

HOUSING STABLE, INFRASTRUCTURE HIGHER IN JULY

Australian PCI®
July 2018: **52.0**↑

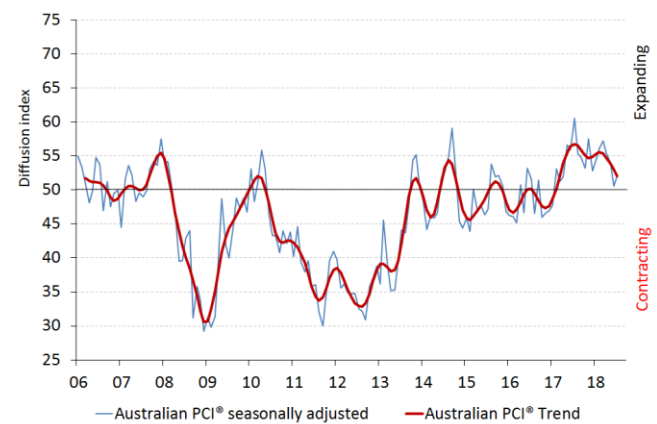
UK PCI
June 2018: **53.1**↑

Germany PCI
June 2018: **53.0**↓

Ireland PCI
June 2018: **58.4**↓

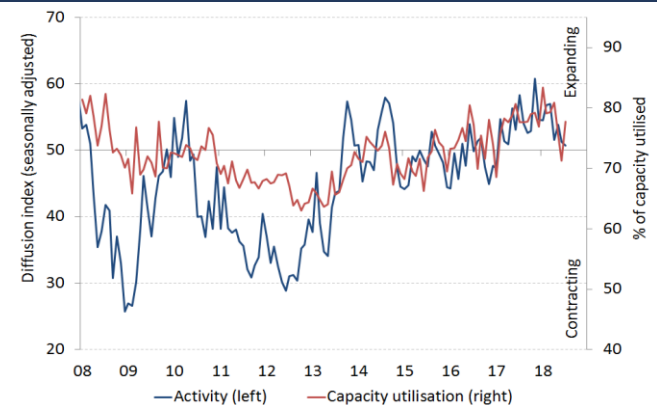
KEY FINDINGS

- The seasonally adjusted Australian Industry Group Performance of Construction Index (**Australian PCI®**) increased by 1.4 points to 52.0 points in July (readings above 50 points indicate expansion). This signalled industry wide growth for an 18th consecutive month and at a slightly higher pace than in June.
- Australian PCI®** data for July indicated a marginal improvement in the new orders index which lifted into mild positive territory (i.e. above 50 points) after contracting for the first time in six months in June. In addition, deliveries from suppliers increased at their highest rate in 10 months.
- The activity sub-index remained in expansion in July, although growth was modest and slower than in June, while a slight upturn was recorded in employment.
- Across the four sub-sectors in the **Australian PCI®**, engineering construction was the strongest performing area of activity consistent with reports of new tender wins and ongoing support from a strong and expanding pipeline of publicly funded investment in major infrastructure projects.
- House building activity remained in positive territory in July, although the implied rate of growth was marginal and largely unchanged from June. However, a lift in new orders growth in July is likely to support stronger housing activity in coming months.
- Apartment building was again the weakest performing sub-sector in July with activity contracting for a fifth consecutive month, and at its sharpest rate in five years.
- Commercial construction was also more subdued in July, falling into slight negative territory after 14 consecutive months of growth.
- House building respondents to the **Australian PCI®** continued to indicate support from a solid backlog of work and resilient new orders. However, it was also noted by some businesses that tighter lending conditions were having a constraining influence on the housing market.
- Apartment builders commented on a lower level of activity largely in response to project completions and softer investor demand.



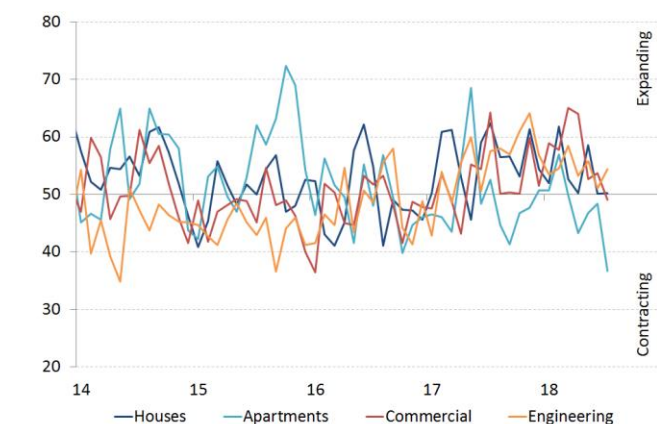
CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the Australian PCI® registered 50.7 points in July.
- This was down by 0.6 points from the previous month, signalling a slower rate of increase in overall activity than in June. Nevertheless, it marked the industry's 18th consecutive month of expanding industry activity.
- Despite improved growth in engineering construction activity and broadly stable conditions in house building, overall levels of activity in July were adversely affected by a drift back into negative territory for commercial construction and a sharper fall in apartment building work.
- The rate of capacity utilisation stood at 77.8% across the construction industry, up from 71.3% in June.



ACTIVITY BY SECTOR

- House building activity remained stable in July with the sector's sub-index rising by just 0.1 points to 50.3 points. However, it follows a 13th month period through to May 2018 of generally moderately expanding activity indicating that the project pipeline remains supportive of prospective activity in 2018.
- Apartment building activity contracted for a fifth consecutive month in July, and at a sharper rate. The sector's sub-index decreased by 11.7 points to 36.7 points in July. The apartment sector has now experienced steady or declining activity in 11 of the past 12 months following a cooling in new orders over the second half of 2017 and into 2018.
- Engineering construction activity continued to expand in July, and at a slightly faster rate with the sector's activity sub-index increasing by 3.4 points to 54.4 points. This marked the sector's 16th consecutive month of growth in line with the boost from state government capital works. It also follows the solid 6.3% q/q (+19.2% p.a.) seasonally adjusted increase in the value of engineering construction work done for the public sector in Q1 (*ABS Engineering Construction Activity*).
- Commercial construction contracted in July following 14 consecutive months of growth. The sector's activity sub-index fell by 4.6 points in July, to be slightly below the 50 points no-change threshold at 49.1 points.



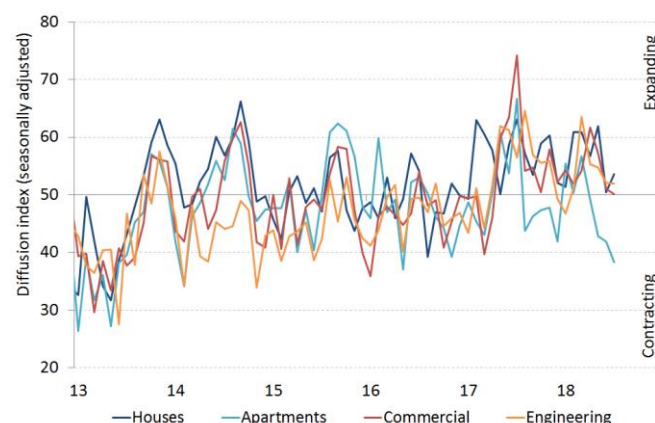
NEW ORDERS AND DELIVERIES

- The new orders index in the **Australian PCI®** registered 50.3 points in July.
- This was 0.6 points above the reading in June and indicates stable or marginal growth in new orders on an aggregate industry basis.
- Weighing on overall demand conditions in July was a sharper contraction in new orders in the apartment building sub-sector. July also saw slightly slower growth in new orders in engineering construction while new orders in commercial construction stabilised. In contrast, new orders in the house building sub-sector expanded at a higher rate in July.
- Despite a soft patch for new orders in the past two months, deliveries of inputs from suppliers in the **Australian PCI®** increased in July. The supplier delivery index lifted by 5.2 points in July to 60.2 points. This was on the back of previous gains in new orders and higher input requirements for forthcoming project starts.



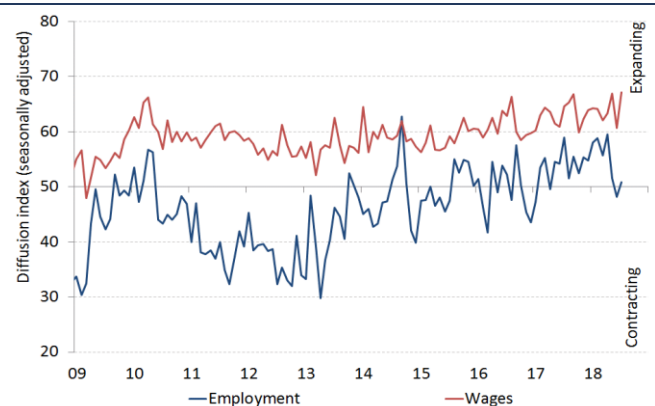
NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a faster pace in July with the sub-index rising by 3.1 points to 53.6 points. This was the 18th consecutive month of expanding or stable new orders for the housing sector and suggests that house building activity will continue to be supported over coming months by a healthy level of work in the pipeline. Similarly, ABS data indicate that private house building approvals increased by 2.9% over the year to June (trend).
- In the apartment building sector, new orders contracted more sharply in July. The new orders sub-index decreased by 3.5 point to 38.4 points. This was the weakest result on new orders in 26 months as the sector continues to scale back from peak levels.
- New orders in the commercial construction sector were broadly stable in July with the sub-index decreasing by 0.9 points to 50.2 points. Nevertheless, it follows 12 months of sustained expansion in new orders which is likely to support firmer activity ahead as more projects move through from planning to commencement.
- In the engineering construction sector, new orders growth moderated slightly in July. The sector's new orders sub-index declined by 0.2 points to 51.9 points in the month. However, this follows 15 months of almost consistent expansion in new orders on the back of solid public sector driven infrastructure spending.



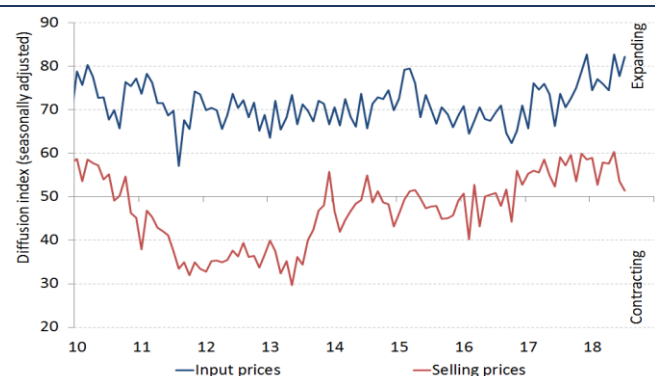
EMPLOYMENT AND WAGES

- Construction employment returned to positive territory in July with the employment sub-index within the **Australian PCI®** increasing by 2.6 points to 50.8 points, indicating a slight overall expansion in the month
- However, the **Australian PCI®** employment sub-index has now indicated jobs growth in 14 of the past 15 months with the 12-months average remaining relatively firm at 54.3 points.
- Growth in wages continued in July and at a higher rate than in June with the wages sub-index increasing by 6.5 points to 67.2 points.
- The pace of construction wages growth appears to be gaining in strength with the June reading on wages exceeding the 12-month average of 63.9 points. It was also the highest **Australian PCI®** reading on wages in the past decade. This suggests that increased demand for workers is having a more pronounced impact in supporting higher wages in the construction industry.
- This reflects 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

- The **Australian PCI®** input prices sub-index registered 82.2 points in July. This was an increase of 4.5 points from June indicating that cost pressures in the construction of building projects lifted during the month. This reflects 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 2.1 points to 51.4 points in July. This suggests that 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 and a low inflationary environment.
- 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®	52.0	1.4	54.4	New Orders	50.3	0.6	53.8
Activity	50.7	-0.6	54.2	Employment	50.8	2.6	54.3
Houses	50.3	0.1	54.8	Deliveries	60.2	5.2	56.3
Apartments	36.7	-11.7	47.0	Input Prices	82.2	4.5	77.0
Commercial	49.1	-4.6	55.3	Selling Prices	51.4	-2.1	56.8
Engineering	54.4	3.4	56.5	Wages	67.2	6.5	63.9
				Capacity Utilisation (%)	77.8	6.5	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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