

# State of the HVAC&R nation

Wherever you look, it seems the global financial crisis is having an impact. Major construction projects are on hold, job losses are beginning to be felt across many industries and apprentices are back to finding it difficult to break into their chosen field. Sean McGowan looks at the state of the HVAC&R nation – from north to south.

Since the economy really hit the skids in August 2008, the news has been rather bleak. The sharemarket took a nosedive, industry slowed and job security became top of mind – not just for the working force of Australia but indeed for the Federal Government as its two enormous stimulus packages were delivered quickly in an attempt to spend our way out of the mire and keep jobs intact.

Ten months on, and things have got better – and worse.

While the sharemarket has begun to claw back some of its losses and the world economy has stabilised somewhat, business sentiment remains low as figures reveal Australia is now in recession following two quarters of negative growth.

Meanwhile, job security remains the biggest concern. Access Economics released a report in late April which tipped the jobless rate would reach 8.5% by the end of 2010 – the equivalent of approximately one million unemployed Australians within 18 months.

Which begs the question – have we seen the worst of the global financial crisis's impact on Australia, or is more to come? And what does the immediate future hold for the HVAC&R industry and its members?

The difficulty is deciphering the gloom and doom from the reality.

## Good news up north

Jeff Jackson, managing director of Jackson & Jackson Refrigeration based in Innisfail in Far North Queensland, says that fortunately, the global financial crisis is yet to have any real effect on their business.

In a region of Australia which has enjoyed very strong growth over the last decade, and is forecast to see 5,000 new residents and 2,000 new homes every year until 2025, perhaps the tyranny of distance has its advantages for Far North Queensland.

Jackson says that many of their larger clients, particularly in the food production and wholesale areas, appear to have been largely unaffected to date, which has seen the company enjoy some growth in refrigeration and air conditioning service and repairs.

"General commercial contracting is steady at present and the domestic and residential market is falling significantly, but we have the capacity to move our operation to suit the prevailing market conditions," he explains.

If anything, Jackson says the global financial crisis is having more of an effect in business operations, with cash flow and competition two areas in the gun.

"The business has been affected mostly in the area of cash flow (as) it would appear in an overall sense that debtors are taking longer to pay which in turn affects how we pay our suppliers," he says.

"The open tender market has also become very competitive. However, most other pricing for our main markets remains relatively unaffected."

And while local communities have seen some job losses, mainly in the residential construction market, the good news is that Jackson & Jackson Refrigeration's staffing levels will remain stable for the whole of 2009.

Jackson says while staff remain understandably concerned about job security, as the company's sales order book fills so too does the concern.

"We have secured enough work to keep all staff employed for the remainder of 2009 (and) we are still looking to employ experienced, skilled tradesmen," Jackson says.

"The rest of this year looks quite good with many new projects about to commence within Far North Queensland. We are quite busy now and expect to be extremely busy by the end of 2009."

## Down south

It's a similarly positive theme some 3,000 kilometres south for one of Tasmania's leading mechanical services and air conditioning contractors.

According to Brett Mountney, senior refrigeration engineer with Degree C based in Devonport, business has yet to be really affected by the global financial crisis.

"Our market is fairly diverse. We work in the domestic markets as far as heat pumps or air conditioning goes, and then we do a lot of mechanical services for office buildings. We then have our refrigeration arm which is also very diverse from commercial through to industrial," Mountney explains.

"Therefore it is business as usual; but in saying that some companies are reducing their capital expenditure budget for 2009/10 which may have an influence on business coming in," he adds.

While some local manufacturers suffer large job losses as a result of the economic slowdown, particularly in the mining industry – and others move staff to four day weeks – Degree C's staffing levels remain positive, with some 128 staff currently on the payroll.

"From a staffing point of view, we've had nil job losses to date. While our staff are concerned, we keep them up to

date with what work we have in the future," Mountney says.

Tasmania's HVAC&R marketplace remains a competitive one, and there appears to have been little change on this front as a result of the economic slowdown.

"The marketplace has always been competitive for us and we've seen no change there just yet. If someone has no work they will try and buy work to keep their guys busy. That always happens," Mountney says.

"My gut feel is that it's going to get tighter in the next year of course, but at present we can't see that."

It is hoped by many that the Federal Government's stimulus packages, which include infrastructure projects for local communities, will have a positive effect on the future. But just how much of an effect it will have on Degree C's business, Mountney is not sure of yet.

"Hopefully with the injection of infrastructure to local primary and district high schools we will see some flow-on effect. There's a lot of money that is going to be spent there locally," Mountney says.

"We are quietly confident about the future I suppose, but that is said with a bit of apprehension too. We just don't really know."

## Refurbishment to the rescue

In Australia's capital cities, the global financial crisis' bite on the HVAC&R industry is a little more apparent as new large office and retail construction projects are put on hold.

According to Graham Boyle, acting portfolio manager for Swan TAFE, it seems the people who have carried the brunt of the economic slowdown are the consultants. That said, construction of existing projects in Perth continues largely unaffected.

"The HVAC&R contractors are still busy at the moment because they are coming off a major high which is still obvious by the number of tower cranes on the skyline of Perth," says Boyle.

It's a similar story in other areas of the industry, with tenancy, refurbishment and service all remaining relatively strong.

Speaking to AIRAH's Ecolibrium in the May edition, Russell Telford, managing director of the AG Coombs Group, pointed to opportunity amongst the doom and gloom.



Jeff Jackson



Graham Boyle



Ben Hiles

"Like everything there are cycles and while it's (the global financial crisis) not good, in terms of medium and long-term thinking, you quickly realise there's lots of opportunity coming out of this position," Telford said.

These opportunities include a renewed focus on improving the energy efficiency and performance of existing building stock. Many building owners are spending money to lift the value of their properties by upgrading them to 4.5 star ratings, which at the same time helps to attract and secure well-credentialed long-term tenants.

"Our experience in this area is that a lot of clients are asking us to re-commission and tune these buildings and operate them properly, and those who are doing that are getting a very efficient building and it's paying off for them," Telford said.

## On the job front

This move to existing building refurbishment, maintenance and service is also being reflected in the job market, according to Jeff Simon, director of Australia Wide Personnel, which specialises in engineering, manufacturing and technical recruitment.

He says that while the drying up of construction projects has impacted significantly on jobs in the areas of design, construction and manufacturing, there has been an increase in service and maintenance.

"There seems to have been a corresponding increase in service and maintenance as building owners refurbish rather than construct," Simon reports.

Nevertheless, he says that consultants are no longer hiring and the majority of mechanical contractors are in a "holding pattern" utilising existing staff on current projects.

"Whilst a number of mechanical contractors seem to have a reasonable forward workload there are others in search of work and generally not in good shape to tackle a diminishing market. To date, almost all building services consulting engineers have been affected, with many reducing their manpower between 10 and 30 per cent," Simon says.

Ben Hiles, director with Hays, a leading specialist recruitment group, points to construction divisions of the HVAC&R companies as being the most affected.

"Speculative hiring has slowed although there has been an emphasis on employing candidates with multi-skill abilities. Demand for contract and temporary staff has been up which is typical in times of uncertainty. We have seen an increasing range of responsibilities being passed onto, and expected from, project management and supervisory staff as companies look for cost savings and best value," Hiles explains.

He says temporary and contract staff are still in demand across the HVAC&R sector, with building and mechanical service contractors that have long-term service and maintenance contracts continuing to offer secure employment for their staff.

"Specialist providers who operate in a niche market who have less competition on tender renewals also seem to be steady," Hiles says.

## Apprentices and the skills crisis

While the impact is sure to be realised across the wider job market, apprentices and post-graduates are the most vulnerable. The good news is, most larger companies appear committed to their apprenticeship and graduate programs at this stage.

According to Simon, the dot-com bust earlier this decade saw many companies cut their programs and it came back to bite the industry hard five years later when there was a severe shortage of people with three to five years' experience.

It is expected a similar reduction in the number of apprenticeships and post-graduate positions now would have a detrimental effect on industry growth in the future.

"Cutting apprenticeships and graduate programs will have little effect in the short term, but in the long term one could expect it to hold back company growth because of a generational gap in the number of trained and skilled personnel," Simon warns.

Hiles agrees, adding that the industry is not experiencing the same acute shortage of skills it was a year ago.

"The industry must be cautious not to allow short-term factors to affect the long-term future of the industry. The hiring decisions of today can have a massively detrimental effect in years to come, creating skills and management holes and stifling growth in good times," he says.

"We do encourage companies to maintain graduate and apprenticeship programs if at all possible as this will significantly improve their ability to win market share when the market turns."

Boyle believes there will be a reduction in apprentice numbers at some stage, while Ian Paul, head teacher of refrigeration at Nepean College of TAFE in Sydney says apprenticeship positions have already begun to dry up.

"Apprenticeship opportunities are very scarce and those on offer can be very tough to get, as they (employers) can pick and choose the candidates from a large field. Job seekers need to present themselves very well," Paul suggests.

However, even with a reduction in apprenticeships, Boyle says given the recent "big high" in apprentice positions "any reduction will probably still see us in front of the numbers we had three or four years ago."

He says a larger problem has yet to be realised.

"The major problem that sits beneath all of this is the demographic issue of the pending baby boomer retirement which will affect all areas of the economy," Boyle warns.

"Many boomers have delayed retirement plans because of the crash in the value of their retirement savings. The inevitable retirement will still come but the workplace will take a bigger hit at a time when those skilled people are once again in short supply."

## Forecasting the future

We all know what the economists have to say about the next 12 to 18 months, but what of those at the coalface?

According to Hiles, there is some belief that the new financial year will bring greater market confidence, largely on the back of the Federal Government's stimulus packages in infrastructure.

"Most of the stimulus projects are still in the early phases yet jobs are already being created for project managers, supervisors and contract administrators as the construction companies put together their project-delivery teams," he says.

"As sub-contractor packages are released this will create demand for blue collar and trade areas."

Simon, however, remains rather pessimistic in the short-term as existing projects near completion.

"There are fewer new projects on the horizon, and we expect there will be more redundancies, company closures and fierce competition for the work available. This will probably lead to companies 'buying' jobs and margins being eroded," Simon says.

On the training side, Boyle says the sector should remain busy as Government strategies are implemented to improve the skill levels in our economy.

"There may be a move to alternative trade training systems as our apprenticeship system tends not to respond quickly to Government 'pump priming' because it relies on a willingness of employers to employ apprentices," Boyle explains.

No matter which way you look at it, the HVAC&R industry is in for a turbulent eighteen months as the world economy moves to correct itself, and national economies follow. The good news is that bad news will inevitably come to an end.

If anyone has a reliable crystal ball, let us know. ▲