

CONSTRUCTION ENDS 2016 IN THE RED

Australian PCI®
Dec 2016: **47.0**

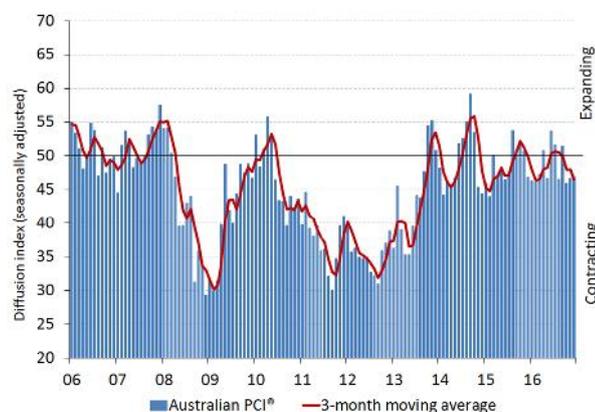
UK PCI
Nov 2016: **52.8**

Germany PCI
Nov 2016: **53.9**

Ireland PCI
Nov: **59.8**

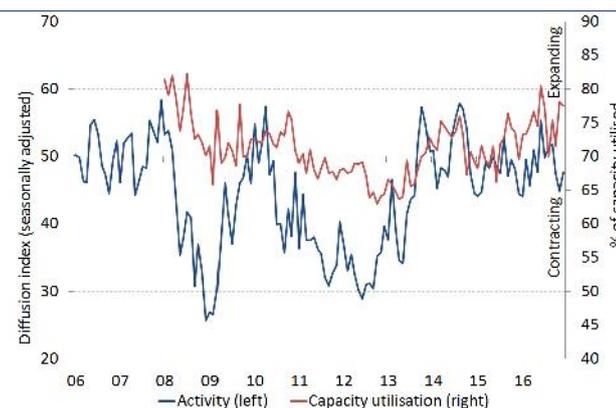
KEY FINDINGS

- The national construction industry declined for a third consecutive month in December with the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registering 47.0 points in the month (50 points is the threshold that separates expansion from contraction in the **Australian PCI®**).
- This was an increase of 0.4 points from November, indicating a marginal easing in the industry's rate of contraction during the final month of 2016.
- All four sectors of the **Australian PCI®** contracted (i.e. below 50 points) in December. House building declined for a fifth consecutive month as activity in the sector moderated further from robust mid-year levels. Apartment building also continued to contract, although the sector's pace of decline was the slowest in three months.
- Commercial construction remained subdued, contracting for a fifth month, and at a rate that was steeper than in November. Engineering construction activity also continued to decline in December, although its rate of contraction was the slowest in three months due to new project work acquired by some businesses.
- The key activity sub-index in the **Australian PCI®** remained below 50 points in December (i.e. contracted) for a third consecutive month, while new orders fell for a fifth month.
- Reflecting these tough operating conditions, employment fell in December at its most pronounced rate in nine months.
- Residential builders mainly commented on slow market conditions due to fewer customer enquiries, soft new orders and increased caution by prospective buyers at the close of 2016.
- Despite the continued winding back in mining related construction, there were reports by engineering construction businesses of an improving inflow of infrastructure work, particularly transport projects in the eastern states.
- Reports from **Australian PCI®** survey respondents also indicated on-going pressures from a highly competitive pricing environment and tight margins.



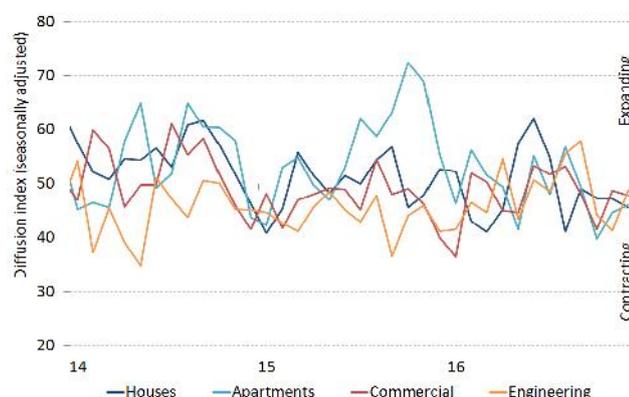
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 47.7 points in December.
- This was 2.8 points above the level of the previous month, signalling a slower rate of contraction in total industry activity. It marked the third consecutive decline month in overall industry activity.
- The decline in construction activity in December reflected a continuation of soft levels of demand and new orders experienced in aggregate over the past five months.
- The rate of capacity utilisation stood at 73.9% of capacity being utilised across the construction industry, down from 78.1% in November.



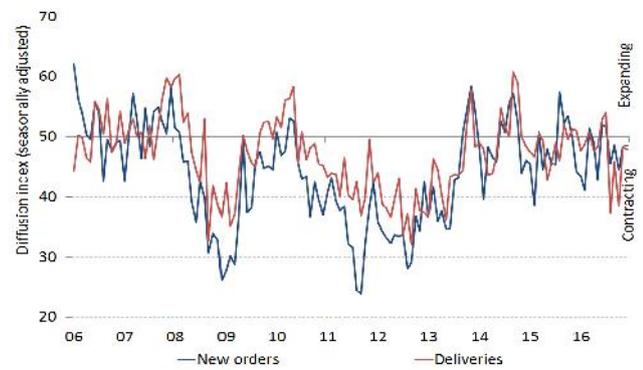
ACTIVITY BY SECTOR

- House building activity contracted for a fifth consecutive month in December, and at a steeper rate with the sector's sub-index falling by 1.6 points to 45.6 points. The weaker conditions in the housing sector are consistent with a drop in new orders during four of the past five months.
- Apartment building activity contracted at a slower rate in December. The sector's sub-index increased by 1.4 points to 46.1 points, although this is still well below the solid growth outcome recorded in August this year (56.8 points).
- Commercial construction recorded a fourth consecutive month of contraction in December. The rate of contraction was also slightly steeper with the sector's sub-index decreasing by 0.9 points to 47.8 points. Constrained public sector investment as well as poor investor sentiment continue to weigh on overall commercial property conditions, despite healthy project pipelines in areas such as entertainment/recreation buildings, hotels and retail/wholesale property.
- Engineering construction activity contracted for a third month in December. However, the sector's sub-index increased by 7.4 points to 48.8 points, the highest reading in three months. It was accompanied by encouraging reports that higher infrastructure activity was helping to soften (but not offset) the impact of the downturn in mining and heavy industry investment.



NEW ORDERS AND DELIVERIES

- New orders contracted for a fourth consecutive month in December, with this key sub-index in the **Australian PCI**[®] (seasonally adjusted) registering 48.6 points.
- This was an increase of 0.2 points from November, indicating a broadly unchanged rate of decline in the month. The further decline in new orders is of particular concern, as the industry looks for growth opportunities in 2017.
- Falls in new orders in December were slower in the apartment, commercial and engineering construction sectors. In contrast, house building new orders slipped back into negative territory after recovering some ground in November, although the rate of decline was marginal.
- In line with ongoing softness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the **Australian PCI**[®], and at a slightly higher rate. The supplier delivery index decreased by 0.4 points in December to 47.9 points.



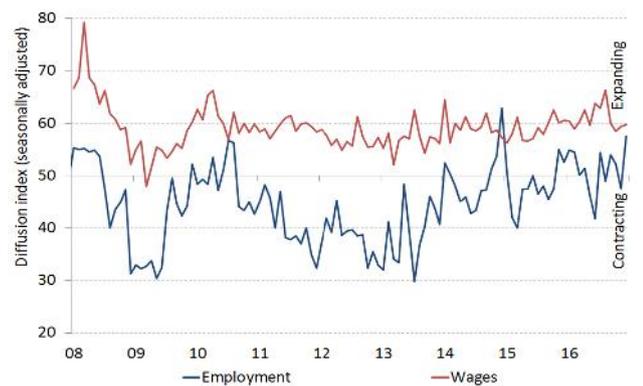
NEW ORDERS BY SECTOR

- New orders in the house building sector slipped back in December to be close to stable. The sub-index fell by 2.1 points to 49.9 points in December, placing it below the critical 50-points no change threshold for the fourth time in five months, consistent with the recent weakening in private sector housing approvals.
- In the apartment building sector, new orders contracted for a fourth month with the sector's sub-index registering 44.7 points in December. This was an increase of 5.5 points from November, signalling a slower pace of contraction. However, the continued fall in new orders in December is another sign of softer demand for new apartment developments, relative to recent peak levels in mid-2016.
- New orders in the commercial construction sector contracted for a fifth consecutive month in December. The sector's sub-index, however, increased by 4.4 points to 49.8 points, indicating largely stable demand in the month.
- In the engineering construction sector, the new orders sub-index registered 46.8 points. This was up by 0.8 points from November, indicating a mild easing in the rate of decline. Despite this easing it is the sector's seventh decline in eight months as the sustained fall in mining-related construction outweighed new tender wins in non-resources project categories including transport and other public infrastructure.



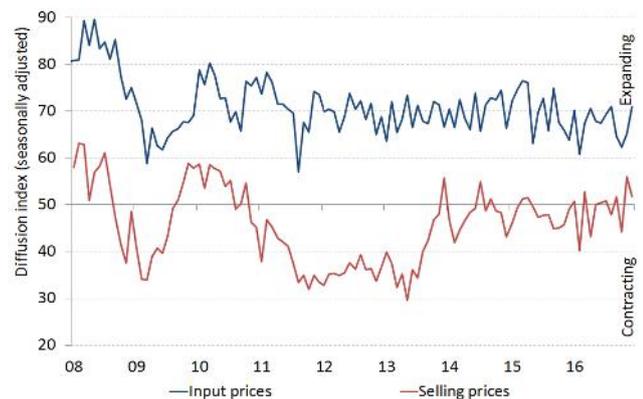
EMPLOYMENT AND WAGES

- Construction employment contracted in December with the employment sub-index in the **Australian PCI**[®] declining by 1.9 points to 43.5 points.
- This follows a drop in construction employment in November, and is the lowest reading on employment in nine months.
- It suggests a more cautious approach by construction businesses in their hiring intentions in response to the further contraction in new orders during December.
- Growth in wages continued in December, and at a slightly higher rate than in the previous month, with the wages sub-index rising by 0.3 points to 59.8 points.
- Despite the ongoing pressure on wages in the construction industry, wage growth is likely to have remained relatively contained in recent months with the inflationary environment remaining relatively subdued (headline CPI at 1.3% p.a. in Q3 2016) and private sector wage growth close to a record low (at 2.0% p.a. in Q2 2016, ABS data).



INPUT COSTS AND SELLING PRICES

- The **Australian PCI**[®] input prices sub-index lifted to 70.9 points in December. This was an increase of 5.7 points from November, indicating that cost pressures in the construction and delivery of building projects picked-up further during the month. This is likely to be linked to higher prices for key commodity inputs. The Reserve Bank of Australia's index of non-rural commodity prices (Australian dollar terms) was up by 20.7% over the two months to November 2016.
- The selling prices sub-index in the **Australian PCI**[®] declined by 3.3 points to 52.7 points in December. This This indicates that the pressures on input prices are being passed on (although only marginally), despite strong market competition.
- The wide gap in these pricing series in the **Australian PCI**[®] indicates that profit margins remain under intense pressure for businesses in the construction industry. This is reflected also in widespread reports from respondents of a highly competitive tender pricing environment across the industry.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PCI [®]	47.0	0.4	48.3	New Orders	48.6	0.2	47.3
Activity	47.7	2.8	48.9	Employment	43.5	-1.9	49.4
Houses	45.6	-1.6	48.9	Deliveries	47.9	-0.4	47.4
Apartments	46.1	1.4	48.8	Input Prices	70.9	5.7	67.3
Commercial	47.8	-0.9	47.8	Selling Prices	52.7	-3.3	49.2
Engineering	48.8	7.4	48.2	Wages	59.8	0.3	61.0
				Capacity Utilisation (%)	73.9	-0.6	75.2

What is the Australian PCI? Performance of Construction Index (**Australian PCI**[®]) in conjunction with the Housing Industry Association is a seasonally adjusted national composite index based on the diffusion indexes for activity, orders/new business, deliveries and employment with varying weights. An **Australian PCI**[®] reading above 50 points indicates construction activity is generally expanding; below 50, that it is declining. The distance from 50 is indicative of the strength of the expansion or decline. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/economics>. For further information on international PCI data, visit <http://www.markiteconomics.com> or <http://www.cipsa.com.au>. © The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. Disclaimer: The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.