

## CONSTRUCTION MOMENTUM CONTINUES IN FEBRUARY

**Australian PCI®**  
Feb 2018: 56.0↑

**UK PCI**  
Feb 2018: 51.4↑

**Germany PCI**  
Jan 2018: 59.8↑

**Ireland PCI**  
Jan 2018: 61.4↑

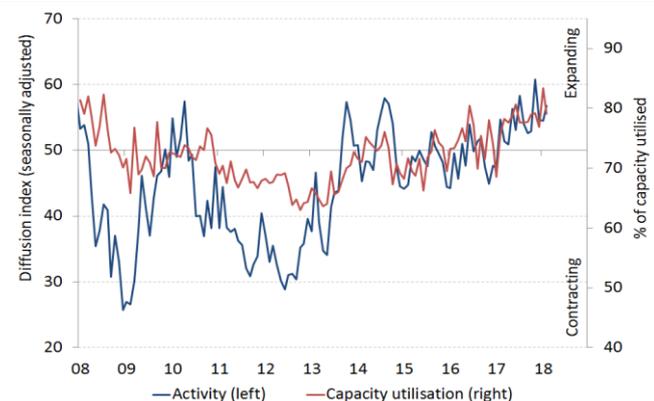
### KEY FINDINGS

- The Australian construction industry continued to grow in February with the seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increasing by 1.7 points to 56.0 points (readings above 50 points indicate expansion). This signalled industry-wide expansion for a 13<sup>th</sup> consecutive month and the highest pace of overall growth in three months.
- Australian PCI®** data for February showed that the industry's on-going expansion was supported by continued rises in both activity and new orders. This was associated with a stronger increase in deliveries from suppliers while the employment sub-index increased at its fastest pace in seven months.
- Across the four construction sub-sectors, house building was the strongest performing area of construction activity in February with its rate of growth lifting solidly due to an upturn in demand and a significant backlog of work. Activity in the apartment building sector also showed improvement, expanding at a relatively robust rate after broadly stable conditions over the previous two months.
- Engineering construction gained some further momentum in February amid reports of new tender wins in the month and on-going support from an expanding pipeline of transport infrastructure projects.
- The rate of growth in commercial construction moderated slightly, although February was the sector's tenth consecutive month of stable or expanding activity reflecting stronger property investor sentiment and improving business conditions more generally over the past year.
- Respondents to the **Australian PCI®** were generally positive in their assessment of business conditions citing solid work pipelines and a higher volume of new project starts in February.
- House building respondents to the **Australian PCI®** commented on an increase in customer enquiries in February and a continuation of relatively firm first home buyer activity.



### CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 56.8 points in February.
- This was up by 2.3 points from the previous month, signalling a faster pace of growth in activity compared to January. It also marked the 13th consecutive month of expanding industry activity and the strongest rate of growth in three months.
- The overall buoyancy of industry conditions was driven by broad-based growth across the residential, commercial and engineering construction sectors with workloads supported by healthy project pipelines and rising new orders.
- The rate of capacity utilisation remained at a relatively high 79.1% across the construction industry. Although this was down from the 10-year survey record rate for this series of 83.4% in January, it was 0.3 percentage points above the 12-month average of 78.8% of total industry capacity being utilised.



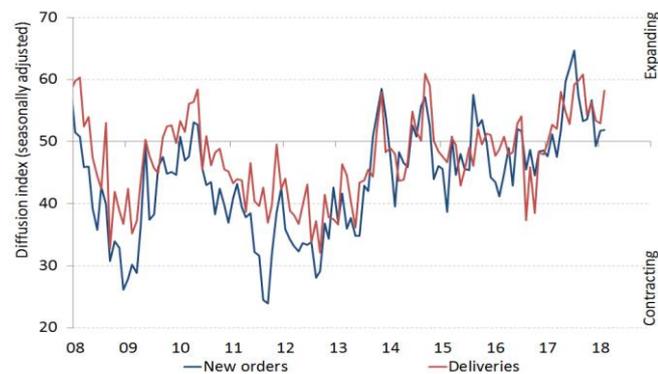
### ACTIVITY BY SECTOR

- House building activity expanded more strongly in February with the sector's sub-index rising by 9.8 points to 61.8 points. This was the highest pace of growth in housing activity in seven months consistent with a rebound in new orders.
- The apartment building sector also posted an improved performance in February. The sector's sub-index lifted by 6.2 points to 56.9 points in the month to signal a relatively robust rate of growth. However, this activity reading was well below 2017's peak result in May of 68.5 points.
- Engineering construction activity continued to expand in February, and at a slightly higher pace, with the sector's activity sub-index increasing by 1.0 points to 54.5 points. This marked the 11th consecutive month of expansion in engineering construction activity, in line with the boost from major capital works spending by state governments.
- Commercial construction remained in positive territory for an 10th consecutive month. However, the sector's activity sub-index decreased by 1.1 points to 57.8 points in February to signal a slight moderation in the pace of growth. Key project areas (including accommodation, offices, education and industrial buildings) remain strongly supportive of current and prospective activity.



## NEW ORDERS AND DELIVERIES

- New orders maintained growth in February for a second consecutive month after contracting in December 2017 for the first time in nine months.
- The new orders sub-index in the **Australian PCI®** increased by 0.1 points to 51.9 points (seasonally adjusted) in February, indicating that overall industry growth was relatively mild and broadly unchanged from January.
- Across sectors of the **Australian PCI®** new orders lifted strongly in the house building sector and returned to positive territory in the engineering construction sector. However, commercial builders experienced slower growth in new orders in February, while demand conditions in the apartment building sector were largely stable in the month.
- Reflecting the sustained expansion in industry workloads and the further growth in demand, deliveries of inputs from suppliers continued to increase in the **Australian PCI®** and at a higher rate. The supplier delivery index increased by 5.4 points in February to 58.3 points, indicating the highest rate of growth in five months.



## NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a faster pace in February with the sub-index lifting by 9.6 points to 60.9 points. February also marked the 13th consecutive month of growth in new orders. This indicates that housing construction is likely to remain relatively firm in 2018 supported by record low interest rates, strong population growth and stronger jobs growth.
- In the apartment building sector, the new orders sub-index decreased by 5.1 points to 50.4 points in February. This indicates broadly stable demand conditions in the month although it follows a solid recovery in new orders in January.
- New orders returned to growth in the engineering construction sector with this sub-index increasing by 4.5 points to 51.2 points. Whilst this points to a relatively mild pace of growth in February, activity should continue to be supported over 2018 by the general strength in new orders evident in 2017 and the large pipeline of public funded infrastructure projects.
- New orders expanded for a 10th consecutive month in the commercial construction sector consistent with rising approvals across major building categories including offices, education projects and industrial premises. However, the rate of growth moderated to a four-month low level in February with the sector's sub-index decreasing by 2.4 points to 51.8 points.



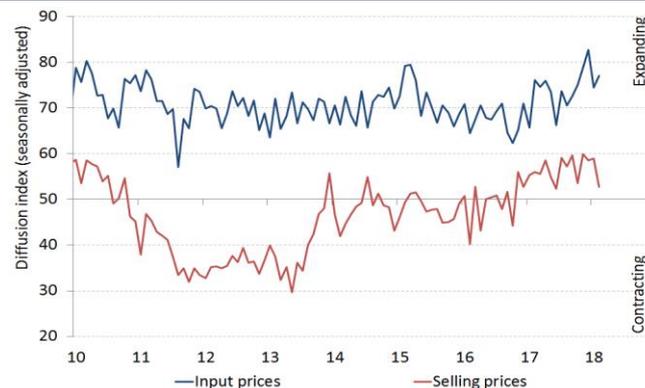
## EMPLOYMENT AND WAGES

- Construction employment expanded again in February, with the employment sub-index of the **Australian PCI®** up by 0.8 points to 58.8 points and indicating a slightly faster rate of growth.
- December marked the tenth consecutive month of growth in employment and the 12<sup>th</sup> increase in the past 13 months. 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 February, and at a broadly unchanged rate with the wages sub-index easing by 0.2 points to 64.1 points.
- Nevertheless, the February result exceeds the most recent 12-month average of 63.5 points, suggesting that stronger demand for workers has started to have some impact on pushing wages higher in the construction industry.
- This 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

- The **Australian PCI®** input prices sub-index registered 77.0 points in February. This was an increase of 2.6 points from January, indicating that cost pressures in the construction of building projects lifted 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®** decreased by 6.2 points to 52.7 points in February. This suggests the pressure on input prices from rises in wages and other input costs are being passed on in part, although not broadly given strong market competition.
- The widening 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
<b>Australian PCI®</b>	<b>56.0</b>	<b>+1.7</b>	<b>55.0</b>	New Orders	51.9	0.1	55.0
Activity	56.8	+2.3	54.5	Employment	58.8	0.8	54.9
Houses	61.8	+9.8	56.4	Deliveries	58.3	5.4	56.0
Apartments	56.9	6.2	50.6	Input Prices	77.0	2.6	74.6
Commercial	57.8	-1.1	53.7	Selling Prices	52.7	-6.2	56.7
Engineering	54.5	+1.0	56.4	Wages	64.1	-0.2	63.5
				Capacity Utilisation (%)	79.1	-4.3	78.8

**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/](http://www.aigroup.com.au/policy-and-research/economics/economicindicators/).

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