

HOUSING KEEPS CONSTRUCTION GROWING IN MARCH

Australian PCI®
Mar 2017: **51.2**↓

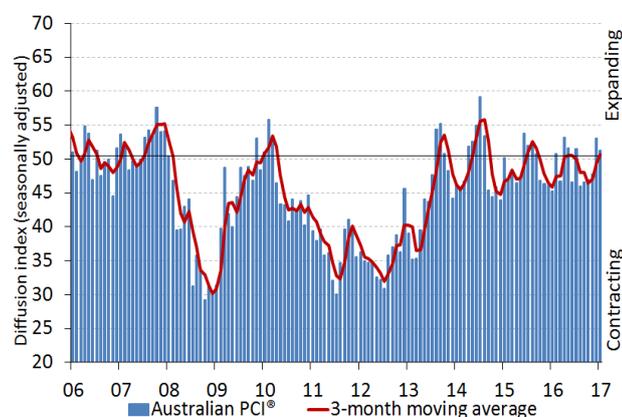
UK PCI
Feb 2017: **52.5**↑

Germany PCI
Feb 2017: **54.1**↑

Ireland PCI
Feb 2017: **57.9**↑

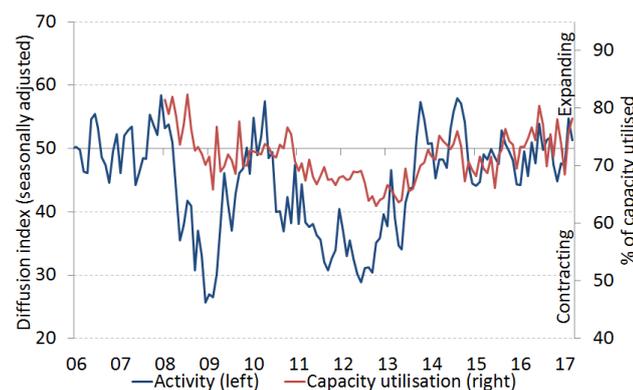
KEY FINDINGS

- The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 51.2 points in March (readings above 50 points indicate expansion). This was down by 1.9 points from the previous month, indicating a slower rate of industry growth following February's solid recovery.
- Across the four construction sub-sectors, house building activity drove growth in industry conditions in March. The sector's activity sub-index expanded for a third consecutive month and at the fastest pace since mid-2016.
- In contrast, apartment building activity fell further into negative territory with the sector's activity sub-index contracting for a seventh consecutive month. Weaker conditions were also evident in commercial and engineering construction with activity in both sectors falling into negative territory after solid improvements in February.
- House building respondents to the **Australian PCI®** were generally positive in their assessment of business conditions, noting that customer enquiries and sales had continued to hold firm. Investor activity in the housing market was also seen to have remained solid in the month.
- However, on a broader industry front respondents pointed to a range of pressures which were constraining activity, including subdued private sector investment, weaker demand for new apartment developments and a further winding back in mining-related engineering construction.
- The softer overall **Australian PCI®** result for March was associated with a fall in the new orders sub-index which moved back into contraction (i.e. below 50 points) after returning to growth in February.



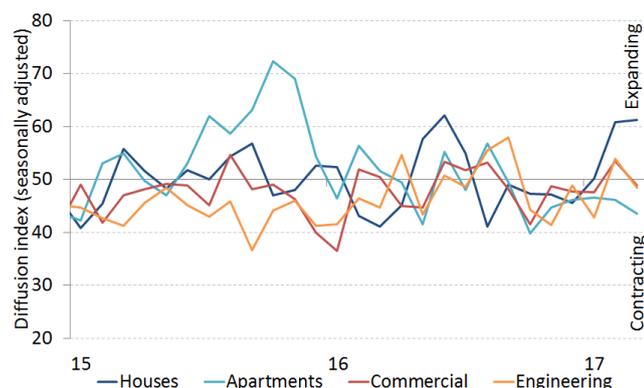
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 51.3 points in March.
- This was 3.4 points below the level of the previous month, signalling a slower rate of expansion in total industry activity in March.
- Despite a lift in house building activity, overall levels of construction activity in March were adversely impacted by renewed weakness in engineering and commercial construction work combined with a steeper drop in apartment building work.
- The rate of capacity utilisation stood at 78.2% across the construction industry, up from 75.8% in February.



ACTIVITY BY SECTOR

- House building activity continued to expand solidly in March with the sector's activity sub-index edging higher by 0.4 points to 61.3 points. It marked the third consecutive month of growth in the house building sector, in line with a strong increase in new orders over much of this period.
- Apartment building activity contracted at a steeper rate in March. The sector's sub-index decreased by 2.5 points to 43.6 points, well below the solid growth outcomes recorded through the middle to latter months of last year.
- Commercial construction activity also weakened in March. The sector's sub-index returned to negative territory after a solid improvement in February, declining by 4.8 points to 48.8 points. The pipeline of project work for this sector remains at a relatively low level with mixed conditions persisting across the major commercial building categories.
- Engineering construction activity also fell back into contraction in March with the sector's sub-index decreasing by 5.4 points to 48.5 points. This was the fifth negative result for the sector in six months. Despite reports of higher infrastructure activity, this is not offsetting the impact of the continued wind-down in major mining and heavy industry investment.



NEW ORDERS AND DELIVERIES

- New orders contracted in March, with the new orders sub-index in the **Australian PCI**[®] (seasonally adjusted) registering 47.5 points.
- This was a decrease of 3.7 points from February and the lowest new orders result in five months. The renewed weakness in new orders points to an easing in overall industry activity levels in coming months.
- New orders returned to negative territory in the engineering construction sector in March, and dropped at a steeper pace in apartment and commercial building sectors. However, while lower than February's result, new orders for house builders remained robust in March.
- In line with the softening in aggregate industry demand, deliveries of inputs from suppliers recorded slightly slower growth in the **Australian PCI**[®]. The supplier delivery index decreased by 0.7 points in February to 52.0 points.



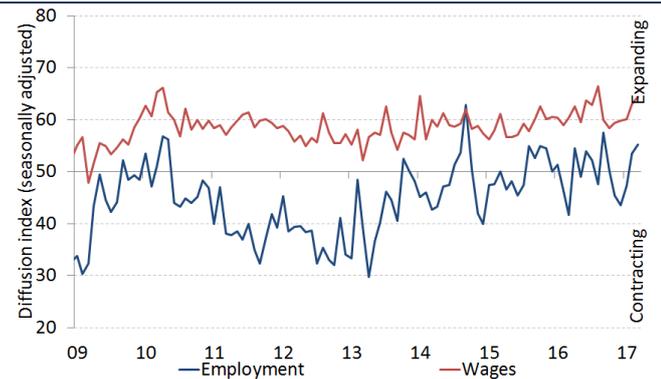
NEW ORDERS BY SECTOR

- New orders in the house building sector expanded in March, although at a slightly slower rate. The sub-index decreased by 2.4 points to 60.6 points. Nevertheless, it was the second highest rate of growth in 30 months. It follows a 5.3% m/m rise (-5.4% p.a. annual growth) in private sector house approvals in February (ABS, seasonally adjusted data).
- In the apartment building sector, new orders contracted for a seventh month with the sector's sub-index registering 43.1 points in March. This was a decrease of 2.3 points from February, signalling a steeper pace of contraction. The continued fall in new orders in March 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 an eighth consecutive month in March. Moreover, the sector's sub-index decreased by a solid 9.9 points to 39.8 points, signalling the steepest rate of decline in new orders in 14 months. This weakness is reinforced by ABS data, with the value of non-residential building approvals having trended lower over the past six months.
- In the engineering construction sector, new orders returned to negative territory in March. The sector's sub-index registered 44.2 points, down by 6.9 points on February as the sustained fall in mining-related construction outweighed new tender wins in non-resources project categories including transport and other public sector infrastructure.



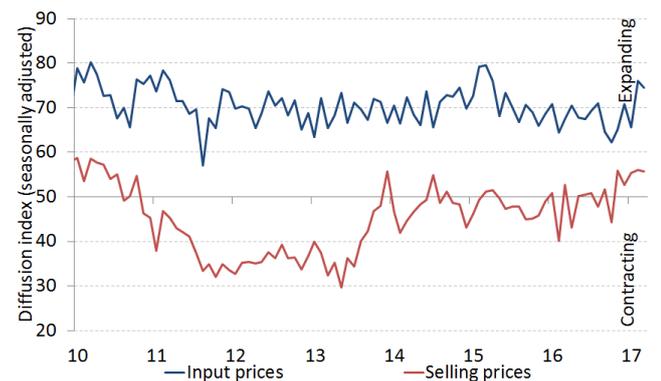
EMPLOYMENT AND WAGES

- Construction employment expanded for a second consecutive month in March with the employment sub-index within the **Australian PCI**[®] registering 55.2 points. This was an increase of 1.7 points from the previous month, pointing to a higher rate of growth in the month.
- March's growth in employment was the highest in the past six months. Increased employment was mainly recorded by those respondents experiencing higher activity in the month and seeking to boost operating capacity.
- Growth in wages continued in March, and at a higher rate than in February, with the wages sub-index rising by 1.4 points to 64.4 points. This pointed to the fastest rate of expansion in construction wages since August 2016.
- This is a likely reflection of wages growth still flowing from existing EBA's as well as difficulties that still exist in filling various skilled vacancies.



INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI**[®] remained elevated in March, although the input prices sub-index fell by 1.6 points to 74.5 points in March, signalling a slight moderation in the rate of growth in costs from February's 22-month high level. The continuation of strong cost pressures for construction businesses was driven by escalating energy input costs and supplier price hikes related to rises in commodity prices.
- The selling prices sub-index in the **Australian PCI**[®] decreased slightly by 0.4 points to 55.6 points in March. This growth result suggests that the pressure on input prices from rises in wages and other input costs are being passed on (although only 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 [®]	51.2	-1.9	49.3	New Orders	47.5	-3.7	48.1
Activity	51.3	-3.4	49.9	Employment	55.2	1.7	50.8
Houses	61.3	0.4	51.9	Deliveries	52.0	-0.7	48.0
Apartments	43.6	-2.5	47.3	Input Prices	74.5	-1.6	68.8
Commercial	48.8	-4.8	48.7	Selling Prices	55.6	-0.4	51.2
Engineering	48.5	-5.4	49.2	Wages	64.4	1.4	61.7
				Capacity Utilisation (%)	78.2	2.4	75.0

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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