

## CONSTRUCTION TURNS DOWN IN SEPTEMBER ON WEAKER DEMAND

**Australian PCI®**  
 September 2018: **49.3**↓

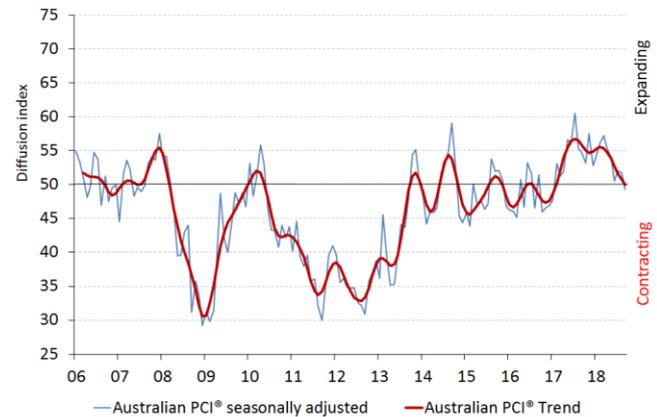
**UK PCI**  
 August 2018: **52.9**↓

**Germany PCI**  
 August 2018: **51.5**↑

**Ireland PCI**  
 August 2018: **58.3**↓

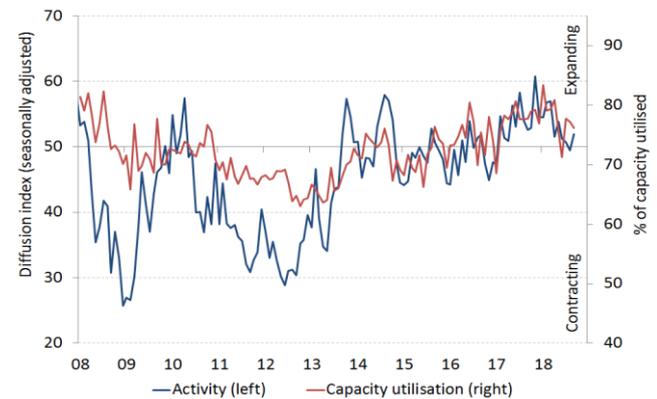
### KEY FINDINGS

- The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) declined by 2.5 points to 49.3 points (seasonally adjusted) in September.
- This fall in the **Australian PCI®** to a level below the critical 50-points threshold (that separates expansion from contraction) signalled the first contraction in overall construction industry conditions in 20 months.
- The activity sub-index expanded modestly in September after moving into mild negative territory (i.e. below 50 points) in August. However, the new orders sub-index contracted amid weaker demand conditions across all four industry sub-sectors. This was associated with a further decline in employment which recorded its sharpest fall in 21 months.
- Across the four sub-sectors in the **Australian PCI®**, house building declined for a second consecutive month and at the steepest rate in just over two years while apartment building recorded a seventh month of contraction.
- Engineering construction was the strongest performing area of activity with its rate of growth lifting solidly in the month on the back of an expanding pipeline of publicly funded investment in large-scale infrastructure projects. However, commercial construction was again subdued, remaining in slight negative territory for a third consecutive month.
- House building respondents to the **Australian PCI®** linked the weakening in demand conditions to tighter lending conditions, reduced enquiries and softer home buyer sentiment.
- Apartment builders indicated that activity remained in decline in response to project completions, falling investor demand and oversupplied markets.



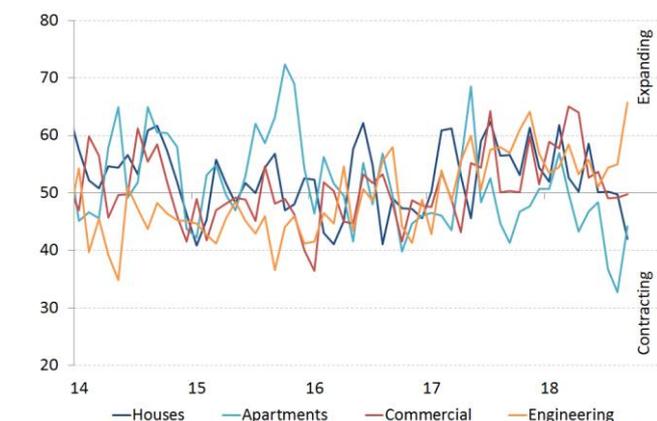
### CONSTRUCTION ACTIVITY AND CAPACITY

- The activity sub-index in the Australian PCI® registered 52.0 points in September.
- This was up by 2.5 points from the previous month, signalling a modest expansion in total construction activity in September.
- Despite a strong lift in engineering construction activity and broadly stable conditions in commercial construction, overall levels of activity in September were adversely affected by a sharper fall in house building and a continued decline apartment building work.
- The rate of capacity utilisation stood at 76.2% across the construction industry, down from 77.2% in August.



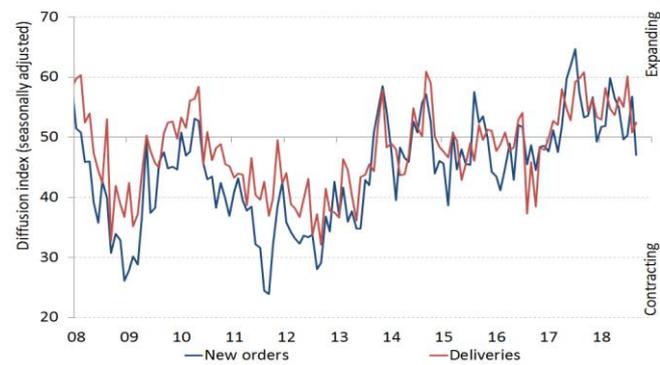
### ACTIVITY BY SECTOR

- House building lost further ground in September. The sector's activity sub-index fell by 7.8 points to 42.0 points. This was the softest activity result since August 2016 and was associated with a second month of contraction in new orders.
- Apartment building activity declined for a seventh consecutive month in September, albeit at slower rate. The sector's sub-index registered 44.2 points in September, a rise of 11.4 points relative to the six-year low level of the previous month. The apartment sector has now experienced steady or declining activity in 13 of the past 14 months following a cooling in new orders over the second half of 2017 and through 2018.
- Engineering construction activity continued to expand in September, and at a faster rate with the sector's activity sub-index increasing solidly by 10.7 points to 65.7 points. This marked the sector's 18th consecutive month of growth in line with the boost from state government capital works. It also follows a 7.6% q/q (+30.7% 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 0.6 points to 49.8 points in September. This was indicative of largely stable or marginally contracting commercial construction conditions for a third consecutive month.



## NEW ORDERS AND DELIVERIES

- The new orders index in the **Australian PCI**<sup>®</sup> declined by 9.7 points to 47.1 points in September.
- This was the lowest new orders result (and therefore the sharpest rate of decline) in close to two years and suggests a further softening in aggregate industry conditions over coming months.
- Falls in new orders were recorded in three of the four construction sub-sectors in the **Australian PCI**<sup>®</sup> in September. The housing and apartment building sub-sectors both experienced steeper rates of decline while new orders in the commercial construction sector turned negative following 13 months of growth. The engineering construction sub-sector experienced an eighth month of expanding new orders, although the rate of increase moderated from August.
- Despite the decline in aggregate new orders, deliveries of inputs from suppliers in the **Australian PCI**<sup>®</sup> lifted slightly in September. The supplier delivery index increased by 1.6 points in September to 52.4 points, indicating modest overall growth.



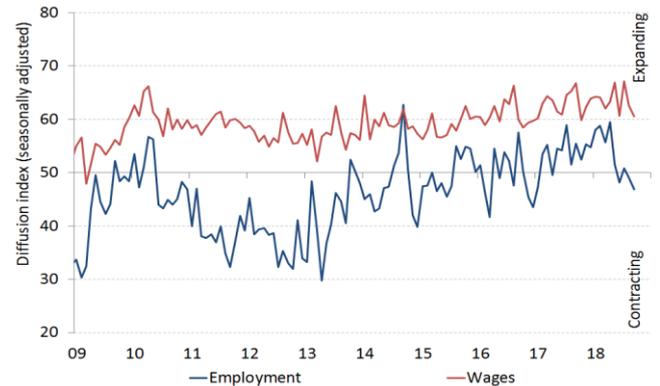
## NEW ORDERS BY SECTOR

- New orders in the house building sector weakened in September with the sub-index falling by 3.8 points to 41.3 points. This was the sector's second consecutive month of contraction in new orders. It points to a further softening in house building activity in coming months and follows a 1.9% m/m fall (-4.4% p.a.) in private sector house approvals in July (ABS, seasonally adjusted data).
- In the apartment building sector, new orders continued to contract, and at a steeper rate. The sector's sub-index decreased by 1.9 points to 39.4 points in September. New orders in the apartment sector have now declined in 11 of the past 14 months.
- In the commercial construction sector, the new orders sub-index returned to negative territory, dropping 9.0 points to 46.6 points. This indicated softer demand conditions, although it follows 16 consecutive months of growth in new orders driven by a healthy pipeline of work in key project areas (including accommodation, offices, education, industrial buildings and aged care)
- In the engineering construction sector, new orders expanded for a seventh consecutive month. However, the rate of growth slowed in September with the sector's new orders sub-index declining by 12.9 points to 55.5 points in the month.



## EMPLOYMENT AND WAGES

- Construction employment drifted further into negative territory in September with the employment sub-index within the **Australian PCI**<sup>®</sup> decreasing by 2.2 points to 46.9 points.
- This marked a second consecutive month of contraction in employment and the third decline in the past four months consistent with the more subdued readings on activity from mid-2018.
- Growth in wages continued in September although at a slower rate than in August with the wages sub-index decreasing by 2.1 points to 60.6 points.
- Despite this easing, construction wages are increasing at a pace that is only slightly below the 12-month average of 63.2 points.
- This indicates that overall wages growth remains relatively high underpinned by the surge in large-scale transport projects and other publicly-funded works which is increasing skill shortages in occupations central to infrastructure activity.



## INPUT COSTS AND SELLING PRICES

- The **Australian PCI**<sup>®</sup> input prices sub-index remained elevated at 76.1 points in September. This was an increase of 0.7 points from August, indicating that cost pressures in the construction and delivery of building projects lifted slightly during the month.
- Cost pressures remain 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**<sup>®</sup> increased by 3.8 points to 50.6 points in September. 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 the strong competition that persists among builders in securing work.
- The ongoing gap between these price series in the **Australian PCI**<sup>®</sup> 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
<b>Australian PCI</b> <sup>®</sup>	49.3	-2.5	53.7	New Orders	47.1	-9.7	53.2
Activity	52.0	2.5	53.8	Employment	46.9	-2.2	53.4
Houses	42.0	-7.8	53.0	Deliveries	52.4	1.6	54.9
Apartments	44.2	11.4	46.2	Input Prices	76.1	0.7	77.7
Commercial	49.8	0.6	55.1	Selling Prices	50.6	3.8	55.1
Engineering	65.7	10.7	57.0	Wages	60.6	-2.1	63.2
				Capacity Utilisation (%)	76.2	-1.0	78.0

**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/).

© The Australian Industry Group, 2018. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. Disclaimer: The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice.

The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.