

Australian Performance of Construction Index



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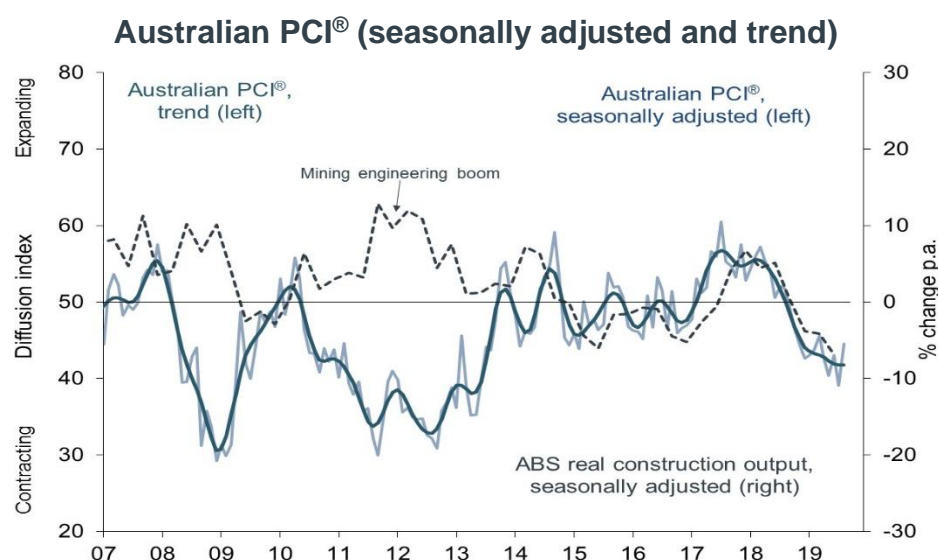
CONSTRUCTION DECLINE EASES IN AUGUST

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 44.6 points (seasonally adjusted) in August. This was an increase of 5.5 points from July, indicating an easing in the construction industry's overall rate of decline. It also signaled the industry's slowest rate of contraction in five months.

Australian PCI® data revealed that the key activity sub-index fell for an 11th consecutive month in August, and that its pace of decline accelerated slightly relative to July. However, rates of decline in new orders, supplier deliveries and employment were all slower in the month.

Across sectors of the **Australian PCI®** (on a trend basis), apartment building was the weakest performing area of activity, declining for a 17th consecutive month, albeit at a broadly unchanged rate. The house building sector remained in negative territory although its pace of decline was the slowest in 11 months. Commercial construction was again subdued while engineering construction declined more sharply amid reports of insufficient new work to replace completed projects and a reduction in tender opportunities.

Reports from residential building respondents to the **Australian PCI®** were mixed. Some businesses commented that demand had been relatively resilient in the month with an improvement in customer enquiries and new orders. However, there was also wide reporting of subdued volumes of new work and the dampening influences on demand from tight lending conditions, oversupplied apartment markets and uncertainty surrounding the economic outlook.



AUSTRALIAN PCI®

44.6

↑ 5.5 POINTS
(seasonally adjusted)

ACTIVITY

42.8

↓ 1.6 POINTS
(seasonally adjusted)

NEW ORDERS

43.3

↑ 7.3 POINTS
(seasonally adjusted)

EMPLOYMENT

45.8

↑ 9.9 POINTS
(seasonally adjusted)

HOUSE BUILDING ACTIVITY

42.8

↑ 2.1 POINTS
(trend)

APARTMENT ACTIVITY

35.8

↓ 0.4 POINTS
(trend)

ENGINEERING ACTIVITY

45.4

↓ 1.7 POINTS
(trend)

COMMERCIAL ACTIVITY

46.4

↑ 0.2 POINTS
(trend)

Australian PCI® summary

Construction sectors: Apartment building was the weakest performing sector (35.8 points trend), contracting for a 17th month. Also weighing on overall industry conditions was a 13th consecutive month of contracting house building activity (42.8 points trend), although there was an easing in the sector's rate of contraction. Across the major project areas, commercial construction (46.4 points trend) again declined in August amid a further overall fall in demand for commercial building projects. Engineering construction (45.4 points trend) also fell in the month, and at its sharpest rate in 3½ years.

Construction prices and wages: Cost pressures continued to be exerted in the construction of building projects in August, with the input prices index in the **Australian PCI®** increasing by 6.0 points to 69.2 points, indicating that input price inflation lifted during the month. The selling prices sub-index in the **Australian PCI®** increased slightly by 0.6 points to 37.2 points in August. This on-going negative index reading highlights the strong competition between builders which is pushing down construction selling prices. The widening gap between these price series in the **Australian PCI®** demonstrates that profit margins remain tight for many businesses in the construction industry.

Construction activity: Across the construction industry, **Australian PCI®** data for August revealed that the activity sub-index (42.8 points) contracted at a steeper rate, remaining below the 50.0 points no-change threshold for an 11th consecutive month. While weakness in the uptake of new work continued to dampen activity in August, the latest data signaled an easing in the overall rate of decline in new orders (43.3 points) while supplier deliveries (48.5 points) recorded their slowest contraction in 10 months. Job declines continued in August amid soft demand at the aggregate level, but the rate of decline in employment was the slowest in five months.

Construction highlights: For residential construction, the ongoing decline in new orders is continuing to weigh on overall activity and points to the likelihood of further softness in the months ahead. Commercial construction remains in decline, but its rate of contraction has remained relatively unchanged in recent months. Survey respondents in the engineering sector continue to highlight a weak uptake of non-mining infrastructure work. This could be related to delays to some stages of existing projects or time lags between the development and construction of new infrastructure projects.

Construction concerns: **Australian PCI®** survey respondents continued to indicate significant cost pressures in the delivery of building projects due to elevated energy prices and relatively high prices for commodities and imported construction materials. Reports are also widespread about difficulties in filling skilled vacancies as well as accessing funding for investment and business expansion purposes.

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®	44.6	5.5	43.7	Australian PCI®	41.7	-0.1	43.7
Activity	42.8	-1.6	42.9	House building	42.8	2.1	38.7
Employment	45.8	9.9	44.1	Apartments	35.8	-0.4	33.0
New Orders	43.3	7.3	42.9	Engineering construction	45.4	-1.7	49.4
Supplier Deliveries	48.5	8.5	46.6	Commercial construction	46.4	0.2	45.6
Input Prices	69.2	6.0	69.3				
Selling Prices	37.2	0.6	40.2	<i>Seasonally adjusted</i>	%	ppt	%
Average Wages	61.6	3.8	60.2	Capacity Utilisation (%)	76.5	2.8	76.1

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 July 2019	67.5	-	-16.4	60.4% of building approvals
Nom. value of non-residential building approvals, \$bn, year to July 2019	44.4	-	-7.1	39.6% of building approvals
Real value of building work done, \$bn, year to Jun 2019	119.2	-1.9	-0.1	58.4% of all construction done
Real value of engineering work done, \$bn, year to Jun 2019	85.2	-4.3	-19.8	41.6% of all construction done
Real value of all construction work done, \$bn, year to Jun 2019	204.4	-2.9	-9.4	-
Real value-added output, \$bn, year to June 2019	136.0	-1.4	-6.9	7.3% of total GDP
Number of employed persons, '000, May 2019, trend	1,169.2	0.7	-1.3	9.1% 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/

Australian PCI® sectors

House building activity

The volume of new house building work done fell by 5.7% q/q and 9.1% p.a. to \$8.6bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 17.6% of all construction work done.

House building activity contracted for a 13th consecutive month in August. The sector's sub-index increased by 2.1 points to 42.8 points (trend), indicating a slightly slower rate of decline in the month. The continued fall in housing building activity is consistent with a 13th month of contraction in new orders and the continued downward trend in private sector house approvals.

House building new orders

The total number of private house approvals fell to 8,344 in July 2019 (trend).

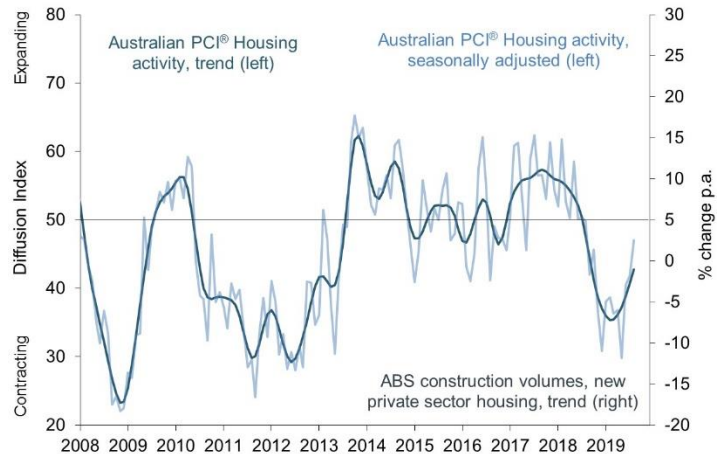
New orders in the house building sector continued to fall in August with the new orders sub-index registering 39.8 points (trend). However, this was an increase of 1.9 points relative to July to signal the slowest rate of decline in seven months. Whilst it indicates a degree of resilience in demand conditions in August, the continued contraction in new orders points to housing activity remaining subdued in coming months. It follows the 1.0% m/m fall (-15.3% p.a.) in private sector house approvals in July (ABS, trend data).

Apartments activity

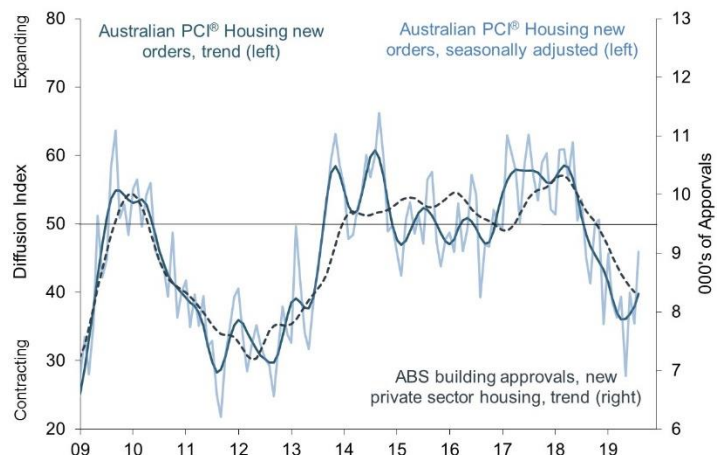
The volume of new multi-unit dwelling building work done fell by 4.3% q/q and 11.2% p.a. to \$7.4bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 15.2% of all construction work done.

Apartment building activity contracted for a 17th month in August, although the rate of decline was largely unchanged with the sector's sub-index falling by 0.4 points to 35.8 points (trend). The apartment sector has experienced steady or declining activity in 23 of the past 25 months. This has coincided with ongoing declines in new orders since September 2017.

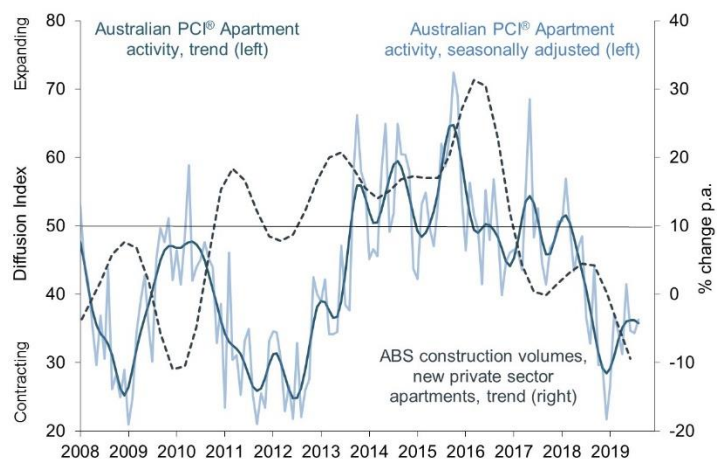
House building activity and ABS construction volumes



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 4,920 in July 2019 (trend).

In the apartment building sector, new orders recorded a 17th month of contraction. The rate of decline was also sharper, with the sub-index decreasing by 1.5 points to 28.5 points (trend). ABS trend data shows that private sector apartment ('other dwellings') approvals decreased by 7.3% m/m in July to be down by a sizable 36.5% p.a. over the year to June. Apartment approvals are also 48% lower than the peak recorded in November 2017 (ABS, trend).

Engineering construction activity

The volume of engineering construction work done fell by 1.1% q/q and by 15.9% p.a. to \$20.3bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 41.6% of all construction work done.

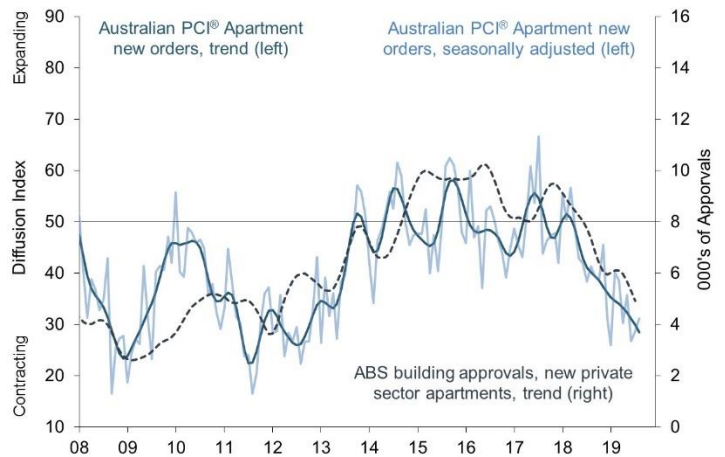
Engineering construction activity fell further into negative territory in August. The sector's sub-index decreased by 1.7 points to 45.4 points. Reports from respondents indicate a shortfall of new contracts to replace completed work on infrastructure projects. Competitive pressures were also weighing on the uptake of new work. The fall in activity is also likely to be related to delays to some stages of existing projects or a temporary lull in construction work while planning, design and other pre-construction tasks are undertaken for new projects.

Engineering new orders

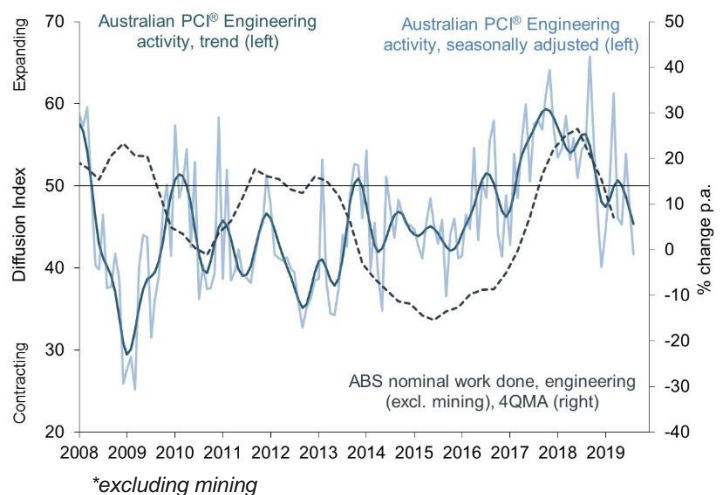
In the engineering construction sector, new orders contracted for a 10th month with this sub-index decreasing by 2.1 points to 40.8 points. Whilst this points to a steeper rate of decline in August, a sizeable pipeline of work – particularly roads (such as highways, city bypasses etc.) and rail projects in New South Wales and Victoria – is likely to remain supportive of activity in coming months.

ABS data shows that engineering work in the pipeline (excluding mining-related projects) was valued at a record high of \$43.5 billion in Q1 2019 (nominal, unadjusted data).

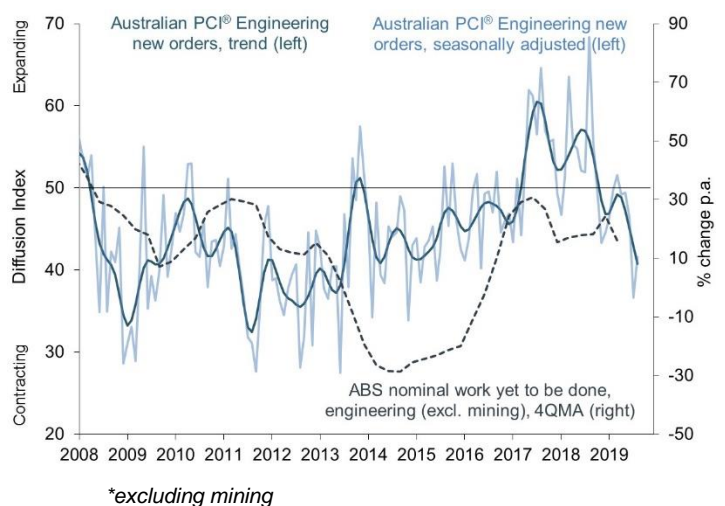
Apartments new orders and ABS building approvals



Engineering construction activity and ABS work done*



Engineering construction new orders and ABS work yet to be done*



Commercial construction activity

The volume of non-residential building work done fell by 6.6% q/q in the June quarter 2019, to be 3.3% p.a. lower over the year (seasonally adjusted and inflation-adjusted), accounting for 21.5% of all construction work done.

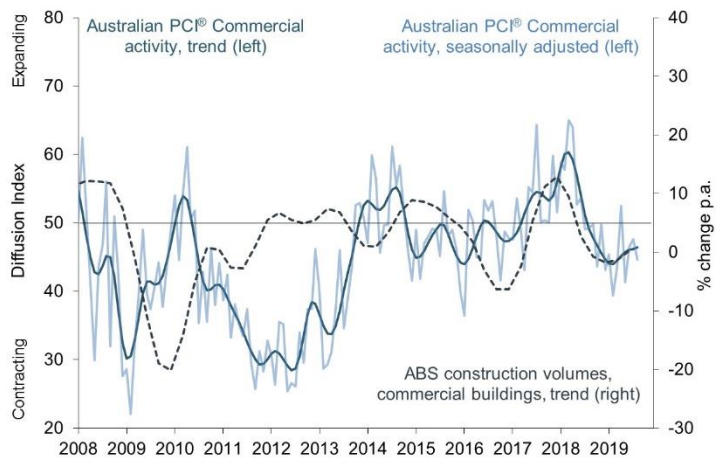
Commercial construction recorded a 13th consecutive month of contraction in August. The rate of decline, however, was largely unchanged with the sector's sub-index increasing by 0.2 points to 46.4 points (trend). Despite this overall decline, conditions across the sector are mixed with developments in major commercial and social building categories (including hotels, industrial premises, retail and health) providing key support to the sector's overall performance.

Commercial new orders

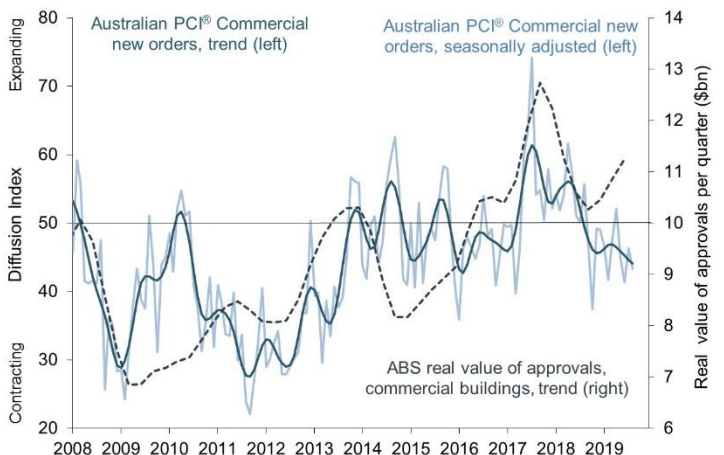
The real value of non-residential building approvals increased by 1.1% q/q but was down by 7.7% p.a. to \$10.5bn in the March quarter 2019 (seasonally adjusted).

New orders in the commercial construction sector also fell for a 13th month in August. However, the sub-index decreased by just 0.5 points to 44.1 points (trend), indicating a broadly unchanged pace of contraction in the month. The current softness in overall demand conditions, which has been evident since mid-2018, follows a sustained 16-month period of growth in new orders which has supported a relatively healthy pipeline of work across a range of key project areas.

Commercial construction activity and ABS work done



Commercial construction new orders and ABS commercial building approvals



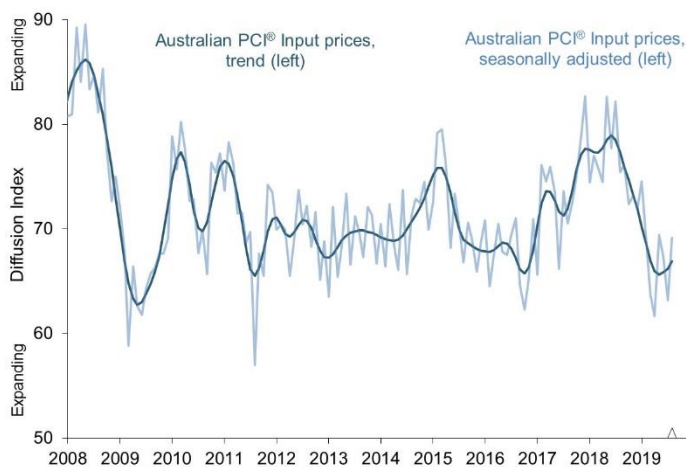
Australian PCI® prices and wages

Input prices

The Australian PCI® input prices sub-index registered 69.2 points in August. This was an increase of 6.0 points from July, indicating that cost pressures in the construction of building projects lifted during the month.

Input prices are being driven higher on a wide industry basis due to elevated energy costs and supplier price rises, some of which are related to the continued strength in commodity prices.

Input prices



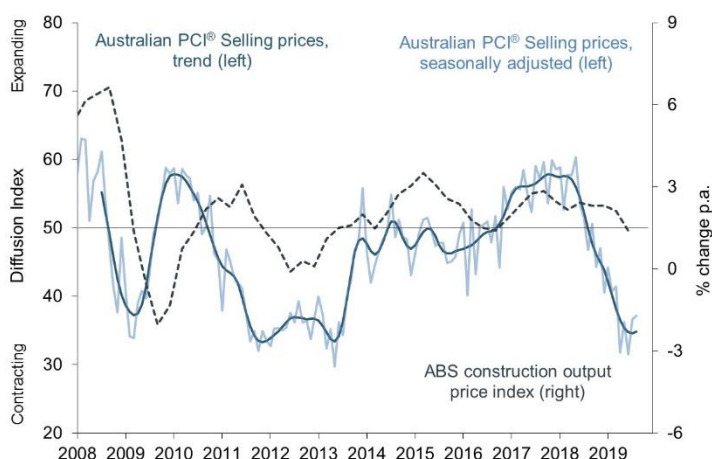
Selling prices

The ABS building construction industry's output price index (PPI) rose by 0.4% q/q and 1.4% p.a. in the March quarter 2019.

Selling prices continued to contract in August, albeit at a slightly slower rate. The selling prices sub-index in the **Australian PCI®** registered 37.2 points in August, an increase of 0.6 points from July. However, this negative reading indicates that rising input prices and other costs are not, on average, being passed on to customers. This reluctance to raise prices reflects the strong competition among builders in securing work.

The ongoing 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

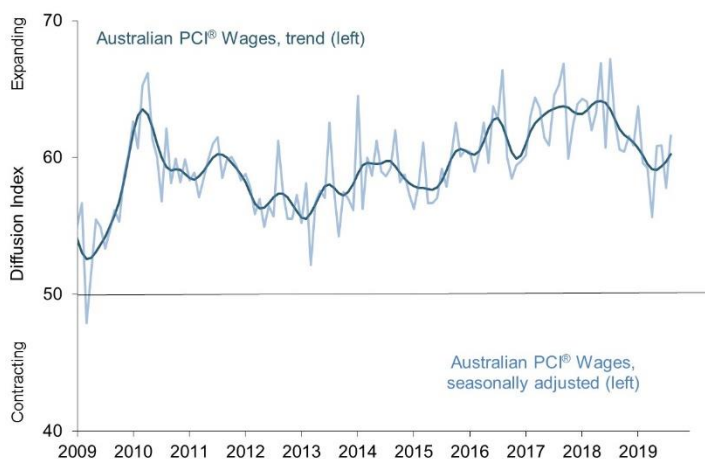


Average wages

The ABS wage index for private sector construction rose by 0.7% q/q and 1.9% p.a. in the March quarter 2019.

Growth in wages continued in August, and at a faster pace with the wages sub-index increasing by 3.8 points to 61.6 points. This elevated wages sub-index provides further evidence that overall wages growth remains relatively high due to difficulties that still exist in sourcing skilled labour. 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 3.7% in the March quarter 2019 compared with a 2.7% average increase for all industry sectors.

Average wages



Australian PCI® activity

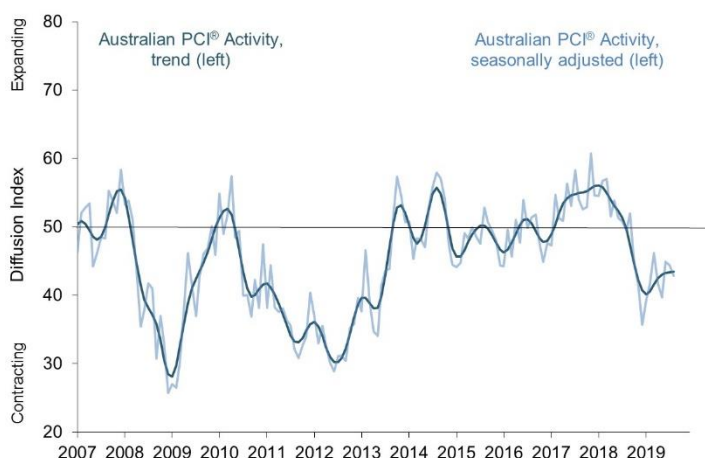
Activity

The activity sub-index in the Australian PCI® registered 42.8 points in August.

This was down by 1.6 points from the previous month, signaling a steeper rate of contraction in total construction activity. It marked the 11th consecutive month of declining industry activity

Weighing on construction activity in August was a continuation of soft levels of demand with new orders declining on aggregate for a twelfth consecutive month.

Activity



Employment

The construction sector employed 1,169,200 people in May 2019 (9.1% of total employment).

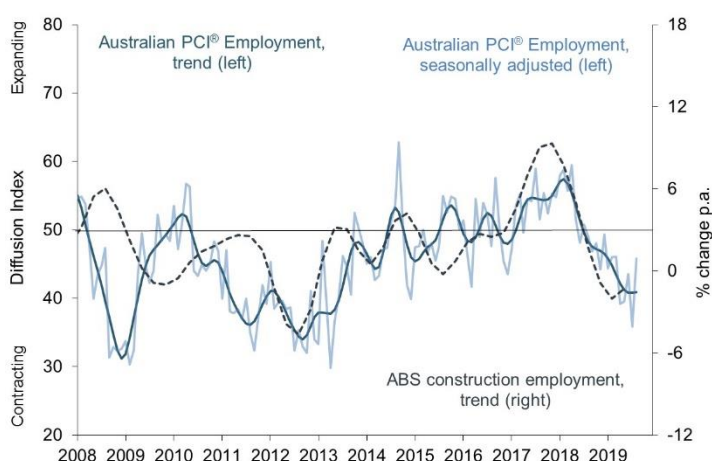
Construction employment continued to decline in August, although at a slower rate.

The employment sub-index within the **Australian PCI®** increased by 9.9 points to 45.8 points. This marked the 13th consecutive month of falling employment on an industry-wide basis.

Nevertheless, the rate of decline was the slowest in five months and follows official statistics showing marginal growth of 0.7% q/q (-1.3% p.a.) in total construction employment in May 2019 (ABS trend data).

Employment and

ABS construction industry employment



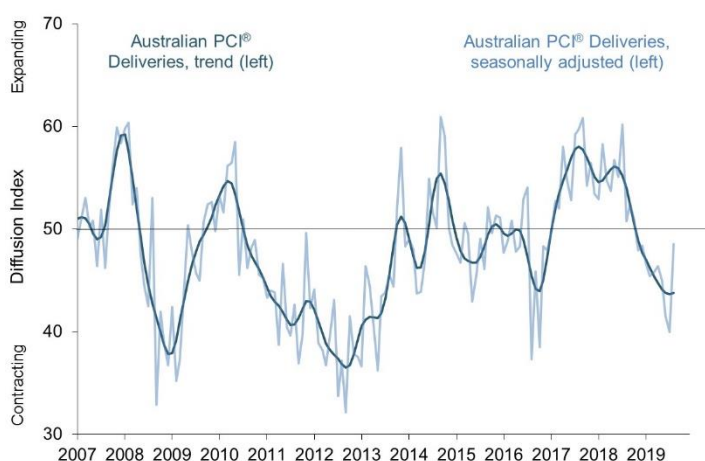
New orders and supplier deliveries

The new orders index in the **Australian PCI®** registered 43.3 points in August. This was an increase of 7.3 points from July indicating that the drop in new orders was softer in the month.

The continued fall in new orders is likely to weigh on overall activity in coming months, although the slower pace of decline is an encouraging sign of some improvement in overall demand conditions and market sentiment.

Signs of more resilient demand in August were associated with deliveries of inputs from suppliers moving closer to stabilisation. The supplier delivery index in the **Australian PCI®** increased by 8.5 points to 48.5 points in August, the least marked reduction in 10 months.

New orders and supplier deliveries



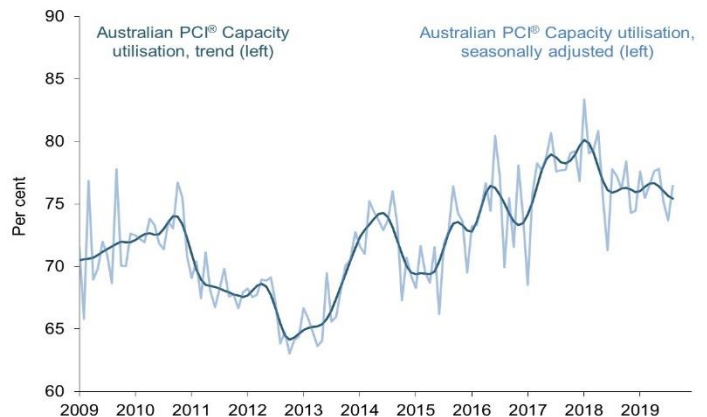
Australian PCI® activity

Capacity utilisation

The rate of capacity utilisation stood at 76.5% across the construction industry in August, up from 73.7% in July, but only slightly higher than the 12-month average utilisation rate of 76.1%.

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



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

www.aigroup.com.au/policy-and-research/economics/

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 four 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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