

CONSTRUCTION CONTINUES TO EXPAND IN OCTOBER

Australian PCI®
Oct 2017: 53.2↓

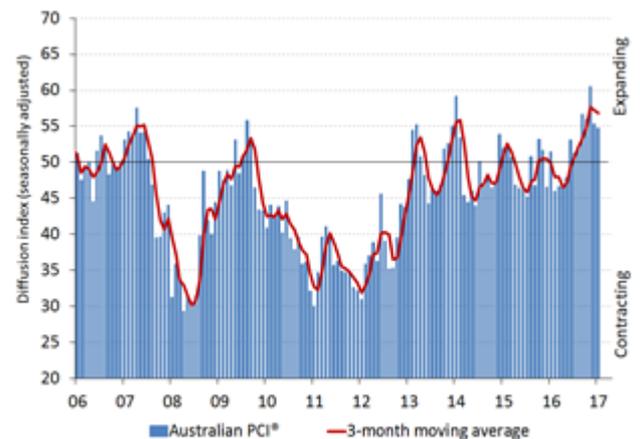
UK PCI
Oct 2017: 50.8↑

Germany PCI
Sep 2017: 55.4↑

Ireland PCI
Sep 2017: 56.5↑

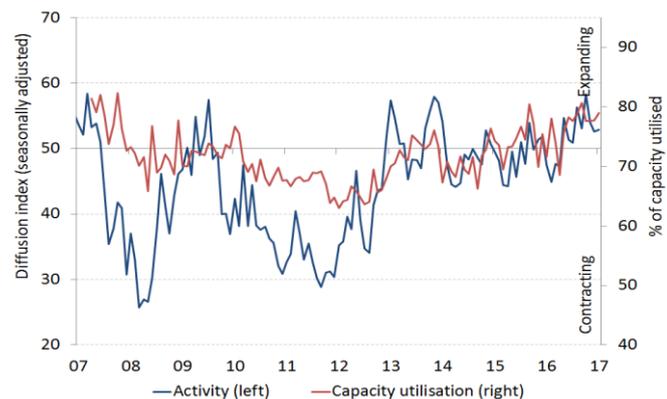
KEY FINDINGS

- The national construction industry expanded for a ninth consecutive month in October with a slight easing in growth momentum from September.
- The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 1.5 points to 53.2 points in October, signalling a slower rate of industry growth (readings above 50.0 points indicate expansion with higher numbers indicating a faster pace of expansion).
- Across the four construction sub-sectors, engineering construction was again the strongest performing area of construction activity with its rate of expansion at a 10-year high on the back of rising levels of non-mining infrastructure work. House building activity also recorded continued growth (albeit at a slower pace) in response to a solid backlog of work and on-going firm demand.
- Commercial construction activity was again stable in October while apartment building remained in negative territory although the sector's rate of decline moderated in comparison with the sharp contraction of the previous month.
- Australian PCI®** data for October showed that both activity and new orders continued to rise, at rates that were broadly unchanged from September. This was associated with continued expansions in deliveries from suppliers and employment.
- Respondents to the **Australian PCI®** again linked the rise in engineering construction to the upturn in transport infrastructure activity as the roll-out of major new road and rail projects gathers pace.
- House builders were generally positive in their assessment of business conditions, pointing to resilient new orders and a relatively solid level of new home builds in October. However, apartment builders cited the constraining influences on activity from soft new orders, a reduction in investor activity and the completion of some major projects.



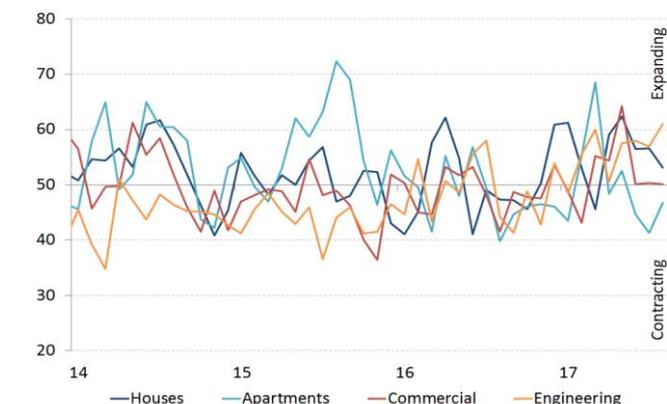
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 52.9 points in October.
- This was up by 0.3 points from September, signalling a marginal increase in the pace of overall industry growth.
- Despite a further contraction in apartment building activity and a subdued reading on commercial construction, overall activity remained in expansion due to continued growth in the engineering and house building sectors.
- The rate of capacity utilisation stood at 79.0% across the construction industry, up from 77.7% in October. This was also 1.7 percentage points above the 12-month average of 76.9% of total industry capacity being utilised.



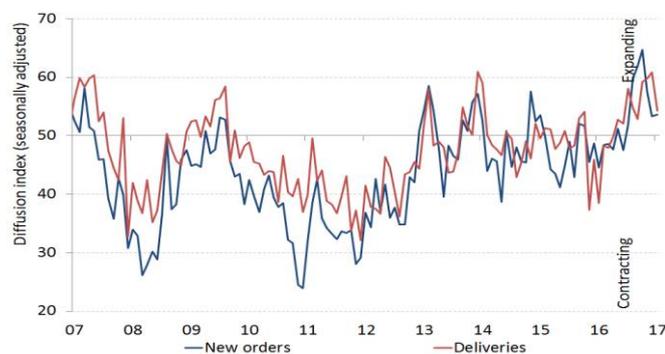
ACTIVITY BY SECTOR

- 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 previous month with the activity sub-index decreasing by 3.5 points to 53.1 points in October.
- Apartment building activity contracted for a third consecutive month in October, albeit at a slower rate. The sector's sub-index increased by 5.4 points to 46.8 points in October, although this is still well below the solid growth outcome recorded in May this year (68.5 points).
- Engineering construction activity maintained strong growth in October, and at a faster pace with the sector's activity sub-index increasing by 4.0 points to 60.9 points. This marked the seventh consecutive month of expansion in engineering construction activity. It also follows the strong 21.7% q/q (+19.0% p.a.) seasonally adjusted increase in the value of engineering construction work done in Q2 (ABS *Engineering Construction Activity*).
- Commercial construction was broadly unchanged in October with the sector's sub-index dipping by 0.2 points to 50.1 points, signalling a near stabilisation in activity for a third consecutive month.



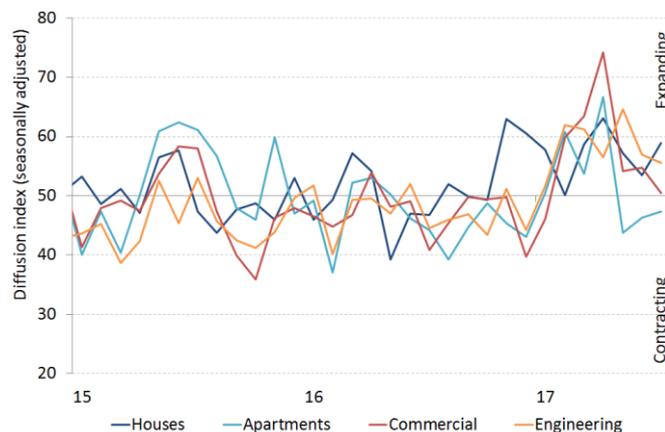
NEW ORDERS AND DELIVERIES

- New orders continued to expand in October, with the new orders index registering 53.6 points in the month.
- This was a marginal increase of 0.3 points from September indicating a broadly unchanged rate of increase in the month.
- Across sectors of the **Australian PCI**® slower growth in new orders was evident in the commercial and engineering construction sectors while in the apartment building sector new orders contracted for a third consecutive month. In contrast, new orders expanded at a higher pace in the house building sector.
- In line with the continued expansion in aggregate industry workloads and demand, deliveries of inputs from suppliers increased for a ninth consecutive month in the **Australian PCI**®. However, the rate of expansion moderated from September's three-year high growth rate with the supplier delivery index declining by 6.6 points to 54.2 points.



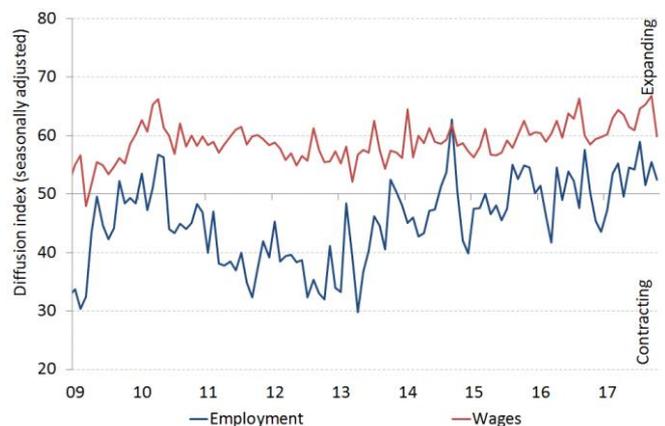
NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a faster rate in October with the sub-index lifting by 5.5 points to 59.0 points. October also marked the ninth 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 in October, albeit at a slower rate. The sector's sub-index increased by 1.1 points to 47.4 points after also recovering some ground in September.
- New orders in the commercial construction sector expanded only marginally in October with the sector's sub-index registering 50.4 points, a decline of 4.4 points from September. Nevertheless, new orders have remained in positive territory for six consecutive months 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 October. However, the sector's sub-index decreased by 1.4 points to 55.6 points in the month, signalling a slower pace of expansion. This continued growth is consistent with businesses noting increased success in acquiring new contracts for future construction work in areas outside of mining, including transport and other public-sector infrastructure.



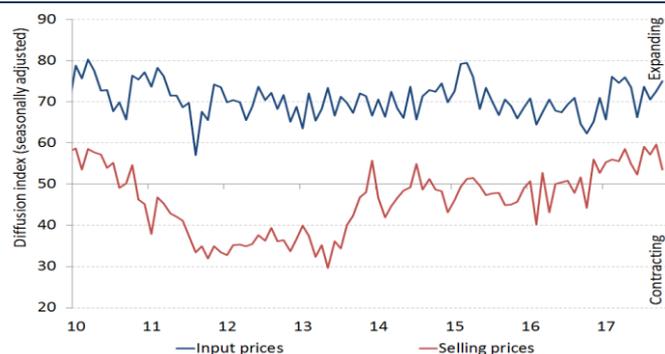
EMPLOYMENT AND WAGES

- Construction employment continued to expand in October with the employment sub-index within the **Australian PCI**® registering 52.4 points. However, this was a decrease of 3.0 points from the previous month, pointing to an easing in the rate of growth during the month.
- Nevertheless, October marked the sixth consecutive month of growth in employment and the eighth increase in the past nine 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 October. However, the rate of increase moderated from September's almost decade-high growth rate with the wages sub-index declining by 6.9 points to 59.9 points.
- Despite this easing, the pace of construction wages growth remains relatively high with the October reading on wages only slightly below the 12-month average of 62.4 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 75.0 points in October. This was an increase of 2.5 points from September, 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 high commodity prices.
- The selling prices sub-index in the **Australian PCI**® decreased by 6.0 points to 53.6 points in October. 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 widening 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 ®	53.2	-1.5	52.8	New Orders	53.6	0.3	53.8
Activity	52.9	0.3	52.0	Employment	52.4	-3.0	51.8
Houses	53.1	-3.5	54.3	Deliveries	54.2	-6.6	54.2
Apartments	46.8	5.4	48.7	Input Prices	75.0	2.5	71.6
Commercial	50.1	-0.2	51.2	Selling Prices	53.6	-6.0	56.1
Engineering	60.9	4.0	52.9	Wages	59.9	-6.9	62.4
				Capacity Utilisation (%)	79.0	1.3	76.9

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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