

## CONSTRUCTION CONTINUES TO EXPAND IN JULY

**Australian PCI®**  
 July 2016: **51.6**↓

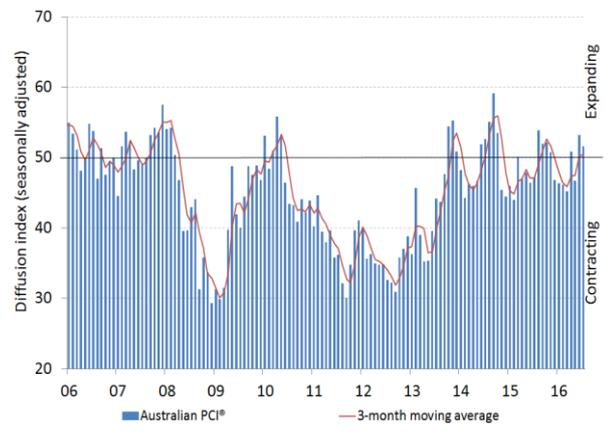
**UK PCI**  
 July 2016: **45.9**↓

**Germany PCI**  
 June 2016: **50.4**↓

**Ireland PCI**  
 June: **59.7**↑

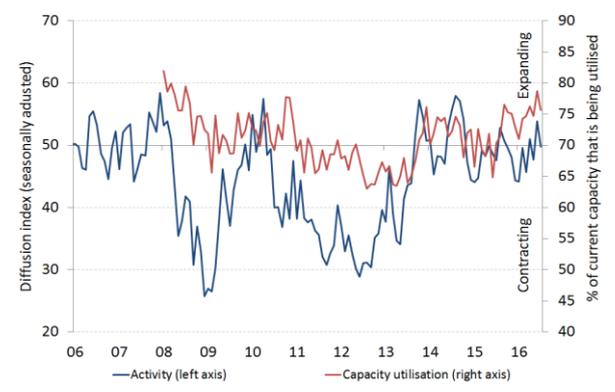
### KEY FINDINGS

- The national construction industry expanded for a second consecutive month in July, although the pace of growth moderated slightly from June's 10-month high level.
- The seasonally adjusted Australian Industry Group/ Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 1.6 points to 51.6 points in July. This signalled a positive but slower pace of overall industry growth (readings above 50.0 points indicate expansion with higher numbers indicating a stronger rate of expansion).
- For the construction industry as a whole, new orders and employment both expanded at softer rates in July. The activity sub-index contracted marginally after returning to growth in the previous month.
- Across the four sub-sectors in the **Australian PCI®**, apartment building returned to negative territory following a strong recovery in June. However, house building recorded a third month of growth, albeit at a slower pace.
- Commercial construction activity also moderated in July, with this sector having now experienced mild expansion in four of the past six months. In contrast, the engineering construction sector fell back into negative territory (following modest growth in June) as shrinking mining-related work outweighed support flowing from higher non-resources infrastructure work.
- Uncertainty related to the Federal election on 2 July appears to have contributed to the industry's growth slowdown with businesses noting delays in clients' spending decisions and a reduction in new tender opportunities ahead of the election.
- Residential builders cited an easing in new orders and customer enquiries in July, although activity continued to receive a high degree of support from on-going projects while investor activity was seen as remaining steady in the month.
- 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 49.8 points in July.
- This was 4.1 points below the level of the previous month, indicating a marginal fall in overall construction activity. A drop in apartment construction and slower growth in house building work were mainly responsible for dragging down overall levels of construction activity in July.
- The rate of capacity utilisation (not seasonally adjusted) was lower in July, at 75.7% of capacity being utilised across the construction industry, down from 78.7% in June. However, it was the third highest capacity rate in 10 months and approximately 3.0 percentage points above the 12-month average of 72.5% of total industry capacity being utilised.



### ACTIVITY BY SECTOR

- House building conditions continued to expand in line with the continued growth seen in new orders. However, the sector's rate of expansion moderated from the 30-month high level of the previous month with the activity sub-index decreasing by 7.2 points to 54.9 points in July.
- Apartment building activity returned to negative territory in July. The sector's sub-index declined by 7.2 points to 48.0 points, continuing the volatility in conditions of the past four months. It was the sector's fourth month of contraction so far in 2016.
- The commercial construction sector also posted a softer growth performance in July with its sub-index falling by 1.5 points to 51.8 points. Growth conditions within the sector continue to be narrowly based with the investment pipeline supported mainly by hotels, entertainment and recreation projects.
- Engineering construction returned to negative territory in July with the sector's sub-index falling by 2.1 points to 48.6 points, indicating a mild overall rate of contraction. It follows modest growth outcomes in two of the previous three months.



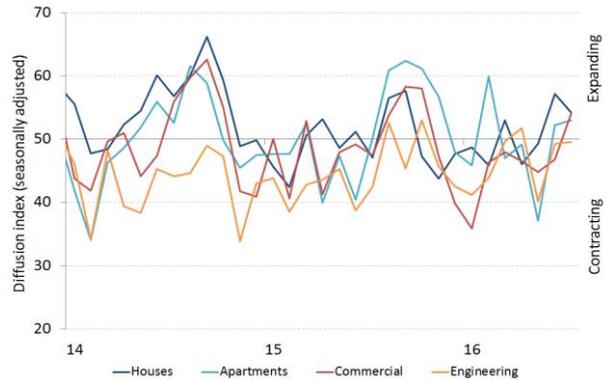
## NEW ORDERS AND DELIVERIES

- New orders increased for a second consecutive month in July.
- However, the rate of growth in new orders moderated slightly from the eight-month high level recorded in June. The new orders sub-index in the **Australian PCI**<sup>®</sup> declined by 0.4 points to 51.7 points in the month.
- This easing in demand was due to slower growth in new orders in house building after the sector's new orders sub-index reached a nine-month high level in June. The continued contraction in new orders in the engineering construction sector was also a key factor weighing on overall demand conditions.
- Despite the moderation in aggregate industry demand, deliveries of inputs from suppliers pick-up in July. The supplier delivery index increased by 1.2 points in June to 54.1 points, the highest reading in the past 21 months.



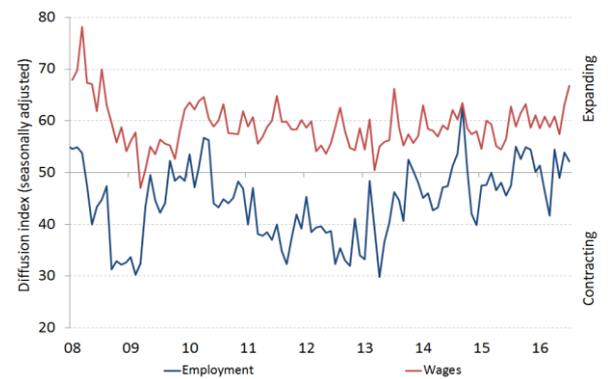
## NEW ORDERS BY SECTOR

- New orders in the house building sector continued to expand in July, albeit at a slower pace. The sector's new orders sub-index fell by 3.0 points to 54.2 points. Nevertheless, it was the second highest rate of growth in 10 months. It follows a 0.6% m/m fall (-3.4% p.a. annual growth) in private sector house approvals in June (ABS, trend data).
- In apartment building, new orders increased for a second consecutive month and at a slightly higher rate with the sector's sub-index rising by 0.8 points to 53.0 points. This was the highest new orders reading for the sector in five months.
- New orders in the engineering construction sector contracted for a third consecutive month in July. However, the sector's sub-index continued to move closer to stabilisation, rising by 0.3 points to 49.6 points in July. This was consistent with reports by some businesses of new contracts acquired for future construction work in areas outside of mining, including road and rail projects.
- The commercial construction sector experienced a return to growth in new orders in July with the sector's sub-index rising by 7.2 points to 54.0 points, the highest level for this sub-index since October 2015 (58.0 points). This is an encouraging sign of an improvement in property investment demand with a possible upside to activity in the year ahead.



## EMPLOYMENT AND WAGES

- Construction employment expanded for a second consecutive month in July with the employment sub-index within the **Australian PCI**<sup>®</sup> registering 52.2 points. This was, however, decrease of 1.7 points from the previous month, pointing to a slower rate of growth in the month.
- It follows a 4.3% p.a. increase in construction employment over the year to May 2016 (ABS, trend) due to the more labour-intensive residential building sector offsetting the drop in workforce requirements across the major project areas of construction.
- Growth in wages continued in July, and at a higher rate than in the previous month, with the wages sub-index rising by 3.6 points to 66.7 points.
- Despite the ongoing rise in wages in the construction industry, growth is likely to have remained generally contained in recent months due to the on-going subdued inflationary environment (headline CPI at 1.0% p.a. in Q2 2016 and private sector wage growth at a record low of 1.9% p.a. in Q1 2016).



## INPUT COSTS AND SELLING PRICES

- The **Australian PCI**<sup>®</sup> input prices sub-index remained elevated at 69.3 points in July. This was an increase of 1.8 points from June, indicating that cost pressures in the construction and delivery of building projects lifted further during the month.
- Selling prices increased in July for a second consecutive month, although the rate of growth was mild and broadly unchanged on the result for the previous month. The selling prices sub-index in the **Australian PCI**<sup>®</sup> registered 51.2 points in July, down by 0.1 points from June.
- This indicates that the pressures on input prices are now being passed on (although only marginally), despite strong market competition.
- The ongoing gap between the two pricing series in the **Australian PCI**<sup>®</sup> highlights the strong pressures on profit margins and the tough market conditions. This is reflected also in the widespread reports from respondents of a highly competitive tender pricing environment in the construction industry.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
<b>Australian PCI</b> <sup>®</sup>	<b>51.6</b>	<b>-1.6</b>	<b>49.6</b>	New Orders	51.7	-0.4	48.6
Activity	49.8	-4.1	49.0	Employment	52.2	-1.7	51.3
Houses	54.9	-7.2	51.3	Deliveries	54.1	1.2	50.1
Apartments	48.0	-7.2	55.5	Input Prices	69.3	1.8	68.2
Commercial	51.8	-1.5	47.6	Selling Prices	51.2	-0.1	47.6
Engineering	48.6	-2.1	45.3	Wages	66.7	3.6	60.8
				Capacity Utilisation (%)	75.7	-3.0	74.7

**What is the Australian PCI?** Performance of Construction Index (**Australian PCI**<sup>®</sup>) 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**<sup>®</sup> 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>.

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