

MAJOR PROJECTS LEAD CONSTRUCTION GROWTH IN MARCH

Australian PCI®
Mar 2018: 57.2↑

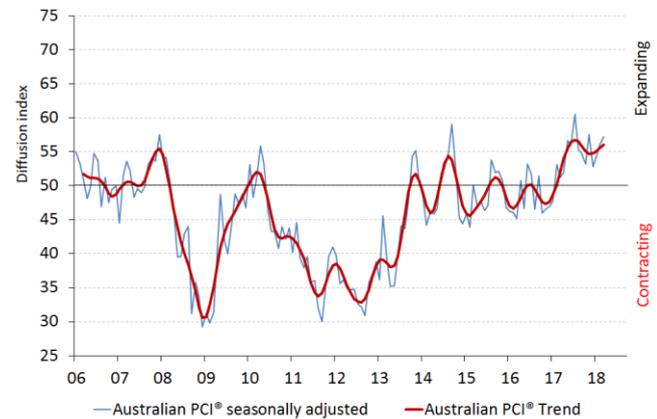
UK PCI
Mar 2018: 47.0↓

Germany PCI
Feb 2018: 52.7↓

Ireland PCI
Feb 2018: 59.2↓

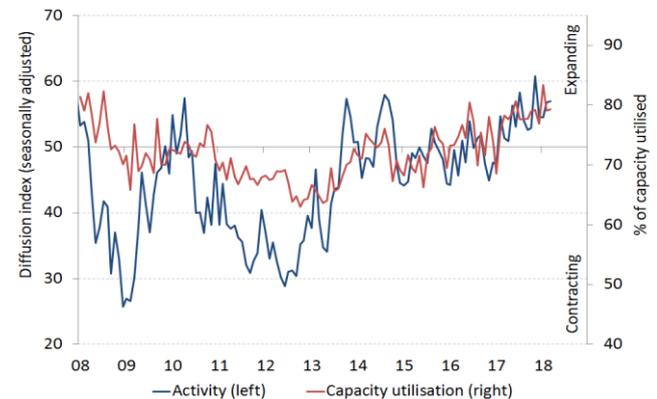
KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increased by 1.2 points to 57.2 points in March (readings above 50 points indicate expansion). This signalled industry wide growth for a 14th consecutive month and at a pace that was slightly higher than in February. It also continued the pick-up in aggregate industry growth seen since November 2017.
- Australian PCI®** data for March revealed a strong lift in demand with the new orders sub-index (59.9) expanding at its fastest pace in eight months. The activity sub-index (57.0) also indicated a continuation of solid activity growth led by major construction works.
- This sustained growth in aggregate industry activity was associated with a continued expansion in deliveries from suppliers (54.7) and an 11th consecutive month of rising employment (55.7) in the **Australian PCI®**.
- Across the four sub-sectors in the **Australian PCI®** commercial construction activity drove growth in industry conditions in March. The sector expanded at its highest rate in 12½ years (i.e. since the survey's inception in September 2005) reflecting firm property investor sentiment and improving business conditions more generally.
- Engineering construction also gained further solid momentum in March amid reports of new tender wins and on-going support from major infrastructure projects.
- House building activity expanded for a 10th month running in line with continued strength in demand, although growth was below the solid seven-month high rate of increase recorded in February. Activity in the more volatile apartment building sector weakened, falling back into slight negative territory following a strengthening in February.
- Respondents active in major project work again cited the positive influences on activity from the upswing in government infrastructure spending and solid investment in some key commercial building developments.
- Despite some easing in activity growth, house builders remained positive in their assessment of business conditions, citing increases in customer enquiries and resilient new orders.
- Apartment building respondents to the **Australian PCI®** commented on a reduction in investor activity and pockets of over supply that were having a constraining influence on activity.



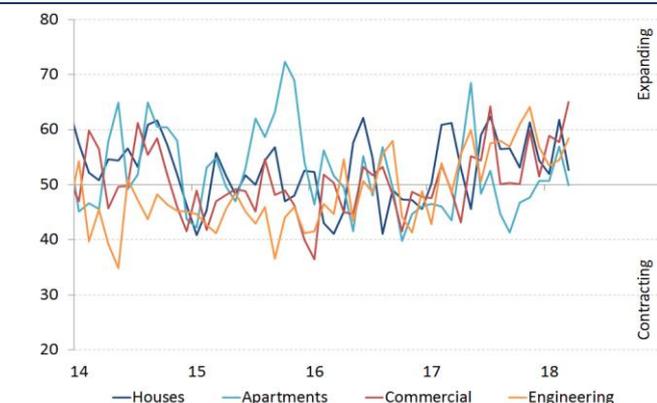
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the **Australian PCI®** registered 57.0 points in March.
- This was up by 0.2 points from the previous month, signalling a broadly unchanged rate of industry activity. It also marked the 14th consecutive month of expanding industry activity and the strongest rate of growth in four months.
- Overall activity gained momentum in March due to more robust growth in the commercial and engineering construction sectors combined with continued expansion in housing conditions. This was offset to some extent by weaker activity in the apartment sector.
- The rate of capacity utilisation remained at a relatively high 79.3% across the construction industry. This was the second highest capacity rate in nine months and 0.4 percentage points above the 12-month average of 78.9% of total industry capacity being utilised.



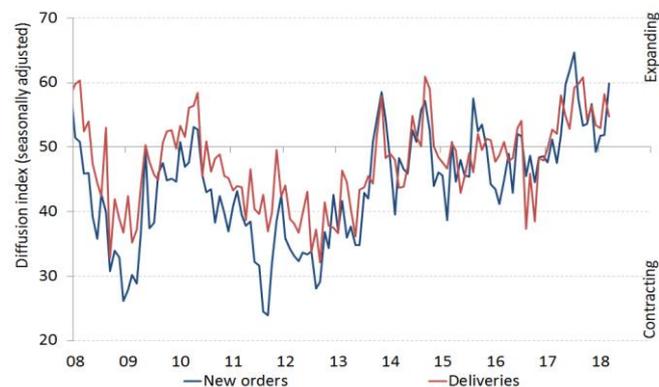
ACTIVITY BY SECTOR

- House building conditions continued to expand in line with continued growth in new orders. However, the sector's rate of expansion moderated from the seven-month high pace reached in February with the activity sub-index decreasing by 9.2 points to 52.6 points in March.
- The apartment building sector posted a weaker performance in March. The sector's sub-index fell by 7.0 points to 49.9 points signalling largely stable activity in the month. The apartment sector has experienced steady or declining activity in seven of the past eight months following a cooling in new orders over the second half of 2017.
- Engineering construction activity continued to expand in March, and at the highest pace in four months with the sector's activity sub-index rising by 4.0 points to 58.5 points. This further growth in activity is in line with the boost from major capital works spending by state governments.
- Commercial construction remained in positive territory for an 11th straight month with the sector's sub-index rising by a solid 7.2 points to 65.0 points. 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 expanded in March for a third consecutive month.
- The new orders sub-index in the **Australian PCI**[®] increased by 8.0 points to 59.9 points, the highest new orders result (and therefore the fastest rate of expansion) in eight months. This firming in new orders points to a positive outlook for overall industry activity in coming months.
- Across sectors of the **Australian PCI**[®] new orders expanded at a higher pace in the engineering, apartment building and commercial construction sectors while the housing sector experienced a steady (but solid) inflow of new orders.
- 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**[®]. However, the pace of growth moderated from February's five-month high rate with the supplier delivery index decreasing by 3.6 points in March to 54.7 points.



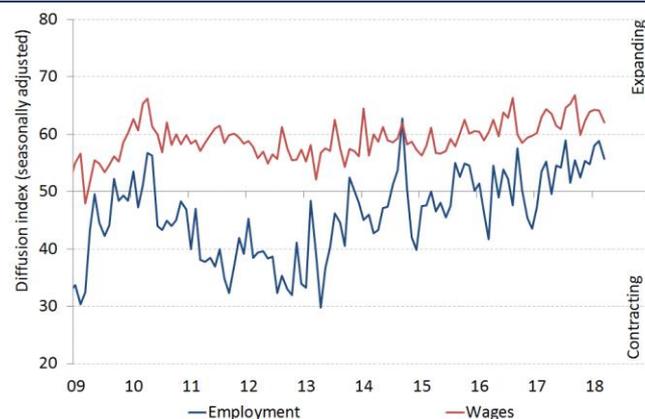
NEW ORDERS BY SECTOR

- New orders in the house building sector maintained a solid pace of increase in March with the sub-index unchanged at 60.9 points. March also marked the 14th consecutive month of growth in new orders. This is a further indication 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 increased by 6.3 points to 56.7 points in March. This improvement in demand follows eight months of contracting or stable new orders for apartment builders.
- New orders accelerated in the engineering construction sector with this sub-index increasing by 12.3 points to 63.5 points. This marked the highest rate of growth in new orders in seven months and is consistent with reports of new tender wins and the expanding pipeline of publicly funded infrastructure projects.
- New orders expanded for an 11th consecutive month in the commercial construction sector in line with rising approvals across major building categories including offices, education projects and industrial premises. The rate of growth also lifted in March with the sector's new orders sub-index increasing by 2.4 points to 54.2 points.



EMPLOYMENT AND WAGES

- Construction employment continued to expand in March with the employment sub-index within the **Australian PCI**[®] registering 55.7 points. This was a decrease of 3.1 points from the previous month, indicating a slower pace of growth during the month.
- March marked the 11th consecutive month of growth in employment and the 13th increase in the past 14 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 March, although at a slower rate with the wages sub-index decreasing by 2.1 points to 62.0 points.
- Despite this easing, the pace of construction wages growth remains relatively high with the March reading on wages only slightly below the 12-month average of 63.3 points. This suggests that stronger demand for workers is continuing 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 March. This is despite the input prices sub-index falling by 1.1 points to 75.9 points in March, 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**[®] increased by 5.1 points to 57.8 points in March. 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 [®]	57.2	1.2	55.5	New Orders	59.9	8.0	56.0
Activity	57.0	0.2	55.1	Employment	55.7	-3.1	54.9
Houses	52.6	-9.2	55.7	Deliveries	54.7	-3.6	56.3
Apartments	49.9	-7.0	51.1	Input Prices	75.9	-1.1	74.7
Commercial	65.0	7.2	55.1	Selling Prices	57.8	5.1	56.9
Engineering	58.5	4.0	57.2	Wages	62.0	-2.1	63.3
				Capacity Utilisation (%)	79.3	0.2	78.9

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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