

CONSTRUCTION SLIPS BACK IN OCTOBER

Australian PCI®
 Oct 2016: **45.9**↓

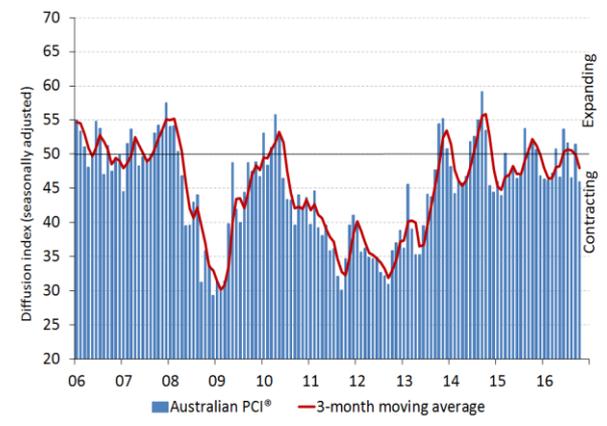
UK PCI
 Oct 2016: **52.6**↑

Germany PCI
 Sep 2016: **52.4**↑

Ireland PCI
 Sep: **58.7**↑

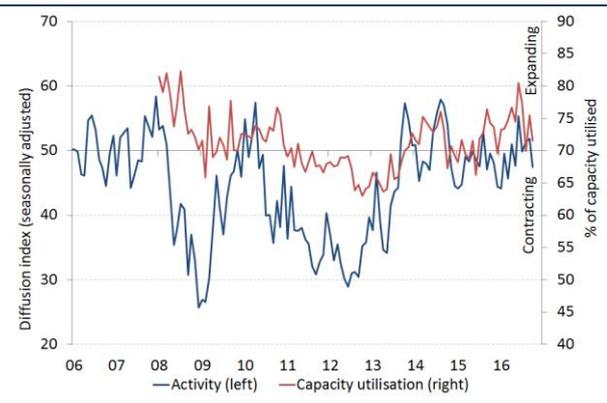
KEY FINDINGS

- The national construction industry moved back into contraction in October, with the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) dropping 5.5 points to a 20-month low of 45.9 points (50 points is the threshold that separates expansion from contraction in the **Australian PCI®**).
- This fall in the **Australian PCI®** in October signalled the industry's third month of contraction in the past six months as business conditions struggle to maintain momentum.
- Across the four sub-sectors in the **Australian PCI®**, apartment building experienced a significant drop from recent peak conditions, with the sector contracting at its steepest pace in 39 months. House building recorded a third month of decline, suggesting that activity in this sector is continuing to moderate from more robust mid-year levels.
- Engineering construction returned to negative territory in October following two months of solid recovery while commercial construction declined at a sharper pace with respondents noting a continuation of patchy conditions across the major project categories.
- The key activity sub-index in the **Australian PCI®** fell below 50 points in October (i.e. contracted) after showing signs of a mild recovery in the previous two months.
- Of concern for the outlook, new orders lost further ground, with this key sub-index declining at its sharpest rate in five months.
- Reflecting this deterioration in operating conditions, construction employment stabilised in October following a strong recovery in September. Deliveries from suppliers contracted for a third consecutive month, and at a sharper rate.
- Respondents to the **Australian PCI®** attributed this month's deteriorating conditions to a drop in demand and fewer new tender opportunities. Apartment builders also pointed to reduced enquiries and sales in the month.
- The fall in engineering construction was attributed to a further reduction in mining and heavy industrial projects. This decline outweighed strengthening demand from new infrastructure work, particularly in NSW and Victoria.



CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 47.5 points in October.
- This was 4.3 points below the level of the previous month, signalling a contraction in activity after mild growth in September. It was the third decline in activity in the past six months.
- The decline in construction activity in October reflected softer levels of demand and new orders experienced in aggregate over the past three months.
- The rate of capacity utilisation was lower in October, at 71.6% of capacity being utilised across the construction industry, down from 75.5% in September.



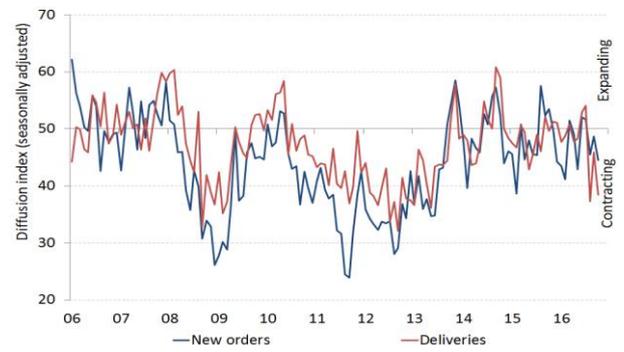
ACTIVITY BY SECTOR

- House building activity contracted for a third consecutive month in October, and at a slightly steeper rate with the sector's sub-index declining by 1.8 points to 47.3 points. This coincided with a third month of falling new orders for this sector.
- Apartment building activity was more subdued in October. The sector's sub-index decreased by 9.5 points to 39.9 points. This was the lowest monthly result (and therefore sharpest rate of contraction) for the sector since July 2013. It points to a continuation of the decline (by 25.2%) in the number of other residential (i.e. townhouses/flats/apartments) commencements in Q2 2016 (ABS, seasonally adjusted data).
- Commercial construction recorded a second consecutive month of contraction in October, after encouraging signs of a recovery during the three months to August. The sector's sub-index declined by a further 6.6 points to 41.5 points, indicating a faster pace of decline in October.
- Engineering construction activity moved back into contraction in October with the sector's sub-index decreasing by 13.7 points to 44.3 points. This followed a brief period of expansion in this sector during the previous two months.



NEW ORDERS AND DELIVERIES

- New orders contracted for a third consecutive month in October, with this key sub-index registering 44.6 points. This was a decline of 4.1 points from September and the lowest new orders result in five months. This extended period of decline in new orders points to a high probability of weaker construction activity in the months ahead.
- In line with ongoing softness in aggregate industry demand, deliveries of inputs from suppliers remained in contraction in the **Australian PCI**[®]. The supplier delivery index decreased by 7.4 points in October to 38.5 points, the fifth month of falling deliveries in the past seven months.



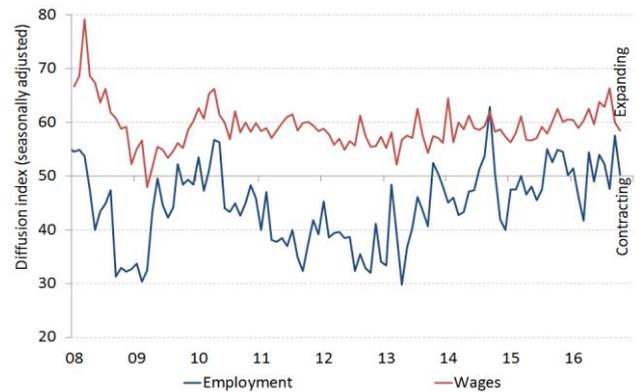
NEW ORDERS BY SECTOR

- New orders in the house building sector contracted for a third month in October with the sub-index registering 46.7 points. This was a decrease of 0.3 points from September, indicating a broadly unchanged rate of decline in the month. It continues to suggest that activity in the sector is likely to moderate over the next 12 months.
- In the apartment building sector, new orders contracted for a second month and at a faster rate of decline. The sector's sub-index decreased by 2.0 points to 44.2 points in October, the lowest result on new orders in five months. It follows a 16.3% m/m fall (-9.9% p.a.) in private multi-unit dwelling approvals in September (ABS, seasonally adjusted data).
- New orders in the commercial construction sector contracted for a third consecutive month in October and at a steeper rate. The sector's sub-index decreased by 8.2 points to 40.9 points.
- In the engineering construction sector, new orders lost some ground in October after a return to expansion in September. The sector's sub-index registered 44.6 points in October, down by 7.4 points as the sustained fall in mining-related construction outweighed new tender wins in non-resources project categories including transport and other public infrastructure.



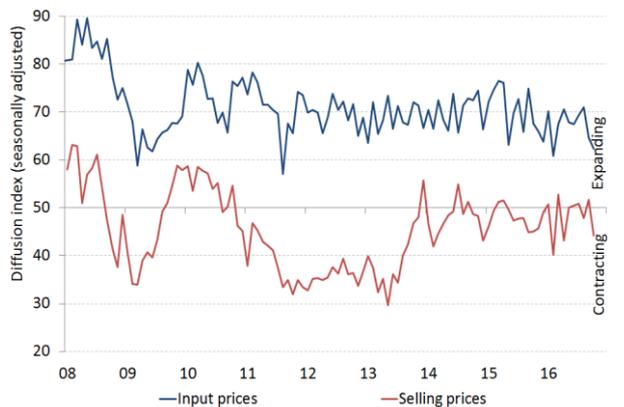
EMPLOYMENT AND WAGES

- Construction employment stabilised in October after a return to growth in the previous month.
- The employment sub-index fell by 7.4 points to 50.2 points in the month, indicating broadly steady employment levels during the month.
- This suggests a more cautious approach by construction businesses in their hiring intentions in response to the further contraction in new orders during October.
- Growth in wages continued in October, albeit at a slower rate than in the previous month, with the wages sub-index decreasing by 1.6 points to 58.4 points, which is around its long-run average.
- Despite the ongoing pressure on wages in the construction industry, wage growth is likely to have remained relatively more 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 remained elevated at 62.3 points in October. This was a decrease of 2.4 points from September, indicating some easing in cost pressures in the construction and delivery of building projects during the month.
- The selling prices sub-index in the **Australian PCI**[®] decreased by 7.4 points to 44.3 points in October, indicating a contraction in prices for the second time in the past three months. This highlights the strong competition among builders to secure work in a tight market, and the downward pressures this is exerting on general construction selling prices.
- The ongoing 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 [®]	45.9	-5.5	48.6	New Orders	44.6	-4.1	47.1
Activity	47.5	-4.3	48.9	Employment	50.2	-7.4	50.8
Houses	47.3	-1.8	49.5	Deliveries	38.5	-7.4	47.9
Apartments	39.9	-9.5	51.6	Input Prices	62.3	-2.4	68.8
Commercial	41.5	-6.6	46.9	Selling Prices	44.3	-7.4	48.1
Engineering	44.3	-13.7	47.9	Wages	58.4	-1.6	61.2
				Capacity Utilisation (%)	71.6	-3.9	74.2

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.