

Australian Performance of Construction Index



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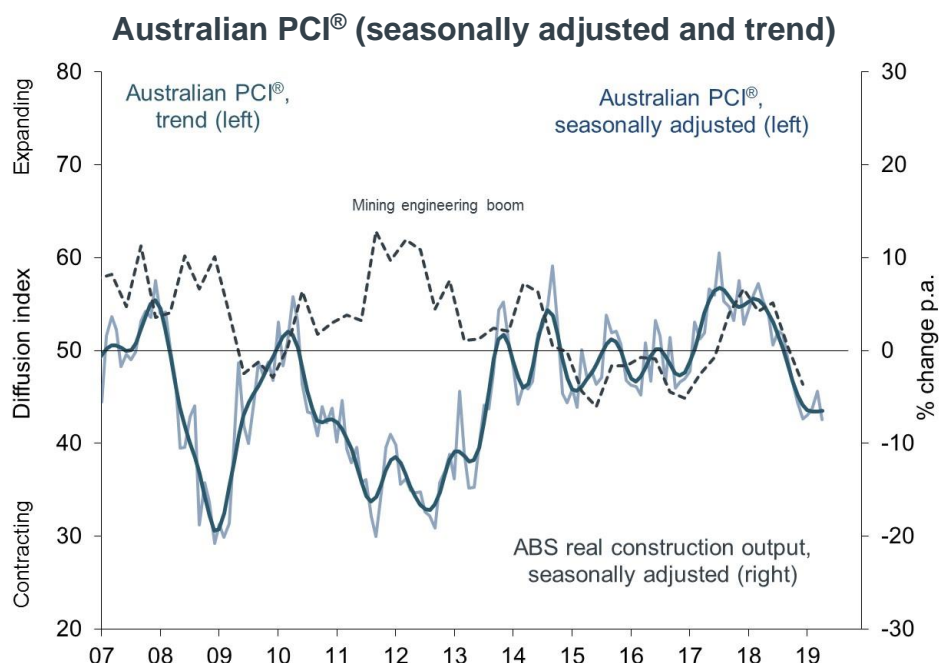
CONSTRUCTION FALLS AT STEEPER RATE IN APRIL

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 42.6 points (seasonally adjusted) in April. This was a decrease of 3.0 points from March, indicating that the construction industry on aggregate declined more sharply in April. It follows a slight easing in the industry's rate of contraction over the previous three months.

Despite growth in engineering construction, overall levels of activity in April were adversely affected by continued declines in housing activity, commercial construction and apartment building work.

Australian PCI® data for April revealed that construction activity remained in contraction (declining at steeper rate relative to March) while new orders fell for an eighth consecutive month. This was associated with a continued fall in deliveries from suppliers and a further drop in employment which declined at its steepest rate in almost six years.

Residential building respondents to the **Australian PCI®** cited reduced customer enquiries as well as the negative influences of tighter lending conditions, falling prices and generally weak home buyer sentiment. Reports from respondents also linked soft overall demand conditions to concerns about the slowing economy and uncertainty in the lead-up to the Federal election which had led to some hesitation among clients.



AUSTRALIAN PCI®

42.6

↓ 3.0 POINTS
(seasonally adjusted)

ACTIVITY

41.6

↓ 4.5 POINTS
(seasonally adjusted)

NEW ORDERS

44.4

↓ 0.1 POINTS
(seasonally adjusted)

EMPLOYMENT

39.2

↑ 6.9 POINTS
(seasonally adjusted)

HOUSE BUILDING ACTIVITY

36.4

↑ 0.1 POINTS
(trend)

APARTMENT ACTIVITY

33.4

↑ 1.8 POINTS
(trend)

ENGINEERING ACTIVITY

51.4

↑ 1.8 POINTS
(trend)

COMMERCIAL ACTIVITY

46.1

↑ 1.1 POINTS
(trend)

Australian PCI® summary

Construction sectors: Apartment building (33.4 points trend) was again the weakest performing sector, declining for a 13th consecutive month, although at a slightly slower rate from March. House building also remained in negative territory, although the rate of contraction was broadly unchanged with the sector's sub-index rising by 0.1 points 36.4 points (trend). Across the major project areas, commercial construction (46.1 points trend) recorded a seventh month of contraction amid a continued decline in overall demand for commercial projects. In contrast, engineering construction (51.4 points trend) expanded at a mildly positive rate in April in line with reports of stronger workflows and tenders translating into actual projects.

Construction prices and wages: Although cost pressures continued to be exerted in the construction of building projects in April, the input prices index decreased by 2.0 points to 61.7 points, indicating that input price inflation moderated during the month. The selling prices sub-index in the **Australian PCI®** decreased by 9.6 points to 31.8 points in April, signaling a distinctly steeper rate of contraction in output prices. This reflects heightened competition among builders in securing work consistent with reports of a strongly competitive quoting and tendering environment. The widening gap between these price series in the **Australian PCI®** demonstrates that profit margins are tightening for many businesses in the construction industry.

Construction activity: Across the construction industry, **Australian PCI®** data for April revealed that the key activity sub-index (41.6 points) remained in contraction while new orders (44.4 points) fell for an eighth consecutive month. This was associated with a continued decline in deliveries from suppliers (46.4 points) and a further drop in employment (39.2 points) which declined at its steepest rate since May 2013.

Construction highlights: Across the residential construction sectors, falls in approvals, commencements and work in the pipeline is continuing to weigh on workloads for residential builders. Commercial construction is also detracting from industry-wide performance. Businesses operating in the engineering construction sector have experienced tougher conditions in recent months due to a shortfall of new contracts to replace completed infrastructure projects. However, April provided evidence of growth in activity and stability in new orders as more planned projects moved through to construction.

Construction concerns: **Australian PCI®** survey respondents continued to indicate on-going pressures from a highly competitive tendering environment and tight margins. Cost pressures in the delivery of construction projects remains a concern for many constructors due to elevated energy costs and relatively high prices for commodities and imported construction materials. Respondents also expressed concerns about the slowdown in growth in the wider economy.

AUSTRALIAN PCI® KEY NUMBERS	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
<i>Seasonally adjusted</i>				<i>Trend</i>			
Australian PCI®	42.6	-3.0	47.2	Australian PCI®	43.5	0.1	47.3
Activity	41.6	-4.5	45.7	House building	36.4	0.1	42.5
Employment	39.2	-6.9	47.0	Apartments	33.4	1.8	34.6
New Orders	44.4	-0.1	47.2	Commercial construction	46.1	1.1	47.9
Supplier Deliveries	46.4	0.6	50.5	Engineering construction	51.4	1.8	52.0
Input Prices	61.7	-2.0	73.3				
Selling Prices	31.8	-9.6	46.1	<i>Seasonally adjusted</i>	%	ppt	%
Average Wages	55.7	-3.5	61.5	Capacity Utilisation (%)	77.6	1.1	76.0

Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® are reported in trend terms (Henderson 13-month filter).

CONSTRUCTION REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total, %
<i>Latest ABS data, seasonally adjusted</i>	\$bn	%	%	%
Nom. value of residential building approvals, \$bn, year to Mar 2019	72.3	-	-9.1	62.7% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Mar 2019	43.0	-	-13.8	37.3% of building approvals
Real value of building work done, \$bn, year to Dec 2018	120.4	-1.7	1.5	56.7% of all construction done
Real value of engineering work done, \$bn, year to Dec 2018	91.9	-5.0	-7.8	43.3% of all construction done
Real value of all construction work done, \$bn, year to Dec 2018	212.3	-3.1	-2.6	-
Real value-added output, \$bn, year to December 2018	139.8	-1.9	-3.7	7.4% of total GDP
Number of employed persons, '000, February 2019, trend	1,154	-0.8	-2.5	9.0% of employed persons

ABS data sources: National Accounts; Business Indicators; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.

For more detail about the Ai Group Australian PCI® visit: www.aigroup.com.au/policy-and-research/economics/

House building activity

The volume of new house building work done fell by 3.7% q/q but rose by 7.4% p.a. to \$8.8bn in the December quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 17.3% of all construction work done.

House building activity contracted for a ninth consecutive month in April. However, the rate of contraction was broadly unchanged with the sub-index at 36.2 points (trend), a rise of just 0.1 points from March. The continuation of weak conditions in the housing sector is consistent with a ninth month of contraction in new orders. The house building activity index is currently tracking at a level which is 6.3 points below its 12-month average.

House building new orders

The total number of private house approvals fell to 8,808 in February 2019 (trend).

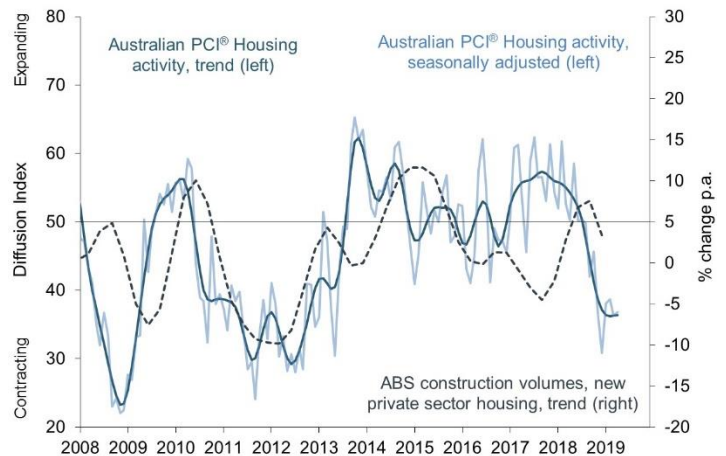
New orders in the house building sector continued to contract in April, and at slightly sharper rate. The sub-index drifted lower by 1.4 points to 37.2 points (trend), placing it below the critical 50-points no change threshold for nine consecutive months. This indicates a continuation of broad weakness in demand and points to on-going softness in house building activity in coming months. It follows the 1.4% m/m fall (-14.7% p.a.) in private sector house approvals in March (ABS, trend data).

Apartments activity

The volume of new multi-unit dwelling building work done fell by 3.3% q/q but increased by 1.0% p.a. to \$7.8bn in the December quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 15.3% of all construction work done.

Apartment building activity contracted for a 13th month in April, although at a slower rate with the sector's sub-index rising by 1.8 points to 33.4 points (trend). The apartment sector has now experienced steady or declining activity in 18 of the past 21 months. This has coincided with a weakening in new orders since September 2017.

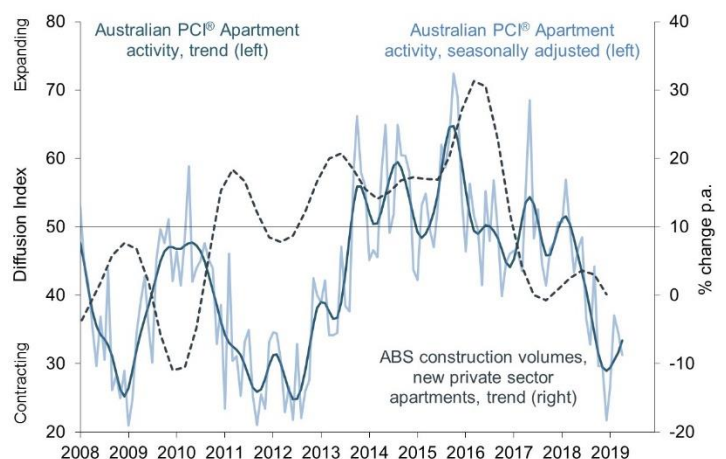
House building activity and ABS construction volumes



House building new orders and ABS building approvals



Apartments activity and ABS construction volumes



Australian PCI® sectors

Apartment new orders

The total number of private 'other dwellings' approvals (apartments, flats and townhouses) stood at 5,953 in March 2019 (trend).

In the apartment building sector, new orders maintained the decline evident since March 2018 with the sector's sub-index registering 33.5 points (trend) in April. This was a slight decrease of 0.4 points from March, signaling a slightly sharper pace of contraction. ABS data shows that private sector apartment ('other dwellings') approvals increased by 0.8% m/m in March but were down a sizable -31.5% p.a. over the year to March. Apartment approvals are also 37.2% lower than the peak recorded in November 2017.

Engineering construction activity

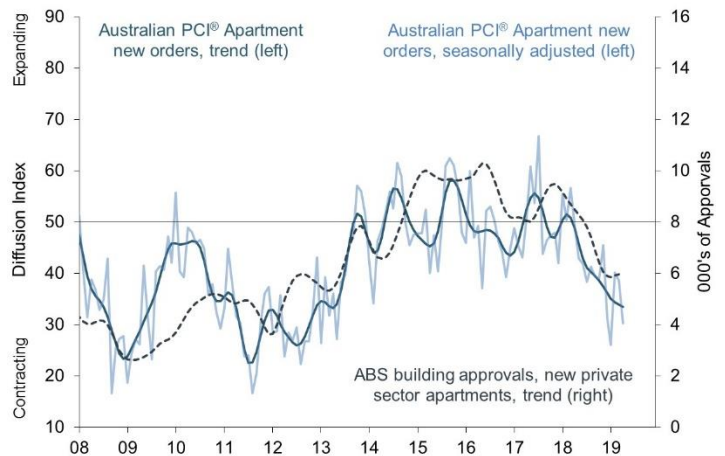
The volume of engineering construction work done fell by 5.0% q/q and by 7.8% p.a. to \$21.5bn in the December quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 43.3% of all construction work done.

Engineering construction activity expanded at a mildly positive rate in April following stable conditions in March. The sector's sub-index increased by 1.8 points to 51.4 points (trend). This improvement was linked to stronger workflows as new projects commenced. A sizeable pipeline of public funded infrastructure projects and new project additions by governments, points to a more distinct recovery in activity ahead.

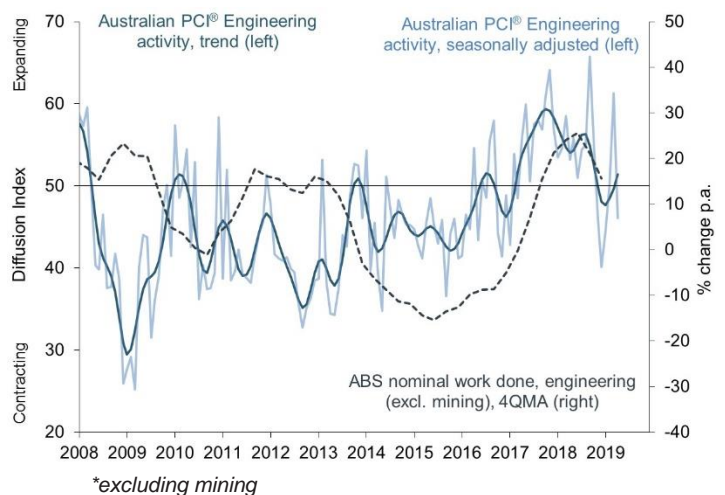
Engineering new orders

In the engineering construction sector, new orders stabilised in April (following five months of mild declines) with this sub-index registering 50.0 points (trend), a rise of 1.2 points from March. ABS data shows that engineering work in the pipeline (excluding mining related projects) was valued at \$40.4 billion in Q4 2018 (nominal, unadjusted data). While this is below the record high of \$45.3 billion in Q3 2012, it remains elevated due to spending on large-scale long-term publicly funded infrastructure projects, including transport, wind and solar projects and pipelines. This is likely to be reflected in an improving flow of new tender opportunities for businesses through 2019.

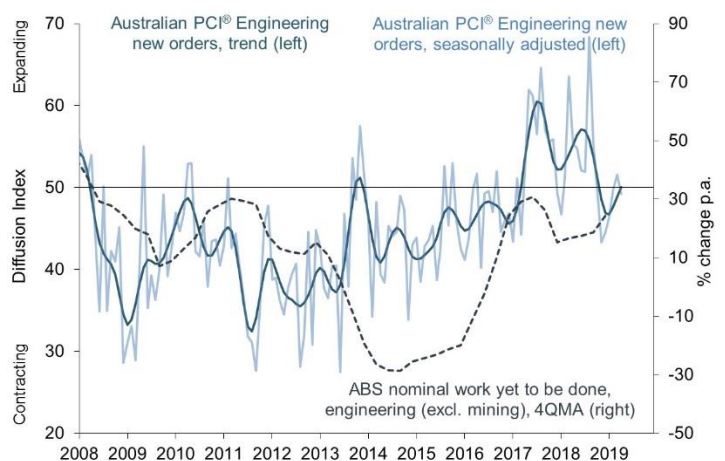
Apartments new orders and ABS building approvals



Engineering construction activity and ABS work done*



Engineering construction new orders and ABS work yet to be done (excluding mining)



Commercial construction activity

The volume of non-residential building work done increased by 1.9% q/q in the December quarter of 2018, to be broadly stable (+0.4% p.a.) over the year (seasonally adjusted and inflation-adjusted), accounting for 21.0% of all construction work done.

Commercial construction recorded a ninth consecutive month of contraction in April. The rate of decline was, however, slightly slower with the sector's sub-index increasing by 1.1 points to 46.1 points (trend). Despite this overall decline, conditions across the sector are mixed with respondents indicating opportunities in key commercial building categories, including offices, retail, warehouses and industrial buildings.

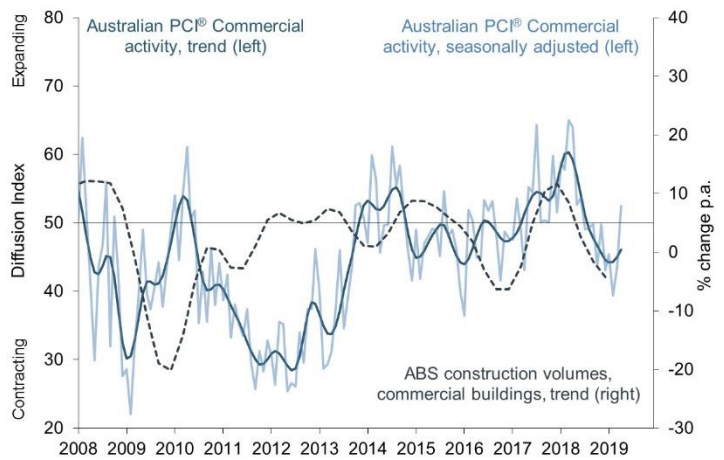
Commercial new orders

The real value of non-residential building approvals increased by 1.5% q/q but was down by 16.8% p.a. to \$10.1bn in the September quarter 2018 (seasonally adjusted).

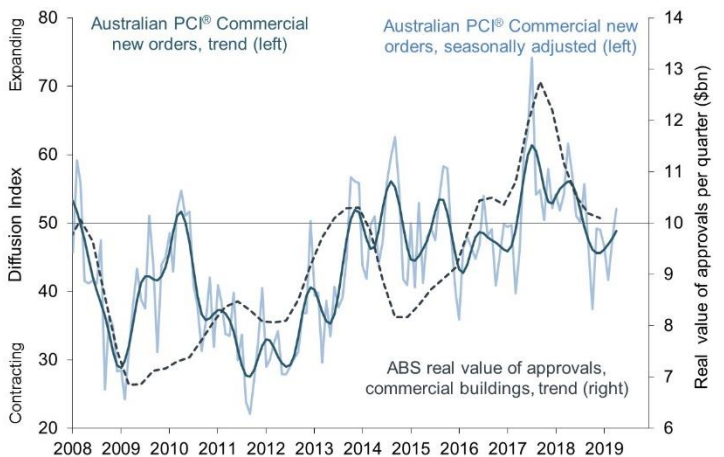
New orders in the commercial construction sector recorded a ninth consecutive month of decline in April. However, the sub-index increased by 1.0 points to 48.8 points (trend), indicating an easing in the rate of contraction.

The current softness in demand conditions which has been evident since mid-2018 follows a sustained 16-months period of growth in new orders which has supported a relatively healthy pipeline of work. This and the demands of a growing population, particularly in the eastern states, is likely to ensure healthy underlying support for commercial construction activity in the months ahead.

Commercial construction activity and ABS work done



Commercial construction new orders and ABS commercial building approvals



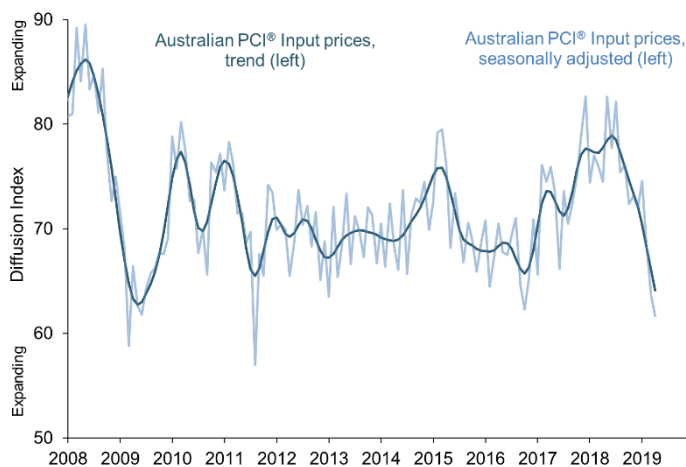
Australian PCI® prices and wages

Input prices

The **Australian PCI®** input prices sub-index registered 61.7 points in April. This was a decrease of 2.0 points from March, indicating that cost pressures in the construction of building projects moderated during the month.

Nevertheless, costs associated with the delivery of construction projects remain relatively high due to elevated energy costs and supplier price rises, some of which are related to the strength in commodity prices.

Input prices



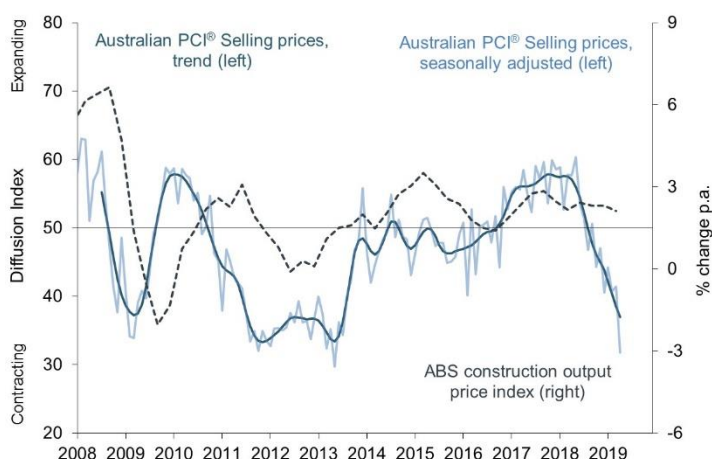
Selling prices

The ABS construction industry's output price index (PPI) rose by 0.2% q/q and 2.1% p.a. in the March quarter of 2019.

Selling prices continued to contract in April, and at the steepest rate in six years. The selling prices sub-index in the **Australian PCI®** decreased by 9.6 points to 31.8 points in April. This reflects strong competition among builders in securing work consistent with reports of a highly competitive quoting and tendering environment.

The widening gap between these price series in the **Australian PCI®** demonstrates that profit margins continue to be squeezed for businesses in the construction industry.

Selling prices and ABS construction industry output prices

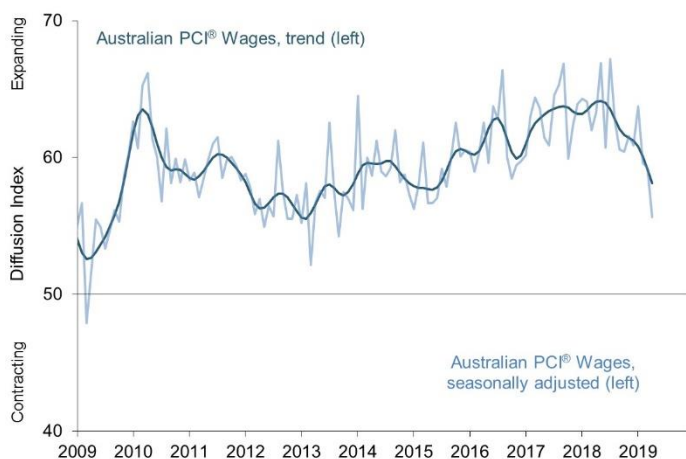


Average wages

The ABS wage index for private sector construction rose by 0.5% q/q and 1.8% p.a. in the December quarter of 2018.

Growth in wages continued in April, although at a slower pace with the wages sub-index decreasing by 3.5 points to 55.7 points. Despite this easing, the wages sub-index remains elevated due to difficulties that still exist in sourcing skilled labour, particularly in occupations central to infrastructure construction. This is in line with data on Federal Enterprise Bargaining Trends (Department of Education, Employment and Workplace Relations) indicating that approved EBA's in the construction industry increased at an average annual rate of 6.0% in the December quarter 2018 compared with a 2.8% average increase for all industry sectors.

Average wages



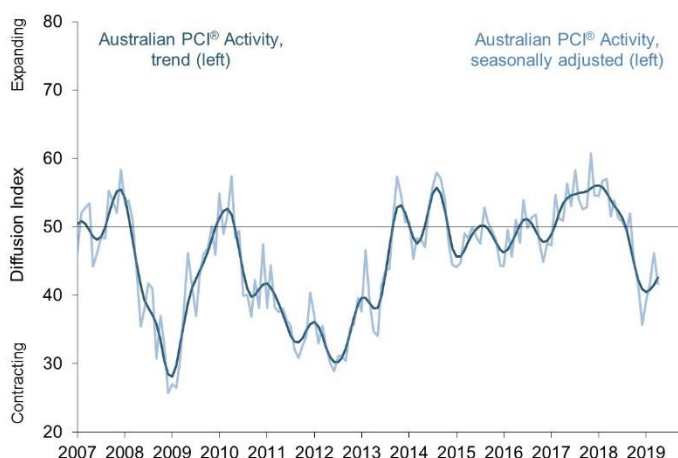
Australian PCI® activity

Activity

The activity sub-index in the **Australian PCI®** registered 41.6 points in April. This was down by 4.5 points from the previous month, signaling a steeper rate of contraction in total construction activity. It marked the seventh-consecutive month of declining industry activity.

The decline in construction activity in April is consistent with a continuation of soft levels of demand and new orders experienced in aggregate over the past eight months.

Activity



Employment

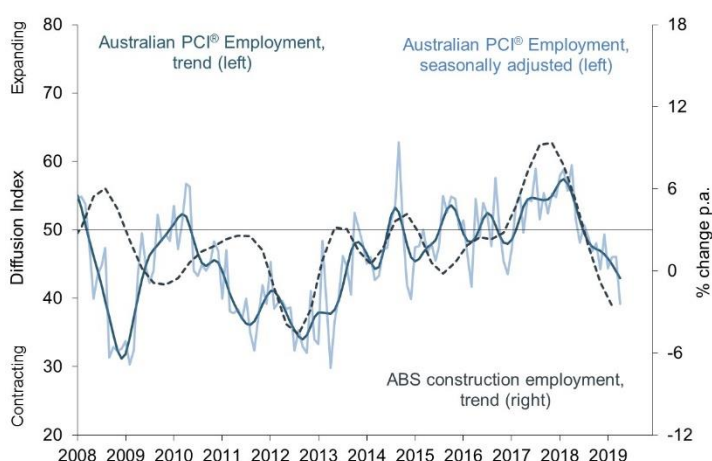
The construction sector employed 1,153,900 people in February 2019 (9.0% of total employment).

Construction employment continued to decline in April, and at a faster rate. The employment sub-index within the **Australian PCI®** decreased sharply by 6.9 points to 39.2 points.

This marked a ninth consecutive month of contraction in employment and the lowest reading on employment in almost six years.

It indicates that businesses outside of infrastructure construction are responding to the on-going weakness of overall demand conditions by exerting greater caution in their labour recruitment.

Employment and ABS construction industry employment



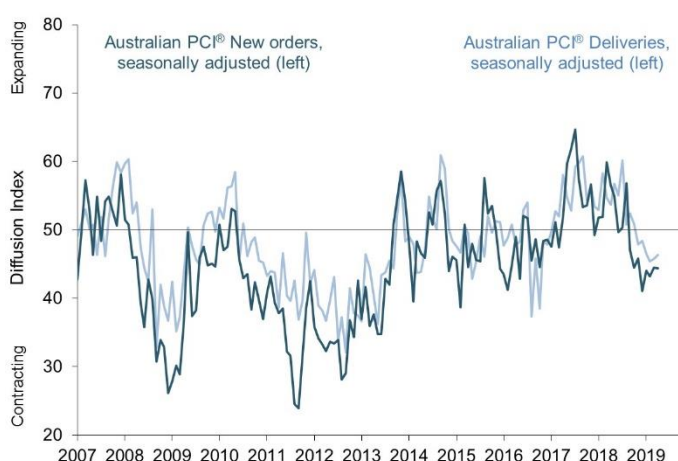
New orders and supplier deliveries

The new orders index in the **Australian PCI®** registered 44.4 points in April. This was a decrease of 0.1 points from March, indicating that the pace of contraction was broadly unchanged on an aggregate industry basis.

The on-going softness in new orders is likely to act as a headwind to stronger overall activity in coming months.

In line with ongoing softness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the **Australian PCI®**, and at a broadly unchanged rate. The supplier delivery index increased by 0.6 points to 46.4 points, marking a sixth consecutive month of contraction.

New orders and supplier deliveries



Australian PCI® activity

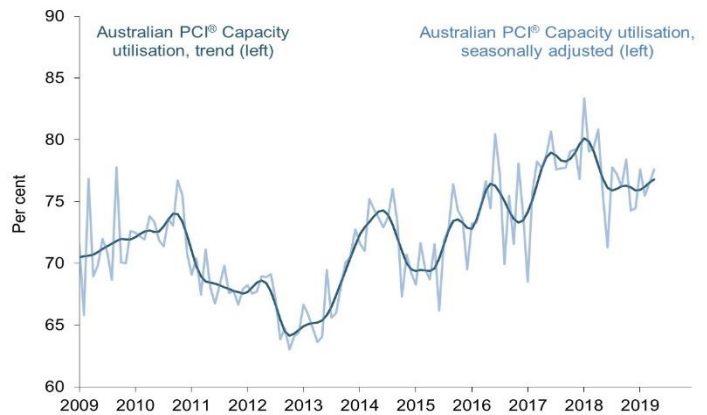
For more information about the Ai Group Australian PCI® visit:

Capacity utilisation

The rate of capacity utilisation stood at 77.6% across the construction industry, up slightly from 76.5% in March.

This further points to the need for increased investment in machinery and equipment and the upgrading of employee skills to assist in productivity and cost savings and enable the industry to effectively respond to any significant upturn in future demand.

Capacity utilisation



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Australian PCI®: data definitions

The Australian PCI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes. For manufacturing in the Australian PCI, the definitions of the 4 sectors are:

1. House building (ANZSIC code 4111 "House construction"). Businesses involved in the construction, repair and renovation of houses (a detached dwelling predominantly used for long term purposes and consisting of one dwelling unit), or in organising or managing these activities as the prime contractor.
2. Apartment building (ANZSIC code 4112 "Residential building construction n.e.c. (units)"). This covers buildings other than a house primarily used for long-term residential purposes (or has attached to it) more than one dwelling unit such as blocks of flats, home units, attached townhouses, semi-detached houses, maisonettes, duplexes, apartment buildings etc.
3. Engineering construction. (ANZSIC code 4121 "Road and bridge construction" and ANZSIC code 4122 "Non-building construction"). Businesses involved in the construction of engineering projects or infrastructure. This includes transport projects, telecommunications facilities, bridges, water and gas supply systems, pipelines, sports complexes, heavy industry constructions and other large-scale construction projects that do not generally involve the construction of buildings.
4. Commercial construction (ANZSIC code 4111 "Non-residential building construction") involves the construction of non-residential buildings such as offices, industrial premises, hotels, hospitals, aged care facilities, education buildings, entertainment and recreation developments, and in carrying out alterations, additions, renovation, and in organising or managing these activities.

What is the Australian PCI®? The Australian Industry Group Australian Performance of Construction Index (Australian PCI®) is a national composite index based on the diffusion indices for activity, new orders, deliveries, inventories and employment with varying weights. An Australian PCI® reading above 50 points indicates that manufacturing is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PCI® results are based on responses from a national sample of construction businesses that includes all states and all sectors. The Australian PCI® uses the ANZSIC industry classifications for construction sectors and sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/policy-and-research/economics/economicindicators/>.

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