

CONSTRUCTION MOMENTUM BUILDS IN NOVEMBER

Australian PCI®
Nov 2017: 57.5↑

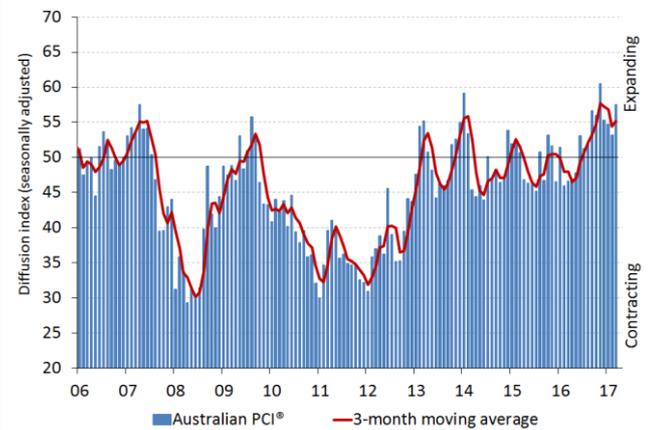
UK PCI
Oct 2017: 50.8↑

Germany PCI
Oct 2017: 53.3↓

Ireland PCI
Oct 2017: 54.5↓

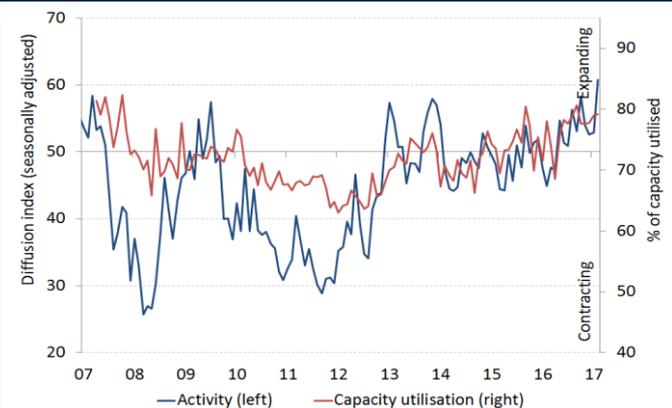
KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (Australian PCI®) increased by 4.3 points to 57.5 points in November. This signalled a tenth consecutive month of industry expansion and the highest pace of overall growth in four months (readings above 50.0 points indicate expansion with higher numbers indicating a faster pace of expansion).
- The industry's buoyancy reflected on-going strength in engineering construction and house building activity combined with resurgent conditions in the commercial construction sector.
- Engineering construction remained the strongest performing area of construction activity with its rate of expansion at a 11½-year high on the back of rising momentum in the roll-out of large-scale infrastructure projects. House building activity also strengthened due to continuing firm demand and support from a solid backlog of work.
- The rate of expansion in commercial construction lifted to its second highest level in almost 3½ years amid an increase in the number of projects entering the work pipeline. In contrast, apartment building activity contracted for a fourth consecutive month in November, albeit at a slightly slower rate.
- Australian PCI® data for November showed that overall industry activity accelerated in November to its strongest pace in the survey's 12-year history. This was associated with stronger expansions in new orders, deliveries from suppliers and employment.
- Respondents to the Australian PCI® again linked the rise in engineering construction to major transport infrastructure projects underway, particularly on the eastern seaboard.
- House builders continued to be positive in their assessment of business conditions, noting sustained strength in customer demand, including rising first home buyer activity. However, apartment builders cited relatively soft new orders and reduced investor activity.



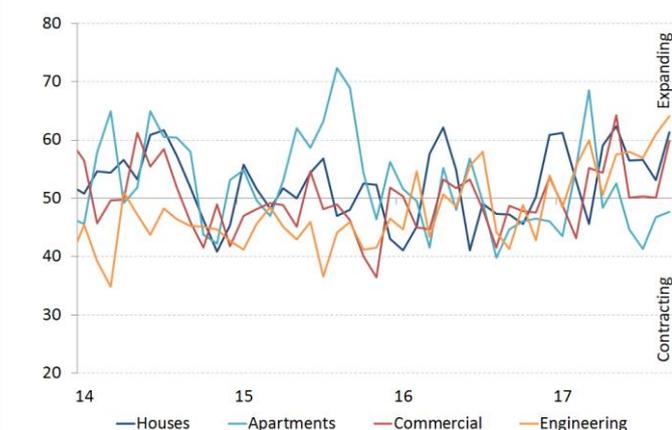
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the Australian PCI® registered 60.8 points in November.
- This was up by 7.9 points from the previous month, signalling a faster pace of growth in activity compared to October. It also marked the 10th consecutive month of expanding industry activity and the strongest rate of growth since the survey's inception in September 2005.
- Despite a further contraction in the apartment building sector, overall activity gained momentum in November due to more robust growth conditions in the house building and engineering and commercial construction sectors.
- The rate of capacity utilisation stood at 79.2% across the construction industry, up slightly from 79.0% in October. This was also 2.0 percentage points above the 12-month average of 77.2% of total industry capacity being utilised.



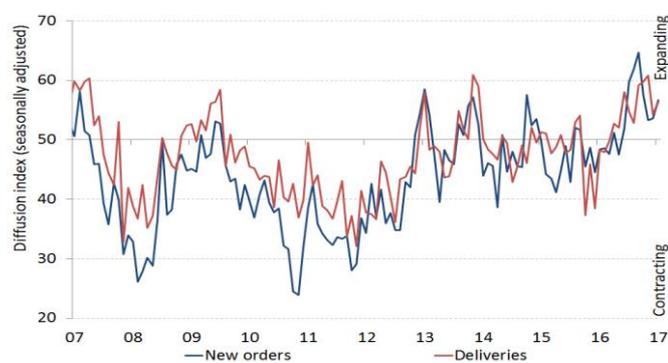
ACTIVITY BY SECTOR

- House building activity expanded more strongly in November with the sector's sub-index rising by 8.2 points to 61.3 points. This was the highest pace of growth in housing activity in four months consistent with continuing strong growth in new orders.
- Apartment building activity contracted for a fourth consecutive month in November. The sector's sub-index lifted by 0.9 points to 47.7 points in the month to signal a slight easing in the rate of decline. However, this activity reading was still well below the solid growth outcome recorded in May this year (68.5 points).
- Engineering construction activity maintained strong growth in November, and at a faster pace with the sector's activity sub-index increasing by 3.2 points to 64.1 points. This marked the eighth consecutive month of expansion in engineering construction activity. It was also highest rate of growth since June 2016 reflecting the boost from solid government infrastructure spending, particularly transport projects on the eastern seaboard.
- Commercial construction also recorded more robust conditions in November with the sector's sub-index registering 59.8 points. This was a sizeable 9.7 points above the reading for October and signalled the sector's fastest pace of expansion in four months and second fastest in 3½ years. This reflects evidence of firmer property investor sentiment and stronger business conditions more generally, with the trend value of non-residential approvals rising by a solid 32.3% over the year to October 2017.



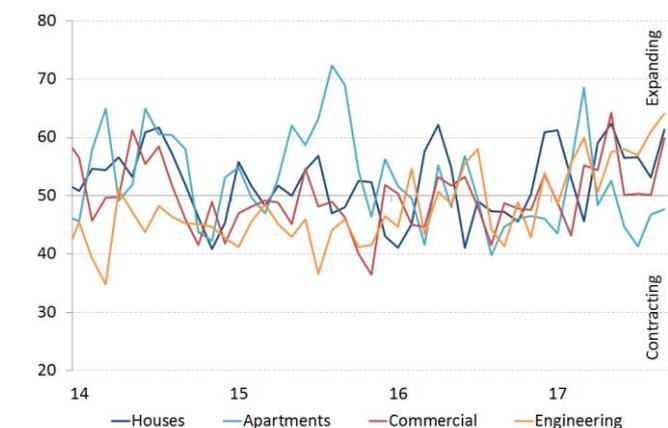
NEW ORDERS AND DELIVERIES

- New orders expanded in November for an eighth consecutive month.
- The new orders sub-index in the **Australian PCI**[®] increased by 3.1 points to 56.7 points, signalling the highest rate of expansion in new orders in three months.
- Across sectors of the **Australian PCI**[®] new orders expanded at stronger rates in the house building and commercial construction sectors, while growth was broadly unchanged in the engineering construction sector. In contrast, new orders in the apartment sector contracted for a fourth consecutive month.
- In line with the continued expansion in aggregate industry workloads and demand, deliveries of inputs from suppliers increased for a tenth consecutive month in the **Australian PCI**[®]. Moreover, the rate of expansion was faster in November with the supplier delivery index increasing by 2.2 points to 56.4 points.



NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a higher rate in November with the sub-index lifting by 1.3 points to 60.3 points. It follows a 1.5% m/m rise (6.2% p.a. annual growth) in private sector house approvals in October (ABS, seasonally adjusted data). November also marked the tenth consecutive month of growth in new orders, indicating that housing construction is likely to remain relatively firm in coming months amid a solid backlog of work.
- In the apartment building sector, new orders continued to contract, albeit at a slightly slower rate. The sector's sub-index increased by 0.4 points to 47.8 points in November after also gaining some ground in the previous two months.
- New orders strengthened in the commercial construction sector with the sector's sub-index increasing by 7.5 points to 57.9 points in November. This marked the fourth consecutive month of expanding new orders consistent with rising approvals across various major building categories including accommodation, offices and industrial buildings.
- In the engineering construction sector, new orders continued to exhibit a relatively solid pace of growth in November. The sector's sub-index increased by 0.3 points to 55.9 points in the month. This expansion in activity is consistent with on-going reports of new tender wins in non-resources project categories including transport and other public-sector capital works.



EMPLOYMENT AND WAGES

- Construction employment continued to expand in November with the employment sub-index within the **Australian PCI**[®] registering 55.3 points. This was an increase of 2.9 points from the previous month, pointing to faster rate of growth during the month.
- November marked the seventh consecutive month of growth in employment and the ninth increase in the past ten months. Rising employment continues to reflect overall growth in activity and new orders as respondents seek to boost operating capacity in response to current and expected work load requirements.
- Growth in wages continued in November, and at a higher rate than in October, with the wages sub-index rising by 2.4 points to 62.3 points.
- The pace of construction wages growth has remained relatively high during 2017 with the November reading broadly in line with the solid 12-month average of 62.7 points. This is consistent with the investment upturn in transport infrastructure and other public works which has led to strong demand for construction workers and increasing difficulties in filling various skilled vacancies.



INPUT COSTS AND SELLING PRICES

- The **Australian PCI**[®] input prices sub-index registered 78.8 points in November. This was an increase of 3.8 points from October, indicating that cost pressures in the construction of building projects continued to lift during the month. This increase in cost pressures was driven by robust demand for construction materials, escalating energy input costs and supplier price hikes related to strength in commodity prices.
- The selling prices sub-index in the **Australian PCI**[®] increased by 6.3 points to 59.9 points in November. This suggests that the pressure on input prices from rises in wages and other input costs are being passed on, although not broadly given strong market competition.
- The ongoing gap between these price series in the **Australian PCI**[®] indicates that profit margins are coming under increased pressure for businesses in the construction industry. This is consistent with reports of a highly competitive quoting and tendering environment.



	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PCI [®]	57.5	4.3	53.7	New Orders	56.7	3.1	54.5
Activity	60.8	7.9	53.3	Employment	55.3	2.9	52.6
Houses	61.3	8.2	55.5	Deliveries	56.4	2.2	54.9
Apartments	47.7	0.9	49.0	Input Prices	78.8	3.8	72.8
Commercial	59.8	9.7	52.1	Selling Prices	59.9	6.3	56.2
Engineering	64.1	3.2	54.8	Wages	62.3	2.4	62.7
				Capacity Utilisation (%)	79.2	0.2	77.1

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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