

SLOW START FOR CONSTRUCTION IN 2017

Australian PCI®
Jan 2017: 47.7↑

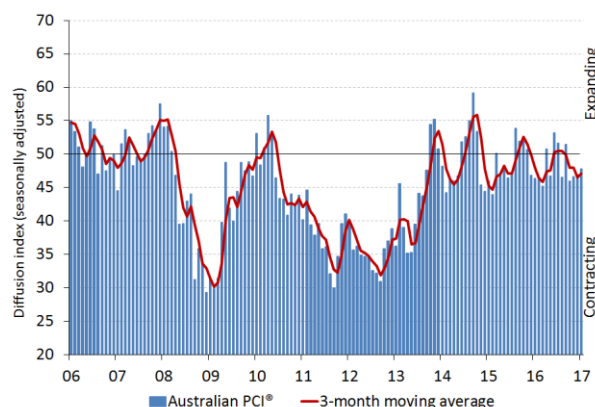
UK PCI
Jan 2017: 52.2↓

Germany PCI
Dec 2016: 54.9↑

Ireland PCI
Dec 2016: 58.9↓

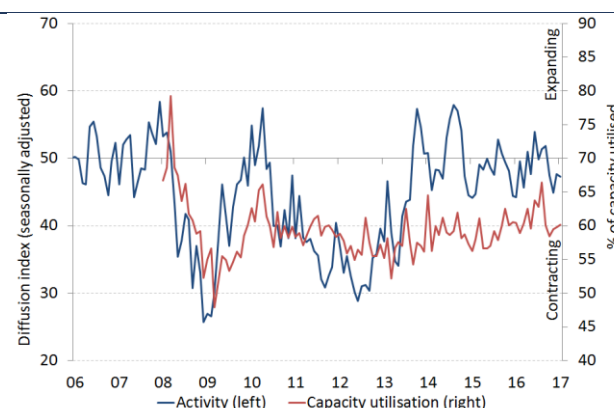
KEY FINDINGS

- The national construction industry experienced a slow start to 2017 with the Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registering 47.7 points in January (readings below 50 points indicate contraction).
- This was an increase of 0.7 points from December, indicating a slight moderation in the rate of decline for the industry as a whole. The **Australian PCI®** has now been below the 50 points level that separates expansion from contraction for four consecutive months.
- The milder decline in the **Australian PCI®** in January was due to less pronounced reductions in employment and deliveries from suppliers. However, highlighting the soft overall state of business conditions in the sector, both activity and new orders contracted at a slightly steeper rates during the month.
- Across the four sub-sectors of the construction industry in the **Australian PCI**, house building stabilised in January. This follows five consecutive months of declines in house building activity, as the sector moderated from the strong growth levels of mid-2016.
- Apartment building and commercial construction remained in negative territory in January, with activity in both sectors declining at broadly unchanged rates from the previous month.
- Engineering construction activity was weaker at the start of the year after moving close to stabilisation in December, recording its second lowest activity reading in 12 months.
- Respondents to the **Australian PCI®** said that the industry's soft conditions heading into 2017 were due to subdued overall demand conditions, citing fewer new tender opportunities and a lower volume of new work to replace end-of-year completed projects.
- Residential builders mainly commented on slow market conditions due to soft new orders, lower housing sales and caution by prospective buyers.
- Reports from **Australian PCI®** survey respondents also indicated on-going pressures from a highly competitive pricing environment and tight margins.



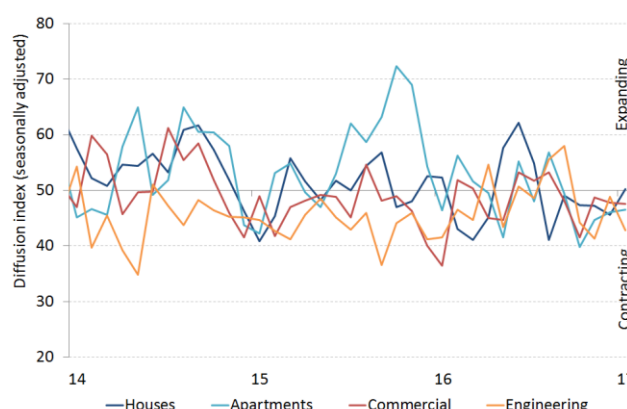
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 47.3 points in January.
- This was 0.4 points below the level of the previous month, signalling a marginally steeper rate of contraction in total industry activity and marking the fourth consecutive month of decline in overall industry activity.
- The further fall in construction activity in January reflected a continuation of soft levels of demand and new orders experienced in aggregate over the past six months.
- The rate of capacity utilisation stood at 68.5% of capacity being utilised across the construction industry, down from 73.9% in December. It was also the industry's lowest rate of capacity utilisation since mid-2015.



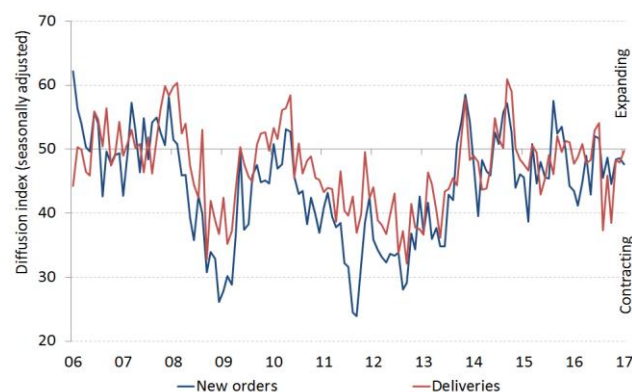
ACTIVITY BY SECTOR

- House building activity was stable in January, after declining over the previous five months. The sector's activity sub-index increased by 4.6 points to 50.2 points this month, consistent with relatively stable demand conditions over the past three months.
- Apartment building activity contracted at a slightly slower rate in January. The sector's sub-index increased by 0.4 points to 46.5 points, although this is still well below the solid growth outcome recorded in August last year (56.8 points).
- Commercial construction recorded a fifth consecutive month of contraction in January. The rate of contraction was also marginally steeper with the sector's sub-index decreasing by 0.3 points to 47.5 points. Constrained public sector investment as well as subdued 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 fourth month in January, and at a sharper rate. The sector's sub-index decreased by 6.0 points to 42.8 points. Despite reports of higher infrastructure activity, this is not offsetting the impact of the continued downturn in mining and heavy industry investment.



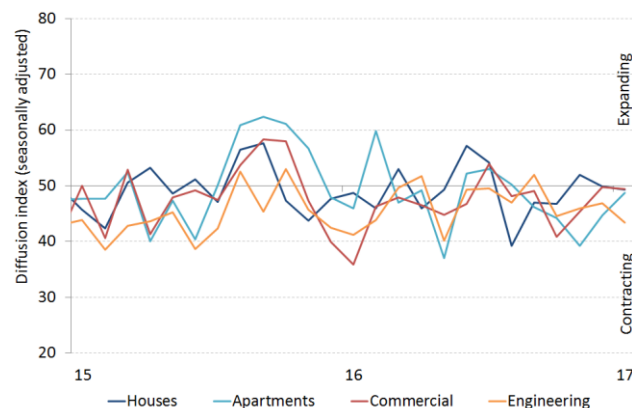
NEW ORDERS AND DELIVERIES

- New orders contracted for a fifth consecutive month in January, with this key sub-index in the **Australian PCI®** (seasonally adjusted) registering 47.6 points.
- This was a decrease of 1.0 point from December, indicating a slightly steeper rate of decline in the month. The on-going softness in new orders is likely to act as a headwind to stronger activity over coming months.
- Declines in new orders were recorded across all sectors in January. Weakness was most notable in the engineering construction sector where new orders dropped further into negative territory to be at their lowest level in eight months. In contrast, new orders fell at a slower pace in the apartment sector, while rates of declines remained marginal in both housing and commercial construction.
- In line with ongoing softness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the **Australian PCI®**. However, the pace of decline moderated with the supplier delivery index increasing by 1.9 points in January to be close to stable at 49.8 points.



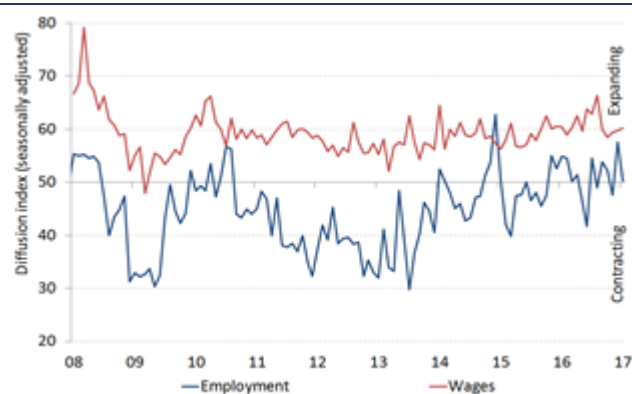
NEW ORDERS BY SECTOR

- New orders in the house building sector contracted for a second month in January. The sub-index fell by 0.6 points to 49.3 points, placing it below the critical 50-points no change threshold for the fifth time in six months. This is consistent with the recent moderation in private sector housing approvals.
- In the apartment building sector, new orders contracted for a fifth month with the sector's sub-index registering 48.7 points in January. This was an increase of 4.0 points from December, signalling a slower pace of contraction. However, the continued fall in new orders in January points to softer demand for new apartment developments, relative to recent solid levels in mid-2016.
- New orders in the commercial construction sector contracted for a sixth consecutive month in January. However, the sector's sub-index fell by just 0.3 points to 49.5 points, indicating a continuation of largely stable demand in the month.
- In the engineering construction sector, the new orders sub-index registered 43.4 points. This was up by 3.4 points from December, indicating a steeper rate of decline in the month. It also marked the sector's eighth decline in nine months as the sustained fall in mining-related construction outweighed the commencement of new projects in non-resources categories such as transport and other public infrastructure.



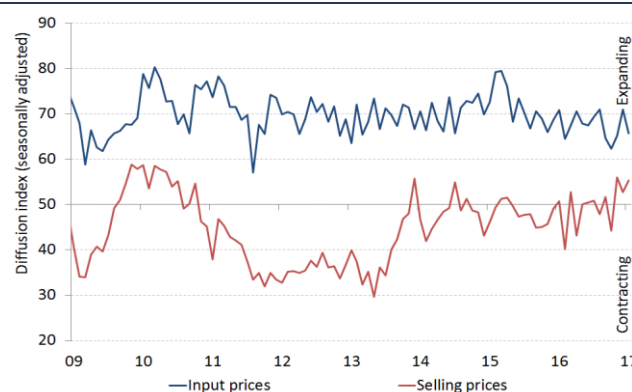
EMPLOYMENT AND WAGES

- Construction employment contracted for a third consecutive month in January, albeit at a slower pace.
- The employment sub-index in the **Australian PCI®** increased by 3.8 points to 47.3 points.
- This indicates a general reluctance by businesses to increase their workforce capacity amid the continuation of soft demand at an aggregate level.
- Growth in wages continued in January, and at a slightly higher rate than in the previous month, with the wages sub-index rising by 0.4 points to 60.2 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 1.5% p.a. in Q4 2016) and private sector wage growth close to a record low (at 1.9% p.a. in Q3 2016, ABS data).



INPUT COSTS AND SELLING PRICES

- The **Australian PCI®** input prices sub-index remained elevated at 65.6 points in January. However, this was a decrease of 5.3 points from December, indicating that cost pressures in the construction of building projects eased during the month following a strong pick-up in December.
- The selling prices sub-index in the **Australian PCI®** increased by 2.6 points to 55.3 points in January. This suggests that the pressure on input prices from rising wages and energy prices are being passed on (at least partially), despite strong market competition.
- The on-going gap in these pricing series in the **Australian PCI®** indicates that profit margins remain under 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®	47.7	0.7	48.2	New Orders	47.6	-1.0	48.2
Activity	47.3	-0.4	49.0	Employment	47.3	3.8	45.4
Houses	50.2	4.6	47.7	Deliveries	49.8	1.9	48.7
Apartments	46.5	0.4	45.8	Input Prices	65.6	-5.3	67.2
Commercial	47.5	-0.3	48.0	Selling Prices	55.3	2.6	54.7
Engineering	42.8	-6.0	44.3	Wages	60.2	0.4	59.8
				Capacity Utilisation (%)	68.5	-5.4	73.5

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>.

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