

## CONSTRUCTION STABLE AT END OF FINANCIAL YEAR

**Australian PCI®**  
June 2018: 50.6↓

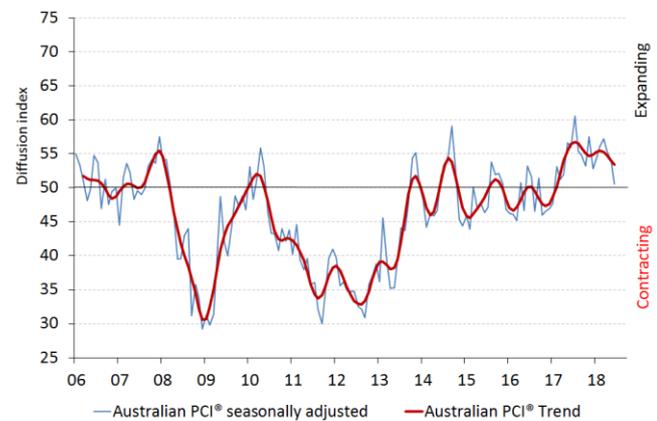
**UK PCI**  
May 2018: 52.5 —

**Germany PCI**  
May 2018: 53.9↑

**Ireland PCI**  
May 2018: 61.8↑

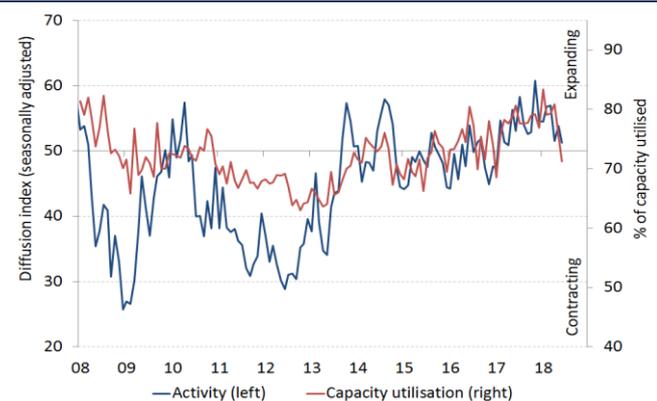
### KEY FINDINGS

- The seasonally adjusted Australian Industry Group Performance of Construction Index (**Australian PCI®**) registered 50.6 points in June (readings above 50 points indicate expansion), a decline of 3.4 points from May. This signalled stable or marginal growth in the national construction industry in June.
- It was also the lowest reading for the **Australian PCI®** in 17 months (i.e. since the industry's return to overall growth in February 2017).
- Australian PCI®** data for June pointed to a moderation in activity growth across the construction industry. Demand conditions were also more subdued with the new orders index drifting into mild negative territory (i.e. below 50 points) following five months of expansion.
- June's decline in aggregate industry demand led to a slower rate of increase in deliveries from suppliers while employment contracted for the first time in 14 months.
- Across the four sub-sectors in the **Australian PCI®**, commercial construction was the strongest performing area of activity with its rate of growth lifting slightly in June. This reflects a range of projects in planning or underway including industrial, accommodation and education buildings.
- Engineering construction expanded at a slower rate. However, June was the sector's 15<sup>th</sup> consecutive month of growth amid on-going support from a strong and expanding pipeline of publicly funded investment in major infrastructure works.
- The continued rise in engineering construction was mainly linked to the roll-out of major transport infrastructure projects, particularly on the eastern seaboard.
- In contrast, there was a near stabilisation of activity in the house building sector following a solid upturn in May and 12 months of generally moderately expanding conditions.
- Apartment building remained the weakest performing sub-sector in June with activity contracting for a fourth consecutive month, albeit at slower rate in comparison with May.
- House building respondents to the **Australian PCI®** cited support from a solid backlog of work, although there were reports of a softening in new orders, weaker new house sales and a more cautious approach by prospective buyers. Apartment builders again pointed to the constraining influences on activity from a reduction in investor activity and project completions.



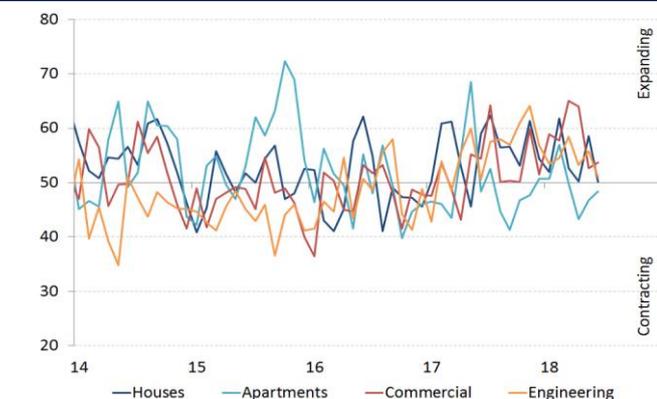
### CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the Australian PCI® registered 51.3 points in June.
- This was down by 2.6 points from the previous month, signalling a slower rate of increase in overall activity than in May. Nevertheless, it marked the industry's 17th consecutive month of expanding industry activity.
- Despite improved growth in commercial construction activity, overall levels of activity in June were adversely affected by a softening of growth in engineering and house building activity, and the continued contraction in apartment building work.
- The rate of capacity utilisation stood at 71.3% across the construction industry, down from 75.5% in May.



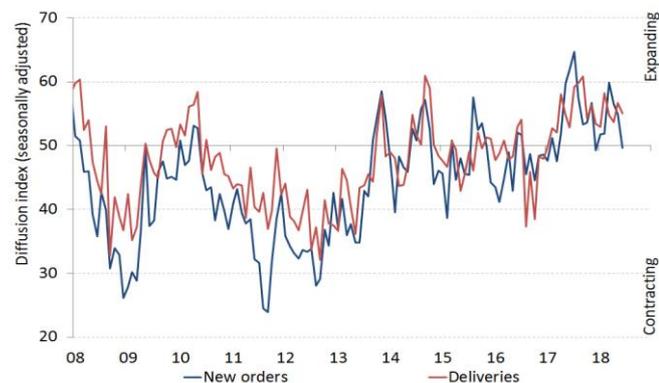
### ACTIVITY BY SECTOR

- House building activity was stable in June with the sector's sub-index falling by 8.4 points to 50.2 points. This was the lowest activity reading for the sector in 13 months and coincided with softer new orders.
- Apartment building activity contracted for a fourth consecutive month in June, albeit at a slower rate. The sector's sub-index increased by 1.6 points to 48.4 points in June. The apartment sector has now experienced steady or declining activity in 10 of the past 11 months following a cooling in new orders over the second half of 2017 and into 2018.
- Engineering construction activity continued to expand in June, although at a slower rate with the sector's activity sub-index declining by 4.8 points to 51.0 points. This marked the sector's 15th consecutive month of growth in line with the boost from state government capital works.
- Commercial construction remained in positive territory for a 14th straight month. The sector's activity sub-index lifted by 1.1 points to 53.7 points in June, signalling a slight pick-up in the pace of growth. A healthy level of project activity underway remains supportive of current and prospective activity in 2018.



## NEW ORDERS AND DELIVERIES

- The new orders index in the **Australian PCI**<sup>®</sup> decreased by 5.2 points in June to be slightly below the 50 points no-change threshold at 49.7 points.
- This indicates broadly stable levels of new orders across the construction industry during June with demand softer after five consecutive months of growth.
- Weighing heavily on overall demand conditions in June was a stabilisation in house building new orders following solid growth in the previous four months. June also saw slower growth in new orders in the engineering and commercial sectors while in the apartment building sector new orders contracted for a fourth consecutive month.
- Reflecting the drop in aggregate industry demand, deliveries of inputs from suppliers recorded slower growth in the **Australian PCI**<sup>®</sup>. The supplier delivery index decreased by 1.7 points in June to 55.0 points.



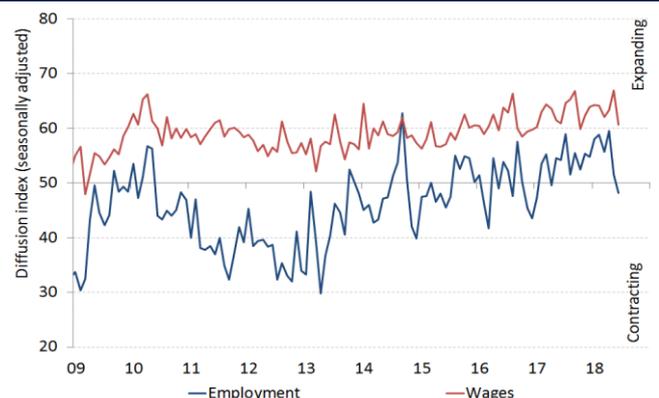
## NEW ORDERS BY SECTOR

- New orders in the house building sector stabilised in June with the sub-index decreasing by 11.5 points to 50.5 points. This was the lowest reading on new orders for the housing sector in 13 months and follows solid increases over the previous four months.
- In the apartment building sector, new orders contracted more sharply in June. The new orders sub-index decreased by 1.0 point to 41.9 points. This was the weakest result on new orders in 19 months as the sector continues to scale back from peak levels.
- New orders expanded for an 11th consecutive month in the commercial construction sector. However, the rate of growth moderated from May with the sector's sub-index decreasing by 6.1 points to 51.1 points.
- In the engineering construction sector, new orders growth softened in June as survey respondents closed out the 2017/18 financial year with fewer new tender wins. The sector's new orders sub-index declined by 2.7 points to 52.1 points in the month. Nevertheless, this follows 14 months of almost consistent expansion in new orders on the back of solid public sector driven infrastructure spending.



## EMPLOYMENT AND WAGES

- Construction employment declined in June with the employment sub-index within the **Australian PCI**<sup>®</sup> dropping by 3.3 points to 48.2 points, indicating a slight overall contraction in the month.
- This follows 13th consecutive months of growth in employment with the 12-months average remaining relatively high at 55.0 points in June.
- Growth in wages continued in June. However, the rate of increase moderated from May's almost decade-high growth rate with the wages sub-index decreasing by 6.2 points to 60.7 points in June.
- Despite this easing, the pace of construction wages growth remains relatively high with June's reading on wages just 3.0 points below the 12-month average of 63.7 points.
- This is consistent with the investment upturn in transport infrastructure and other public works which has generally led to heightened demand for construction workers over the past year and difficulties in filling various skilled vacancies.



## INPUT COSTS AND SELLING PRICES

- The **Australian PCI**<sup>®</sup> input prices sub-index fell by 4.9 points to 77.7 points in June, retreating from the five-month high level recorded in May. However, June's reading exceeded the 12-month average of 76.3 points, indicating that cost pressures remain high due to escalating energy input costs and supplier price hikes related to the strength in commodity prices.
- The selling prices sub-index in the **Australian PCI**<sup>®</sup> decreased by 6.9 points to 53.5 points in June. 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 and a low inflationary environment.
- The ongoing gap between these price series in the **Australian PCI**<sup>®</sup> 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> <sup>®</sup>	50.6	-3.4	55.1	New Orders	49.7	-5.2	55.0
Activity	51.3	-2.6	54.8	Employment	48.2	-3.3	55.0
Houses	50.2	-8.4	55.8	Deliveries	55.0	-1.7	56.3
Apartments	48.4	1.6	48.3	Input Prices	77.7	-4.9	76.3
Commercial	53.7	1.1	56.5	Selling Prices	53.5	-6.9	57.4
Engineering	51.0	-4.8	56.7	Wages	60.7	-6.2	63.7
				Capacity Utilisation (%)	71.3	-4.2	78.1

What is the Australian PCI<sup>®</sup>? Performance of Construction Index (Australian PCI<sup>®</sup>) 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<sup>®</sup> 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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