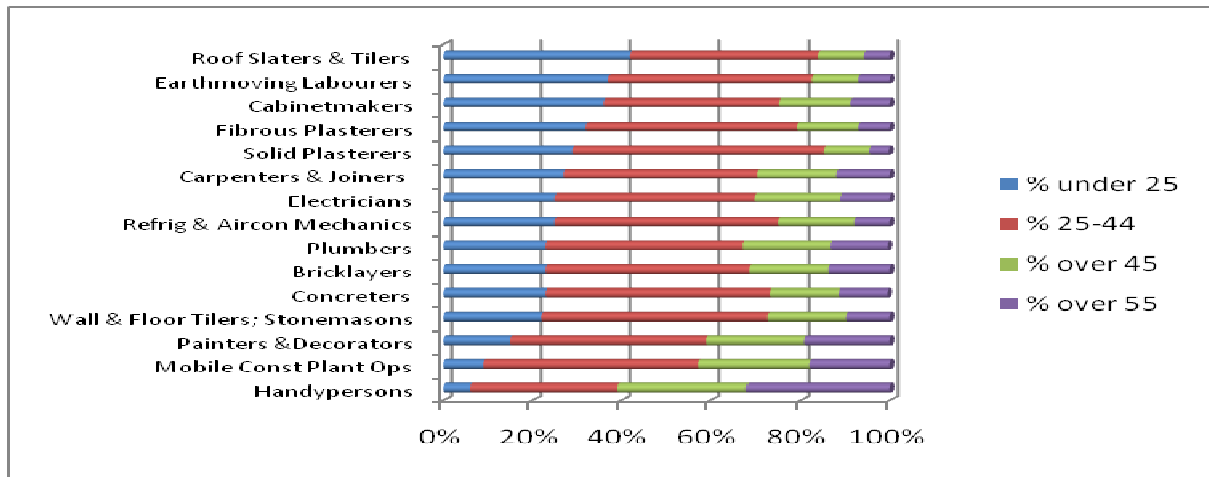
Number Employed Construction Industry WA in '000s



¹⁰ Australian Bureau of Statistics. Table 05. Employed persons by State and Industry. <http://www.abs.gov.au/AUSSTATS/abs@.nsf/>

Age Profile of the Construction Workforce

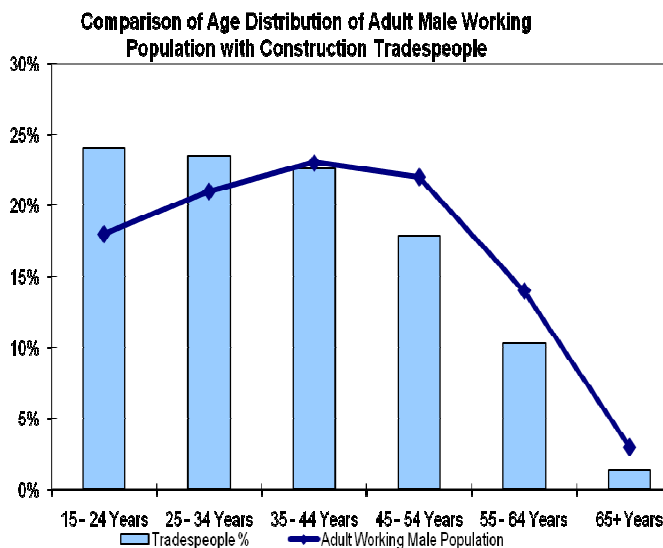
An accurate age profile of the construction workforce is only possible from the census, and the following is a sample of the construction workforce. Roof slaters have the highest proportion of young workers, while handypersons have significant percentage of workers over 45. It may also be an indication, that older experienced tradespeople become handypersons.¹¹



Age Profile of the Construction Trades Workforce and the Adult Male Population

A comparison of the age profile of the construction workforce and the adult male working population indicates a “young” construction workforce, with lower proportion of workers over 45 than the rest of the population. This is probably influenced by a number of factors:

- The need to have a certain level of fitness to work as a tradesperson.
- Young men can enter a trade straight from school.
- Tradespeople move onto other careers as they age.
- Older tradespeople do not have long working life due to chronic soft tissue damage (of knees, backs and so on).¹¹

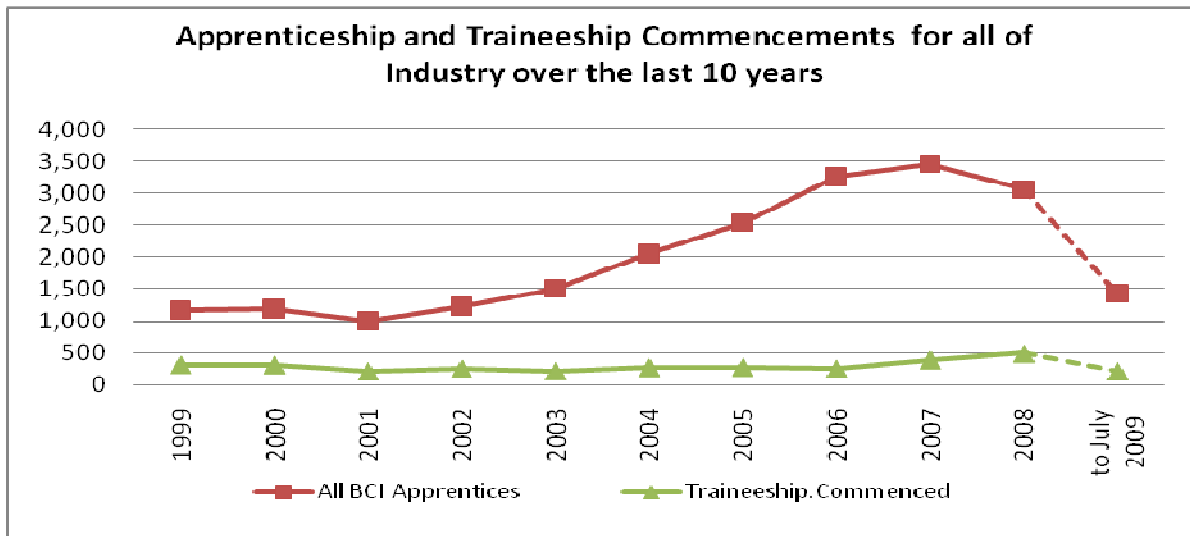


Age Profile Building Tradespeople	Tradespeople %	Adult Working Male Population
15 - 24 Years	24%	18%
25 - 34 Years	24%	21%
35 - 44 Years	23%	23%
45 - 54 Years	18%	22%
55 - 64 Years	10%	14%
65+ Years	1%	3%
Total	100%	100%

¹¹ ABS datacube, occupation ASCO 2 by age

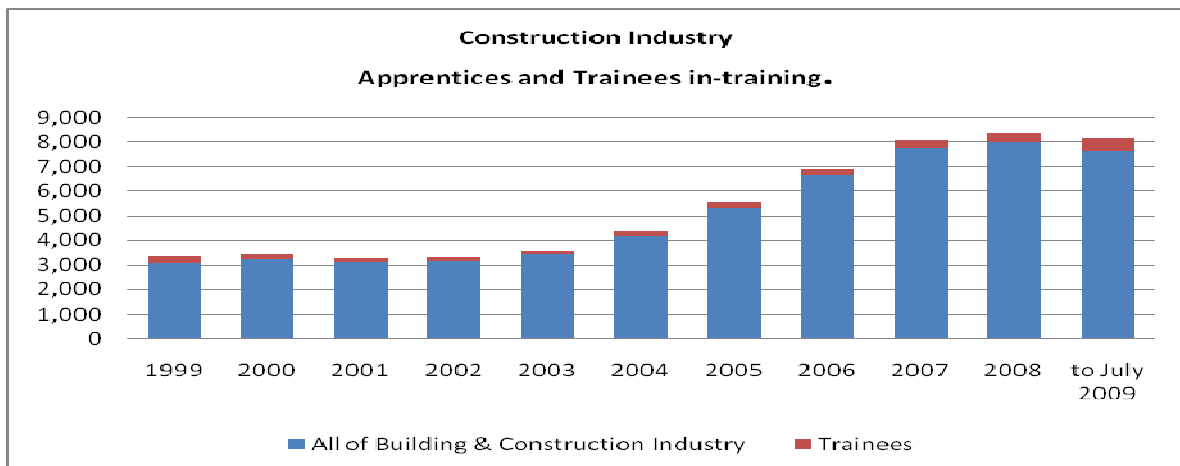
Apprentice Commencements

Apprentice commencements have been very strong over the last few years, with a peak occurring in 2007 (of 3463). 2008 saw a reduction in the number of commencements over the year (down 11% on 2007), There has been a further reduction in the overall number of apprentices commencing in 2009. So far, 475 Electrical Mechanics commenced in the first 7 months of this year which compares unfavourably with 827 for the same period last year, a drop of 43%. Commencements for all of the industry including Electrical Mechanics are 34% down on numbers at the same 7 month point to July for 2008 and 2009. Trainee commencements reached an all time high in 2008 with 494 trainees, many in higher level traineeships.



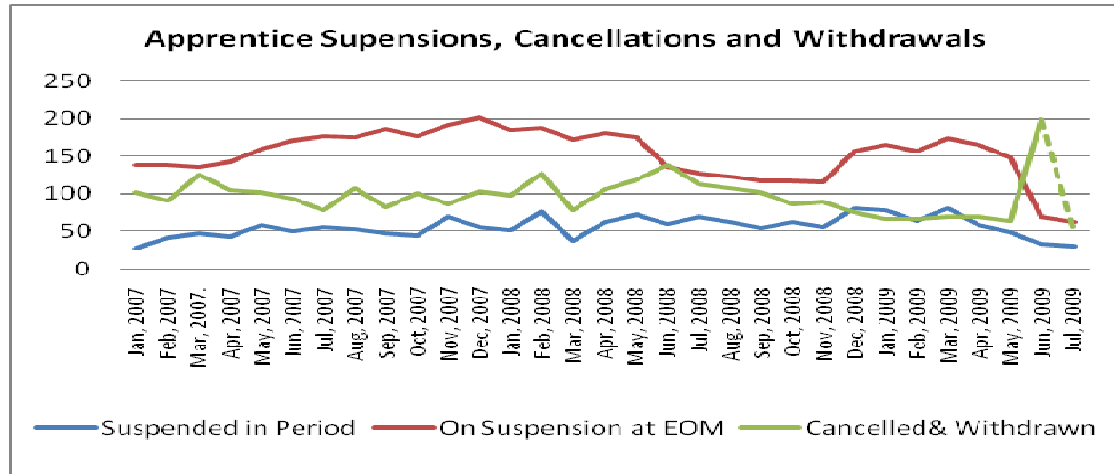
Apprentices and Trainees Currently “in-training”

As at July 2009, there were 7,655 apprentices-in-training which is 629 or 8% down from the record level of 8302 in January 2008, due, in part to record commencements which had experienced a significant upward trend since 2001. Nonetheless, in-training numbers have now begun to stabilize, as the growth has been slowing more recently. The graph shows in training numbers for all of the industry, including Electrical Mechanics, and trainees.



Apprentice Suspensions, Cancellations and Withdrawals.

The graph below shows the pattern of apprentices who are at risk of leaving (suspended) or who have left.(cancelled or withdrawn). The data is current to July 2009 but still preliminary at this stage. It does appear that the cancellation / withdrawal rate has increased, while the suspension rate has decreased; this is probably due to the new provisions in the VET Act, and this will be monitored. Those who are withdraw or cancel are unlikely to re-enter an apprenticeship.



Group Training Schemes.

It is interesting to monitor the share of apprenticeship training undertaken by group training schemes. In the construction industry the schemes have a considerable role in apprentice and trainee training as indicated by the table below. (note that BCI=Building and Construction Industry excluding Electrical Mechanics)

% in Group Training Scheme				
Year	BCI	Electrical Mechanics	All of Building Industry	Trainees
1990	12%	10%	12%	0%
1991	9%	10%	9%	0%
1992	14%	11%	13%	0%
1993	25%	17%	23%	0%
1994	35%	18%	30%	0%
1995	37%	24%	33%	0%
1996	40%	27%	36%	12%
1997	45%	31%	40%	44%
1998	48%	34%	43%	40%
1999	50%	33%	44%	82%
2000	49%	34%	43%	83%
2001	48%	36%	44%	49%
2002	46%	35%	42%	40%
2003	45%	34%	40%	33%
2004	44%	33%	40%	17%
2005	42%	31%	38%	8%
2006	43%	31%	39%	28%
2007	42%	32%	38%	22%
2008	40%	30%	36%	19%
-2009	38%	28%	33%	21%