

CONSTRUCTION CONTINUES TO GROW IN JANUARY

Australian PCI®
Jan 2018: 54.3↑

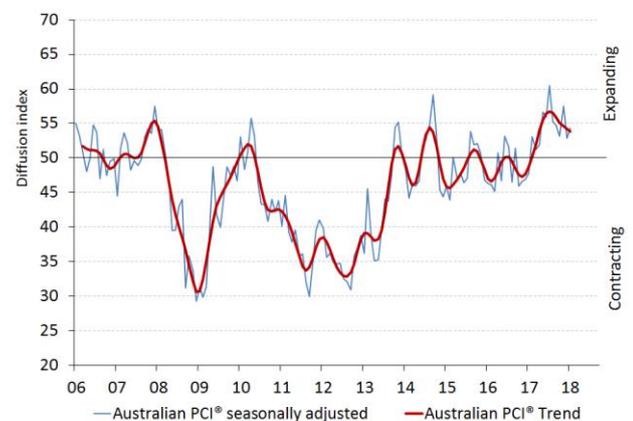
UK PCI
Dec 2017: 52.2↓

Germany PCI
Dec 2017: 53.7↑

Ireland PCI
Dec 2017: 58.0↑

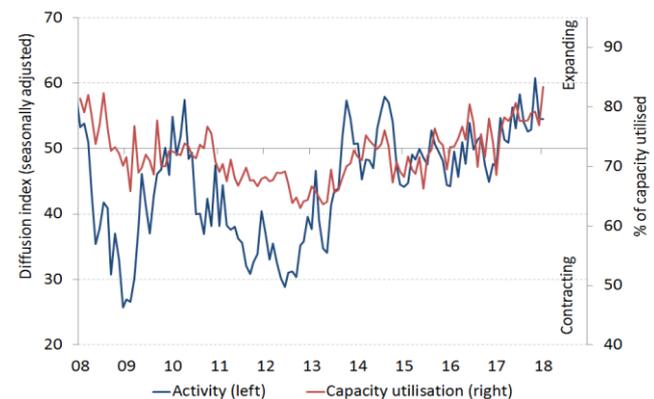
KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increased by 1.5 points to 54.3 points in January (readings above 50 points indicate expansion). This signalled industry-wide growth for a 12th consecutive month and at a slightly higher pace than in December 2017.
- **Australian PCI®** data for January revealed an improvement in demand, with the new orders sub-index returning to growth after drifting into mildly negative territory in December.
- The activity sub-index remained in expansion in January, at a broadly unchanged rate from December. This was associated with further growth in deliveries from suppliers.
- The employment sub-index accelerated to its fastest pace in six months, while capacity utilisation hit a record high of 83.4% (highest since at least 2008, when this data series began).
- Across sectors, commercial construction was the strongest performing area of industry activity in January with its sub-index jumping 7.4 points higher to 58.9 points, in line with stronger property investor sentiment and improving business conditions more generally.
- House building activity continued to expand although the sector's rate of growth moderated for a second consecutive month, signalling a possible cooling in house building conditions.
- Engineering construction expanded at a slower rate. However, January marked the sector's 10th consecutive month of expansion amid ongoing support from major infrastructure projects.
- Apartment building activity remained in positive territory in January, although the implied rate of growth was marginal and unchanged from December.
- House builders continued to point to a high degree of support from ongoing projects, although there were reports of slower new orders and fewer enquiries about house constructions.
- Respondents active in commercial and engineering construction continued to cite the positive influences on activity from rising investment in commercial building developments and major infrastructure projects underway, particularly on the east coast.



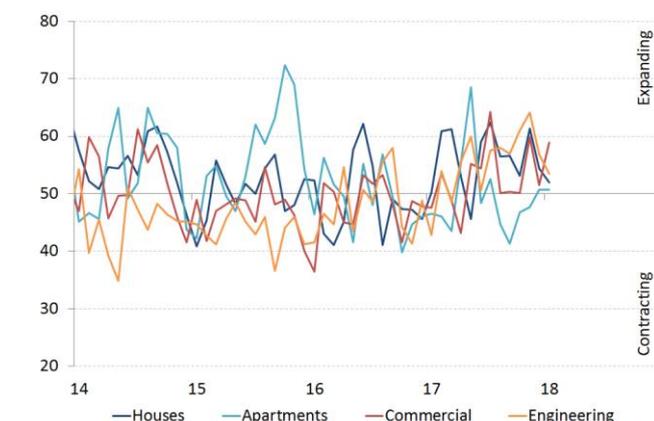
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 54.5 points in January.
- This was down by 0.1 points from the previous month, signalling a broadly unchanged rate of industry activity. It also marked the 12th consecutive month of expanding industry activity.
- Despite a relatively subdued result from the apartment building sector, overall activity remained in expansion due to more robust conditions in commercial construction and continued (albeit slightly slower) growth in the house building and engineering construction sectors.
- The rate of capacity utilisation rose to 83.4% across the construction industry, up from 76.9% in December. This was a record high for this measure in the **Australian PCI®**, which commenced in January 2008. This indicates that current resources could become stretched and require further investment and/or employment to meet future growth in demand.



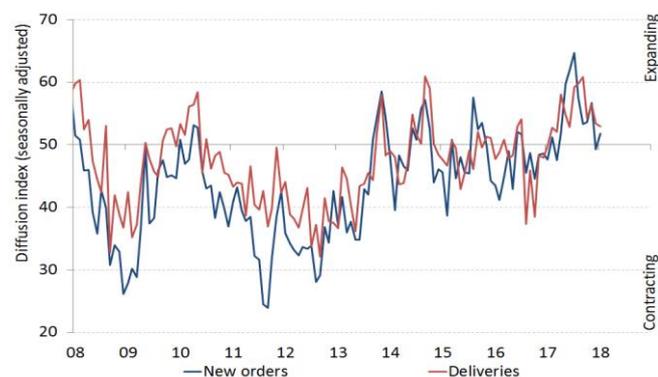
ACTIVITY BY SECTOR

- House building conditions continued to expand. However, the sector's growth rate moderated somewhat with the activity sub-index decreasing by 2.5 points to 52.0 points in January.
- The apartment building sector reported another stable month in January. The sector's sub-index was unchanged at 50.7 points, indicating marginal growth for a second consecutive month. This was well below 2017's peak monthly result in May of 68.5 points.
- Engineering construction activity continued to expand in January, although at a slower pace, with the sector's activity sub-index decreasing by 3.4 points to 53.5 points. This marked the 10th consecutive month of expansion in engineering construction activity, in line with the boost from capital works spending by state governments. However, there were reports from some businesses of shortfalls in new work to replace completed projects. This is consistent with reports of softer forward orders over the previous two months.
- Commercial construction remained in positive territory for a ninth consecutive month with the sector's sub-index registering 58.9 points. This was a solid 7.4 points above the reading for December, with rising non-residential building approvals and commencements in key project areas (including accommodation, offices, education and industrial buildings) continuing to support current and prospective activity.



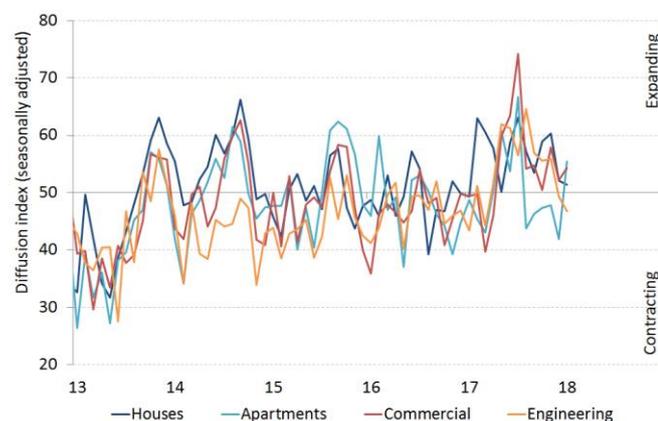
NEW ORDERS AND DELIVERIES

- New orders improved in January, with the new orders sub-index in the **Australian PCI**[®] rising 2.6 points to 51.8 points (seasonally adjusted).
- This indicates firming demand in the new year, after new orders contracted in December for the first time in nine months.
- Across sectors of the **Australian PCI**[®] new orders recovered in the apartment sector and expanded at a higher pace in the commercial construction sector. However, house builders experienced slower growth in new orders in January, while new orders in engineering construction contracted for a second consecutive month.
- Reflecting this month's expansion in aggregate industry demand, deliveries of inputs from suppliers continued to increase in the **Australian PCI**[®] albeit at a slightly slower rate. The supplier delivery index decreased by 0.5 points in January to 52.9 points.



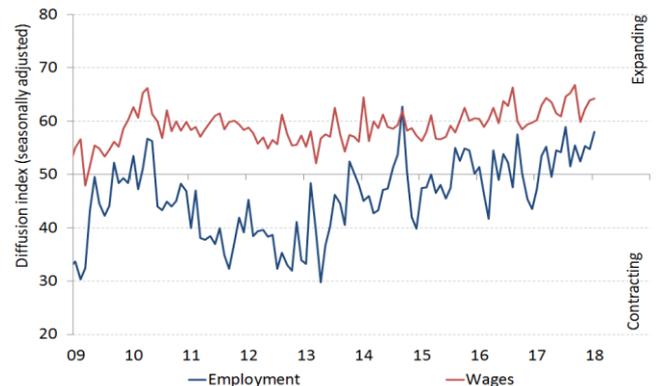
NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a slower rate in January, with the sub-index easing slightly by 0.8 points to 51.3 points. This reflects a -0.2% m/m fall (+4.9% p.a. annual growth) in private sector house approvals in December (ABS, trend data). Whilst activity appears to be slowing, January marked the 12th 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, new orders sub-index increased by 13.5 points to 55.5 points in January. This follows declines in new orders over the previous five months.
- New orders strengthened in the commercial construction sector with this sub-index increasing by 2.0 points to 54.2 points. This reflects recent improvements in most major segments of non-residential approvals over the past year.
- In engineering construction, new orders contracted for a second consecutive month, with reports that new tenders are becoming harder to secure than a year earlier. The sector's new orders sub-index declined by 2.6 points to 46.7 points in January. However, the general strength in new orders evident in 2017 (reflecting the solid pipeline of publicly funded infrastructure) should continue to support activity through 2018.



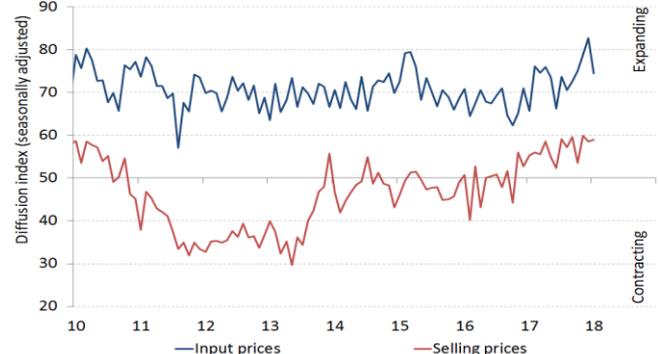
EMPLOYMENT AND WAGES

- Construction employment expanded again in January, with the employment sub-index of the **Australian PCI**[®] up 3.3 points to 58.0 points and indicating a faster rate of growth.
- December marked the ninth consecutive month of growth in employment and the 11th increase in the past 12 months. Rising employment reflects the elevated 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 January, and at a marginally higher rate than in December, with the wages sub-index rising by 0.4 points to 64.3 points.
- Construction wages growth appears to be accelerating again, with the January result exceeding the most recent 12-month average of 63.4 points.
- 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 index fell by 8.3 points to 74.4 points in January, retreating from the nine-year high level recorded in December. This indicates continuing pressures on input pricing, driven by robust demand for construction materials, escalating energy input costs and supplier price hikes related to stronger commodity prices.
- The selling prices sub-index in the **Australian PCI**[®] increased by 0.3 points to 58.9 points in January. 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 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 [®]	54.3	+1.5	54.8	New Orders	51.8	2.6	54.9
Activity	54.5	-0.1	54.5	Employment	58.0	3.3	54.5
Houses	52.0	-2.5	56.3	Deliveries	52.9	-0.5	55.6
Apartments	50.7	0.0	49.7	Input Prices	74.4	-8.3	74.5
Commercial	58.9	7.4	53.4	Selling Prices	58.9	0.3	57.0
Engineering	53.5	-3.4	56.4	Wages	64.3	0.4	63.4
				Capacity Utilisation (%)	83.4	6.5	78.6

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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