

INFRASTRUCTURE KEEPS CONSTRUCTION GROWING IN AUGUST

Australian PCI®
August 2018: **51.8**↓

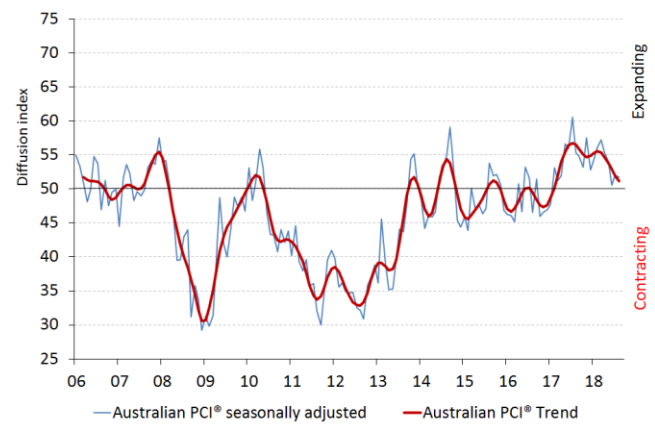
UK PCI
July 2018: **55.8**↑

Germany PCI
July 2018: **50.0**↓

Ireland PCI
July 2018: **60.7**↑

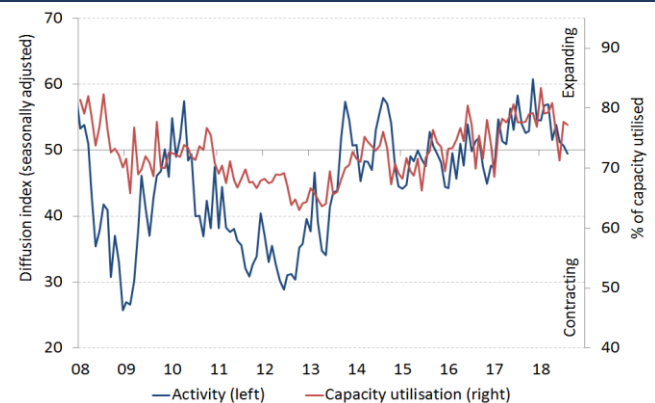
KEY FINDINGS

- The seasonally adjusted Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 0.2 points to 51.8 points in August. This signalled a positive but marginally slower pace of overall industry growth (readings above 50.0 points indicate expansion with higher numbers indicating a stronger rate of expansion).
- For the construction industry as a whole, activity and employment both fell into mild negative territory (i.e. below 50 points) following subdued growth in July. However, the new orders sub-index lifted solidly on the back of stronger demand conditions across the major building and infrastructure project areas of construction.
- Across sectors, engineering construction drove growth in industry conditions in August. This was consistent with reports of new tender wins and ongoing support from a strong and expanding pipeline of publicly funded investment in large-scale infrastructure projects.
- House building activity drifted into negative territory in August, although the rate of decline was marginal and broadly in line with the stabilisation of conditions evident over the previous two months.
- Apartment building was the weakest performing sub-sector in August with activity contracting for a sixth consecutive month, and at its sharpest rate in almost six years.
- Commercial construction was again subdued in August, remaining in slight negative territory for a second month although businesses reported an improvement in tendering opportunities which is likely to support firmer activity ahead.
- House building respondents to the **Australian PCI®** continued to indicate support from a solid backlog of work. However, businesses noted that tighter lending conditions and a more cautious approach by prospective buyers were adversely impacting on housing demand.
- Apartment builders indicated that activity was being driven lower in response to project completions, reduced enquiries and falling investor demand.



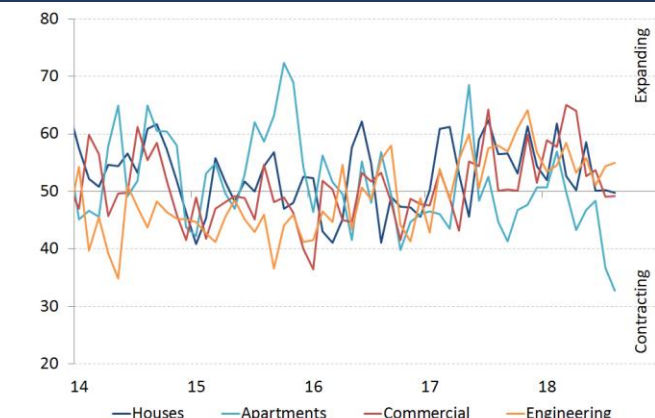
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the Australian PCI® registered 49.5 points in August.
- This was down by 1.2 points from the previous month, signalling a marginal fall in overall construction activity in August. It was also the first negative reading on industry activity in 19 months.
- Despite continued growth in engineering construction activity and broadly stable conditions in house building, overall levels of activity in August were adversely affected by a second month of contraction in commercial construction and a sharper fall in apartment building work.
- The rate of capacity utilisation stood at 77.2% across the construction industry, down from 77.8% in July.



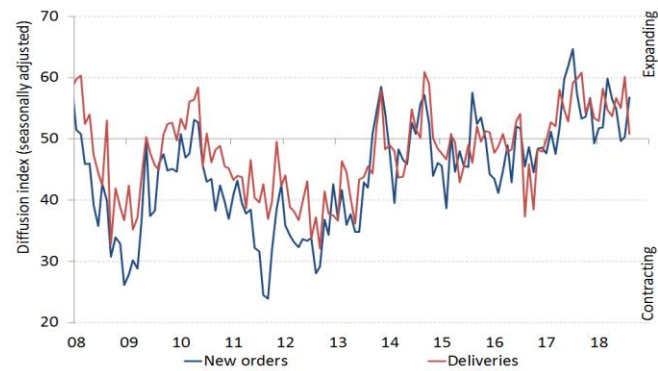
ACTIVITY BY SECTOR

- House building softness was again evident in August. The sector's activity sub-index fell slightly by 0.5 points to 49.8 points. This was indicative of largely stable or marginally declining housing conditions in August and was associated with a weakening in new orders.
- Apartment building activity contracted for a sixth consecutive month in August, and at a sharper rate. The sector's sub-index decreased by 3.9 points to 32.8 points in August. The apartment sector has now experienced steady or declining activity in 12 of the past 13 months following a cooling in new orders over the second half of 2017 and through 2018.
- Engineering construction activity continued to expand in August, and at a slightly faster rate with the sector's activity sub-index increasing by 0.6 points to 55.0 points. This marked the sector's 17th consecutive month of growth in line with the boost from state government capital works. It also follows a 2.6% q/q (+18.1% p.a.) seasonally adjusted increase in the value of engineering construction work done for the public sector in Q2 (*ABS Engineering Construction Activity*).
- Commercial construction remained in negative territory with the sector's activity sub-index increasing by 0.1 points to 49.2 points in August. This indicated a mild overall rate of contraction for a second consecutive month.



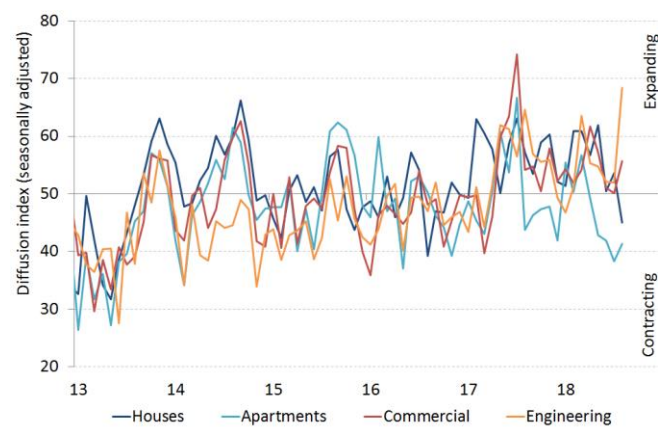
NEW ORDERS AND DELIVERIES

- The new orders index in the **Australian PCI**[®] increased solidly by 6.5 points to 56.8 points in August.
- This was the highest new orders result (and therefore the fastest rate of expansion) in six months and points to a positive outlook for aggregate industry activity in the months ahead led by major project work.
- Across sectors of the **Australian PCI**[®], new orders expanded at a faster pace in the engineering and commercial construction sectors. This outweighed a reduction in new orders across the house and apartment building sectors, relative to July.
- Despite the improvement in aggregate new orders, deliveries of inputs from suppliers in the **Australian PCI**[®] softened in August. The supplier delivery index fell by 9.4 points in August to 50.8 points, indicating marginal overall growth. This is a likely reflection of the contracting demand conditions across both the housing and apartment sectors in August which appears to have weighed more heavily on overall input purchasing during the month.



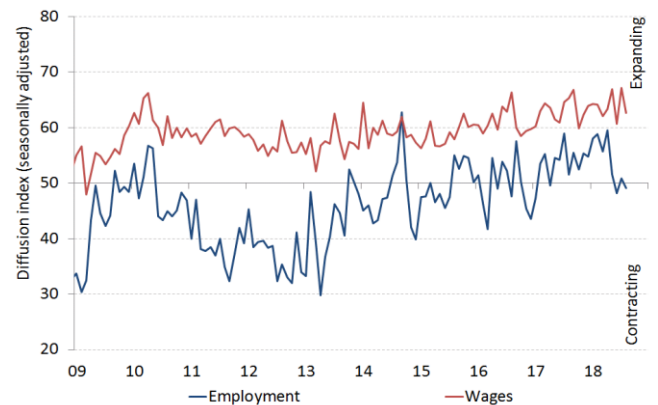
NEW ORDERS BY SECTOR

- New orders in the house building sector weakened in August with the sub-index falling by 8.5 points to 45.1 points. This follows 18 consecutive months of expanding or stable new orders for the housing sector. Similarly, ABS data indicate that private house building approvals decreased by 3.0% in July (seasonally adjusted).
- In the apartment building sector, new orders continued to contract, albeit at a slower rate. The sector's sub-index increased by 2.9 points to 41.3 points in August. New orders in the apartment sector have now declined in 10 of the past 13 months.
- New orders in the commercial construction sector lifted in August with the sub-index increasing by 5.4 points to 55.6 points. A solid pipeline of work across key project areas (including accommodation, offices, education, industrial buildings and aged care) remain supportive of current and prospective activity.
- In the engineering construction sector, new orders accelerated in August. The sector's new orders sub-index lifted by 16.5 points to 68.4 points in the month. This is consistent with reports of new tender wins and the strong upswing in public infrastructure investment.



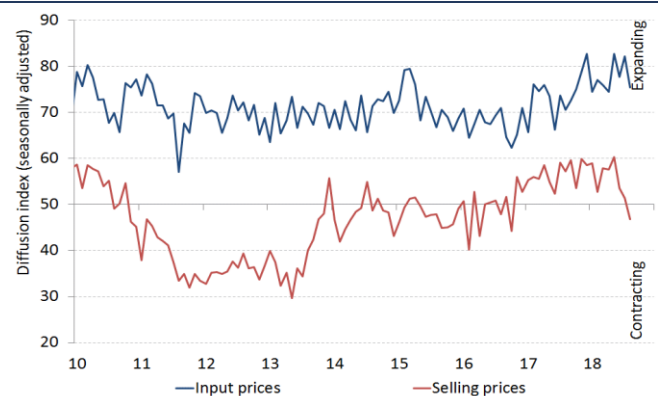
EMPLOYMENT AND WAGES

- Construction employment returned to negative territory in August with the employment sub-index within the **Australian PCI**[®] decreasing by 1.7 points to 49.1 points, indicating a slight overall contraction in the month.
- However, the **Australian PCI**[®] employment sub-index has indicated jobs growth in 14 of the past 16 months with the 12-months average remaining relatively firm at 54.1 points.
- Growth in wages continued in August although at a slower rate than in July with the wages sub-index decreasing by 4.5 points to 62.7 points.
- Despite this easing, the pace of construction wages growth remains relatively high with the August reading on wages only slightly below the 12-month average of 63.7 points. This suggests that increased demand for workers is continuing to support wages growth in the construction industry.
- This is in line with the surge in large-scale transport infrastructure projects and other publicly-funded works which has generally led to heightened demand for construction workers 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 August. This is despite the input prices sub-index falling by 6.8 points to 75.4 points in August, indicating that cost pressures in the construction of building projects eased during the month. Cost pressures are still high for many businesses due to robust demand for construction materials, elevated energy input costs and supplier price hikes related to strength in commodity prices.
- The selling prices sub-index in the **Australian PCI**[®] decreased by 4.6 points to 46.8 points in August. This highlights the strong competition that persists among builders in securing work and the high number of tenders submitted for individual projects which is exerting downward pressure on construction selling prices.
- The ongoing gap between these price series in the **Australian PCI**[®] demonstrates that tight profit margins persist for businesses in the construction industry. This is consistent with reports of a highly competitive tender pricing environment across the construction industry.



	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
Australian PCI [®]	51.8	-0.2	54.1	New Orders	56.8	6.5	53.7
Activity	49.5	-1.2	53.8	Employment	49.1	-1.7	54.1
Houses	49.8	-0.5	54.2	Deliveries	50.8	-9.4	55.6
Apartments	32.8	-3.9	46.0	Input Prices	75.4	-6.8	77.4
Commercial	49.2	0.1	55.2	Selling Prices	46.8	-4.6	55.9
Engineering	55.0	0.6	56.2	Wages	62.7	-4.5	63.7
				Capacity Utilisation (%)	77.2	-0.6	78.1

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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