

HOUSING AND MAJOR WORKS DRIVE CONSTRUCTION IN MAY

Australian PCI®
May 2018: **54.0**↓

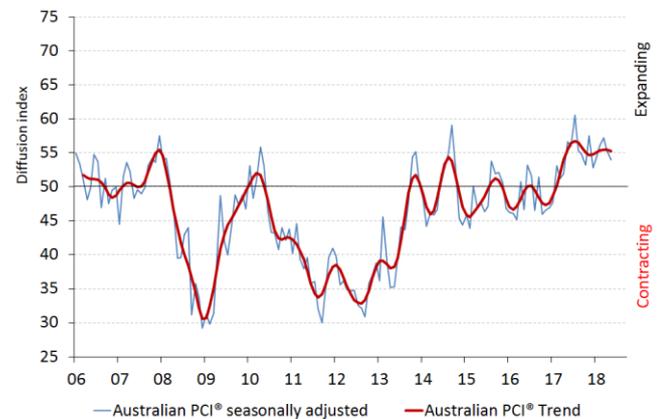
UK PCI
Mar 2018: **47.0**↓

Germany PCI
Apr 2018: **50.9**↑

Ireland PCI
Apr 2018: **60.7**↑

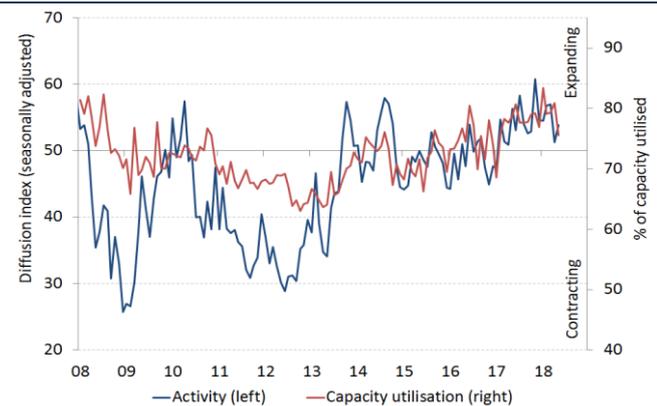
KEY FINDINGS

- The seasonally adjusted Australian Industry Group Performance of Construction Index (**Australian PCI®**) registered 54.0 points in May (readings above 50 points indicate expansion). This was down by 1.4 points from April indicating a slight moderation in the industry's overall growth momentum.
- May marked the 16th consecutive month of expanding conditions for the **Australian PCI®**.
- Australian PCI®** data for May showed that the industry's on-going expansion was supported by continued rises in both activity and new orders. This was associated with a stronger increase in deliveries from suppliers, although employment growth softened from the 3½ year high in April.
- Across the four sub-sectors in the **Australian PCI®**, house building and engineering construction were the major drivers of growth in May. House building activity expanded at a stronger rate in line with firmer demand conditions and a solid backlog of work.
- Engineering construction also gained some further momentum in May consistent with reports of new tender wins and on-going support from a strong and expanding pipeline of publicly funded investment in major infrastructure works.
- In contrast, the pace of growth in commercial construction was significantly slower in the month, although May was the sector's 13th consecutive month of stable or expanding activity amid a range of projects underway, including offices, accommodation and education buildings.
- Apartment building remained the weakest performing sub-sector in May with activity contracting for a third consecutive month, albeit at slower rate in comparison with April.
- House building respondents to the **Australian PCI®** were generally positive in their assessment of business conditions, pointing to resilient new orders and a relatively solid level of new home builds in May. However, apartment builders cited the constraining influences on activity from weaker new orders, a reduction in investor activity and project completions.
- The continued rise in engineering construction was mainly linked to the roll-out of major transport infrastructure projects, particularly on the eastern seaboard.



CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the Australian PCI® registered 53.9 points in May.
- This was up by 2.6 points from the previous month, signalling a faster rate of increase in overall activity than in April. It also marked the industry's 16th consecutive month of expanding industry activity.
- Despite a further contraction in apartment building activity and a slower rate of expansion in commercial construction, aggregate activity expanded a faster pace due to stronger growth in the engineering and house building sectors.
- The rate of capacity utilisation stood at 75.5% across the construction industry, down from 80.9% in April.



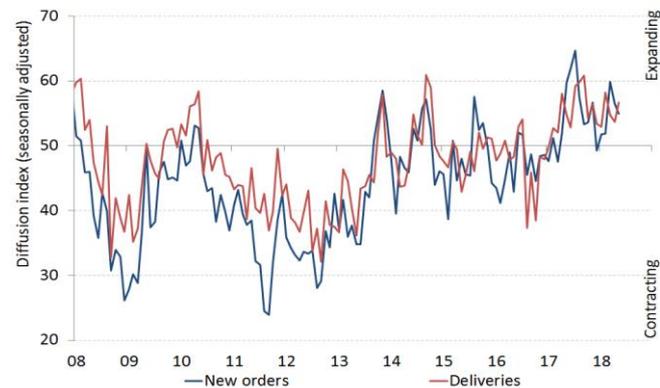
ACTIVITY BY SECTOR

- House building activity expanded strongly in May with the sector's sub-index rising by 8.3 points to 58.6 points. This was the highest pace of growth in housing activity in three months consistent with a pick-up in new orders.
- Apartment building activity contracted for a third consecutive month in May, albeit at a slower rate. The sector's sub-index increased by 3.5 points to 46.8 points in May. The apartment sector has now experienced steady or declining activity in nine of the past ten months following a cooling in new orders over the second half of 2017.
- Engineering construction activity continued to expand in May, and at a higher rate with the sector's activity sub-index rising by 2.6 points to 55.8 points. This marked the sector's 14th consecutive month of growth in line with the boost from state government capital works.
- Commercial construction remained in positive territory for a 13th straight month. However, the sector's activity sub-index fell by 11.4 points to 52.6 points in May, signalling a substantial easing in the pace of growth. Despite this softening, a healthy level of project activity underway and in planning remains supportive of current and prospective activity in 2018.



NEW ORDERS AND DELIVERIES

- New orders continued to expand in May, with the new orders index in the **Australian PCI®** registering 54.9 points in the month.
- This was, however, a decrease of 1.6 points from April suggesting some further softening in aggregate activity levels in the coming months.
- Across sectors of the **Australian PCI®** slower growth in new orders was evident in the commercial sector while in the apartment building sector new orders contracted at a sharper rate. In contrast, new orders expanded at a higher pace in the house building sector and eased only slightly for engineering construction businesses.
- Due to the sustained expansion in aggregate industry workloads and new orders, deliveries of inputs from suppliers continued to increase in the **Australian PCI®**, and at a higher rate. The supplier delivery index increased by 3.0 points in May to 56.7 points.



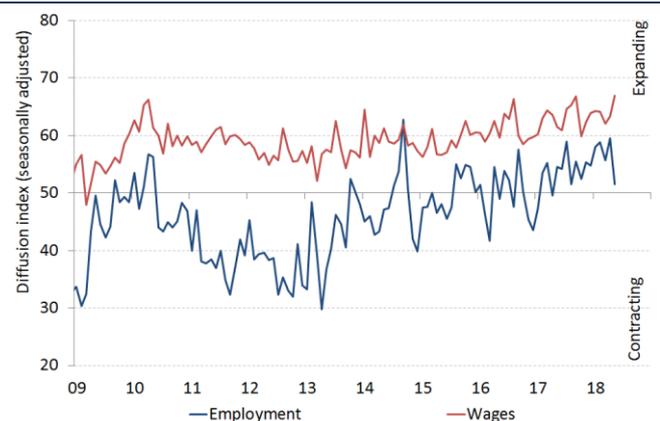
NEW ORDERS BY SECTOR

- New orders in the house building sector increased at a faster pace in May with the sub-index rising by 5.2 points to 62.0 points. May marked the 16th consecutive month of growth in new orders, indicating that housing construction is likely to maintain growth in coming months supported by record low interest rates and strong population growth. Similarly, ABS data indicate that private house building approvals increased by 9.1% over the year to April (trend).
- In the apartment building sector, new orders contracted more sharply in May. The new orders sub-index decreased by 6.3 points to 42.9 points, the lowest result on new orders in five months. It follows the 1.1% m/m decline in private multi-unit dwelling approvals (e.g. townhouses/flats/apartments) in April (ABS trend data).
- New orders expanded for a tenth consecutive month in the commercial construction sector. However, the rate of growth moderated from the nine-month high pace in April with the sector's sub-index decreasing by 4.4 points to 57.2 points.
- In the engineering construction sector, new orders continued to exhibit a solid pace of growth in May. The sector's sub-index registered 54.8 points in the month, a slight easing from 55.3 points in April. This expansion in activity is consistent with on-going reports of new tender wins in non-resources project categories including transport and other public-sector capital works.



EMPLOYMENT AND WAGES

- Construction employment continued to expand with the employment sub-index within the **Australian PCI®** registering 51.5 points in May. However, this was a decrease of 8.0 points from April, indicating a slower rate of expansion in the month.
- May marked the 13th consecutive month of growth in employment and the 15th increase in the past 16 months. Increased employment was mainly recorded by those respondents experiencing increased activity in the month and seeking to boost operating capacity.
- Growth in wages continued in May, and at a higher rate with the wages sub-index increasing by 3.6 points to 66.9 points.
- The pace of construction wages growth appears to be gaining in strength with the May reading on wages exceeding the 12-month average of 64.1 points. 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 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 sub-index registered 82.6 points in May. This was an increase of 8.1 points from April, indicating that cost pressures in the construction of building projects lifted sharply during the month. This increase in costs was 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 2.7 points to 60.4 points in May. 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®	54.0	-1.4	55.6	New Orders	54.9	-1.6	56.0
Activity	53.9	2.6	55.2	Employment	51.5	-8.0	55.5
Houses	58.6	8.3	56.6	Deliveries	56.7	3.0	56.1
Apartments	46.8	3.5	48.3	Input Prices	82.6	8.1	75.3
Commercial	52.6	-11.4	56.6	Selling Prices	60.4	2.7	57.3
Engineering	55.8	2.6	56.7	Wages	66.9	3.6	63.7
				Capacity Utilisation (%)	75.5	-5.4	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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