

NON-RESIDENTIAL CONSTRUCTION DRIVES APRIL GROWTH

Australian PCI®
Apr 2018: 55.4↓

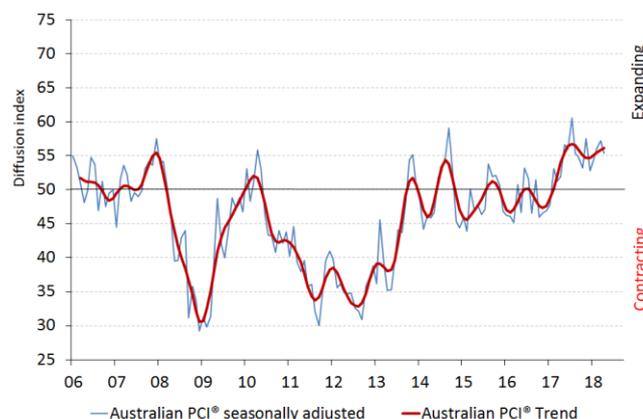
UK PCI
Mar 2018: 47.0↓

Germany PCI
Mar 2018: 47.0↓

Ireland PCI
Mar 2018: 57.5↓

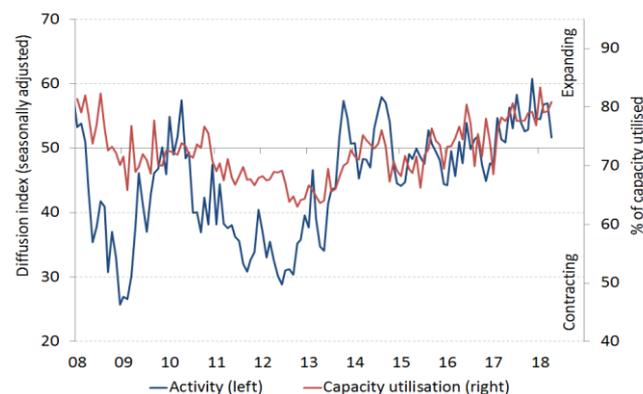
KEY FINDINGS

- The national construction industry expanded for a fifteenth consecutive month in April with a slight easing in growth momentum from March.
- The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 1.8 points to 55.4 points in April, signalling a slower rate of industry growth (readings above 50.0 points indicate expansion with higher numbers indicating a faster pace of expansion).
- **Australian PCI®** data for April showed that both activity (51.6) and new orders (56.5) continued to rise, although rates of growth moderated in comparison with March.
- In line with the sustained expansion in aggregate industry demand and activity, deliveries from suppliers (53.7) maintained growth, albeit at a slightly slower pace. Businesses also continued to increase their workforces with employment (59.5) rising at its highest pace in 3½ years.
- Across the four construction sub-sectors, commercial construction was again the strongest performing area of construction activity with its rate of growth only mildly slower than March's 12½ year record high. This reflects a lift in the number of projects receiving the go ahead and improving business conditions more generally.
- Engineering construction expanded at a slower rate. However, April marked the sector's 13th consecutive month of growth amid ongoing support from major infrastructure projects.
- There was a near stabilisation in levels of activity in the house building sector following 10 months of expanding conditions.
- Apartment building fell further into negative territory with the sector's activity sub-index contracting at its sharpest rate in seven months.
- Respondents active in commercial and engineering construction continued to cite the positive influences on activity from rising investment in commercial building developments and the roll-out of big-ticket transport infrastructure projects, particularly on the eastern seaboard.
- House builders pointed to on-going support from a solid backlog of work, although there were reports of fewer customer enquiries and a more cautious approach by prospective buyers.
- Apartment building respondents to the **Australian PCI®** again commented on a reduction in investor activity and pockets of over supply that were having a constraining influence on activity.



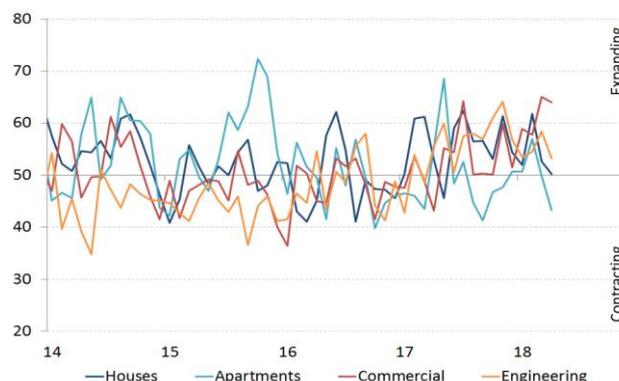
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 51.6 points in April.
- This was down by 5.4 points from the previous month, signalling a slower rate of increase in industry activity. However, it marked the industry's 15th consecutive month of expansion and coincided with continued (albeit slower) growth in new orders.
- Despite continued strength in the commercial construction sector, overall levels of activity moderated in response to a softening in house building and engineering construction activity and a steeper drop in apartment building work.
- The rate of capacity utilisation stood at 80.9% across the construction industry, up from 79.3% in March. This was also 1.7 percentage points above the 12-month average of 79.2% of total industry capacity being utilised.



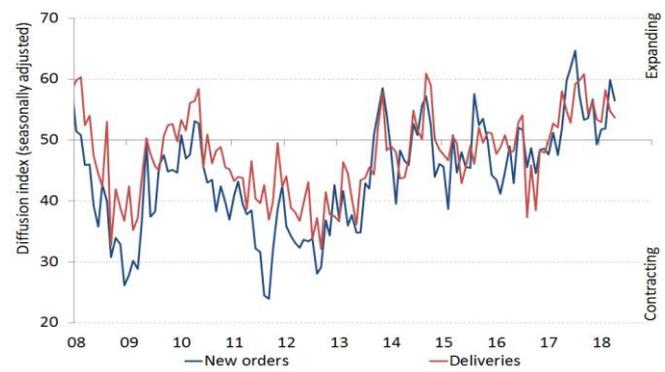
ACTIVITY BY SECTOR

- House building activity was stable in April, after increasing over the previous ten months. The sector's activity sub-index decreased by 2.3 points to 50.3 points this month. It was also the lowest activity reading for the sector in 11 months.
- The apartment building sector posted a weaker performance in April. The sector's sub-index fell by 6.6 points to 43.3 points signalling a sharper rate of contraction in activity during the month. The apartment sector has now experienced steady or declining activity in eight of the past nine months following a cooling in new orders over the second half of 2017.
- Engineering construction activity continued to expand in April, albeit at a slower rate with the sector's activity sub-index falling by 5.3 points to 53.2 points. However, this marked the sector's 13th consecutive month of growth in line with the boost from state government capital works.
- Commercial construction remained in positive territory for a 12th straight month with the sector's sub-index registering a solid 64.0 points, down by just one point from March. Rising approvals and commencements across key project areas (including offices, industrial premises and education buildings) continue to be strongly supportive of current and prospective activity.



NEW ORDERS AND DELIVERIES

- New orders continued to expand in April, with the new orders index in the **Australian PCI®** registering 56.5 points in the month.
- This was, however, a decrease of 3.4 points from March suggesting some further softening in the overall pace of activity growth in coming months.
- Across sectors of the **Australian PCI®** new orders expanded at a higher pace in the commercial construction sector. In contrast, slower growth in new orders growth was experienced in the housing and engineering construction sectors while new orders returned to negative territory in the apartment sector after steady or positive demand conditions in the previous three months.
- Due to the sustained expansion in industry workloads and the further overall growth in new orders, deliveries of inputs from suppliers continued to increase in the **Australian PCI®**. However, the pace of growth moderated slightly from March with the supplier delivery index decreasing by 1.0 point in April to 53.7 points.



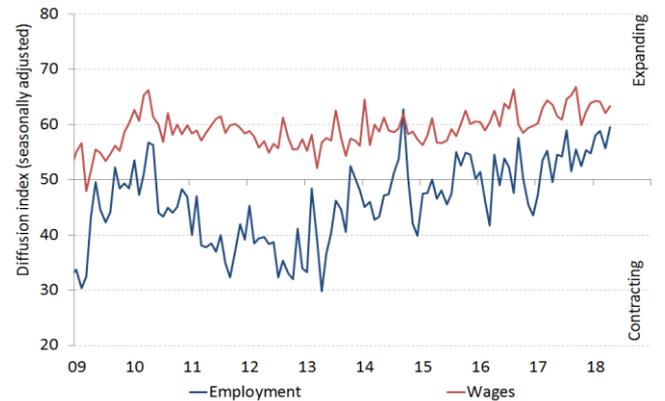
NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a slower rate in April with the sub-index falling by 4.1 points to 56.8 points. Despite this moderation, April marked the 15th consecutive month of growth in new orders, indicating that housing construction is likely to hold up in coming months (rather than head in a negative direction) supported by record low interest rates and strong population growth.
- In the more volatile apartment building sector, new orders contracted in April. The new orders sub-index decreased by 4.1 points to 49.2 points in April. This weakening in demand follows three months of expanding or stable new orders for apartment builders.
- New orders accelerated in the commercial construction sector with this sub-index increasing by 7.4 points to 61.6 points. This marked the highest rate of growth in new orders in nine months in line with rising approvals across major building categories including offices, education projects and industrial premises.
- In the engineering construction sector, new orders expanded for a third consecutive month. However, the rate of growth slowed in April with the sector's new orders sub-index falling by 8.2 points to 55.3 points.



EMPLOYMENT AND WAGES

- Construction employment continued to expand in April with the employment sub-index within the **Australian PCI®** registering 59.5 points. This was an increase of 3.8 points from the previous month, indicating a faster pace of growth during the month.
- April marked the 12th consecutive month of growth in employment and the highest rate of increase since September 2014. Rising employment reflects the healthy level of work at present and the need for businesses to ensure sufficient resources are in place to meet future demand.
- Growth in wages continued in April, and at a higher rate with the wages sub-index increasing by 1.3 points to 63.3 points.
- The pace of construction wages growth appears to be gaining some strength with the April reading on wages lifting above the 12-month average of 63.2 points. This suggests that increased demand for workers is starting to have some impact in supporting higher wages in the construction industry.
- It is consistent with the recent surge in large-scale transport infrastructure projects and other publicly-funded works which has led to growth in engineering construction employment and increasing reports of difficulties in filling related skilled vacancies.



INPUT COSTS AND SELLING PRICES

- Input price inflation in the **Australian PCI®** remained elevated in April. This is despite the input prices sub-index falling by 1.4 points to 74.5 points in April, indicating that cost pressures in the construction of building projects eased slightly during the month. Elevated cost pressures are being 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®** declined marginally by 0.1 points to 57.7 points in April. This suggests the pressure on input prices from rises in wages and other input costs are being passed on in part, although still not broadly given strong market competition.
- The ongoing gap between these price series in the **Australian PCI®** demonstrates that strong pressures on profit margins persist 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®	55.4	-1.8	55.8	New Orders	56.5	-3.4	56.4
Activity	51.6	-5.4	55.2	Employment	59.5	3.8	55.8
Houses	50.3	-2.3	55.5	Deliveries	53.7	-1.0	55.9
Apartments	43.3	-6.6	50.1	Input Prices	74.5	-1.4	74.6
Commercial	64.0	-1.0	56.8	Selling Prices	57.7	-0.1	56.9
Engineering	53.2	-5.3	57.0	Wages	63.3	1.3	63.2
				Capacity Utilisation (%)	80.9	1.6	79.2

What is the Australian PCI®? Performance of Construction Index (**Australian PCI®**) in conjunction with the Housing Industry Association is a national composite index based on a weighted mix of activity, orders/new business, deliveries and employment. An **Australian PCI®** reading above 50 points indicates construction activity is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. For further economic analysis and information from the Australian Industry Group, visit www.aigroup.com.au/policy-and-research/economics/economicindicators/.

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