

# PCI signals weakest construction performance since May 2013

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell 1.1 points to 38.9 points (seasonally adjusted) in December. This indicated a sharper rate of decline for the construction industry in the final month of 2019 (results below 50 points indicate contraction, with lower numbers indicating a faster pace).

This was the lowest **Australian PCI®** result since May 2013. Deteriorating indexes for activity, new orders and deliveries from suppliers all indicated a further softening in business conditions across the construction industry.

Across the four sectors included in the **Australian PCI®**, stable conditions were reported in house building for a second consecutive month. Elsewhere however, continued falls in activity were evident in December across the apartments, commercial and engineering construction sectors.

Reports from house building respondents to the **Australian PCI®** were mixed. There were encouraging indications of improving demand from new home buyers in response to interest rate cuts earlier in 2019. However, other respondents reported that prospective buyers remain cautious due to concerns about Australia's uncertain and slow domestic economy. Apartment builders noted further declines in investor and developer activity.

DECEMBER 2019

## MEDIA CONTACT

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<b>Australian PCI®</b> ▼ 1.1 points (seasonally adjusted)	<b>38.9</b>
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<b>Australian PCI®</b> ▼ 0.8 points (trend)	<b>40.6</b>
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<b>Activity</b> ▼ 4.4 points (seasonally adjusted)	<b>36.5</b>
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<b>New orders</b> ▼ 0.6 points (seasonally adjusted)	<b>36.9</b>
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<b>Employment</b> ▲ 3.4 points (seasonally adjusted)	<b>42.8</b>
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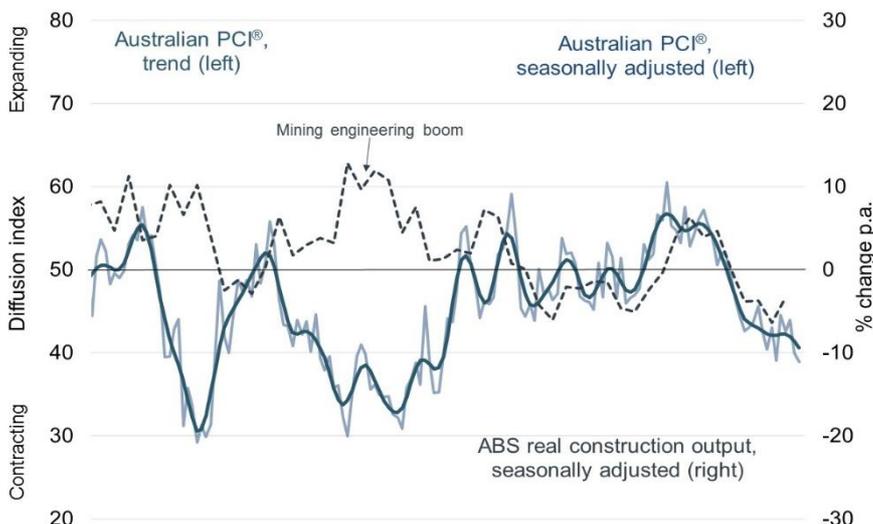
<b>House activity</b> ▲ 0.8 points (trend)	<b>50.8</b>
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<b>Apartment activity</b> ▲ 0.9 points (trend)	<b>37.4</b>
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<b>Engineering activity</b> ▼ 2.7 points (trend)	<b>29.5</b>
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<b>Commercial activity</b> ▼ 1.5 points (trend)	<b>41.3</b>
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**Australian PCI® (seasonally adjusted and trend)**



**Construction sectors:** House building was the best performing construction sector (50.8 points trend) in December, with activity showing stability for a second month, in line with some further improvement in new orders. In contrast, apartment building (37.4 points trend) remained firmly in negative territory, declining at a rate that was broadly unchanged from the previous month. Across the major project areas, commercial construction (41.3 points trend) recorded a 17<sup>th</sup> month of contraction with demand conditions remaining patchy across key industrial and commercial property categories. The index for engineering construction (29.5 points trend) also fell in the month, and at its sharpest rate in just over a decade.

**Construction wages and prices:** Input price inflation in the Australian PCI® remained elevated in December. The input prices index fell by 2.9 points to 64.9 points, indicating that cost pressures eased slightly during the month but remained significant. The selling prices index in the Australian PCI® increased by 4.3 points to 48.0 points in December. This ongoing indication of falling prices highlights the strong competition between builders and possibly an inability to pass on rising input costs. The wide gap between these price series in the Australian PCI® suggests profit margins remain tight for many construction businesses.

**Construction activity:** the Australian PCI® activity index (36.5 points) fell sharply in December, with the biggest monthly drop in 12 months. The rate of decline in new orders (36.9 points) was marginally steeper in December. Construction businesses continued to reduce their supplier deliveries (41.4 points) in response to weak demand. The employment index (42.8 points) also continued to indicate declining employment in construction, albeit at a slower rate in December.

**Construction highlights:** The housing sector appears to have stabilised in Q4 of 2019, with two months of stable conditions reported in the Australian PCI®. In other sectors, higher approvals in recent months in some key project areas are likely to support activity in 2020.

**Construction concerns:** Engineering activity continues to decline amid reports of a lack of new tender opportunities and the slow roll-out of new infrastructure projects. Survey respondents continue to indicate significant margin pressures from a highly competitive tendering environment. Costs in the delivery of building projects remain high due to elevated energy prices and relatively high prices for commodities, imported construction materials and labour. Some businesses continue to report difficulties in filling skilled vacancies. Soft economic growth and uncertainty about the outlook may have dampened client demand and slowed progress on planned projects.

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>			
<b>Australian PCI®</b>	<b>38.9</b>	<b>-1.1</b>	<b>42.3</b>	<b>Australian PCI®</b>	<b>40.6</b>	<b>-0.8</b>	<b>42.3</b>
Activity	36.5	-4.4	41.5	House building	50.8	0.8	41.6
Employment	42.8	3.4	43.1	Apartments	37.4	0.9	34.7
New Orders	36.9	-0.6	41.7	Engineering construction	29.5	-2.7	43.2
Supplier Deliveries	41.4	-2.7	44.3	Commercial construction	41.3	-1.5	44.6
Input Prices	64.9	-2.9	66.8				
Selling Prices	48.0	4.3	39.7	<i>Seasonally adjusted</i>	%	ppt	%
Average Wages	57.1	-3.4	59.7	Capacity Utilisation (%)	76.5	3.2	75.8

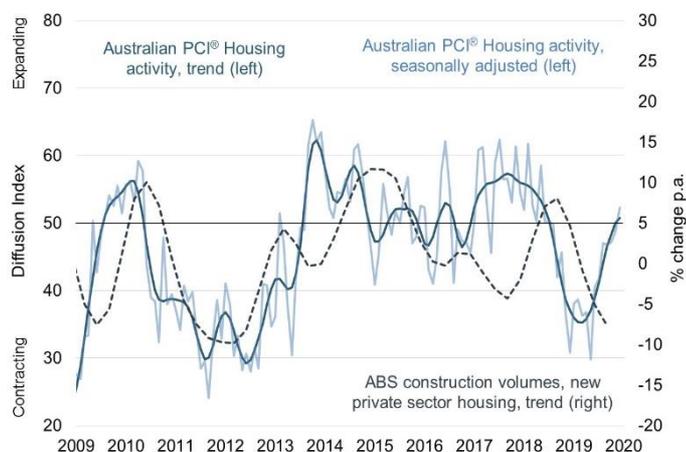
Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® are reported in trend terms (Henderson 13-month filter).

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 Oct 2019	65.2	-	-17.5	56.7% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Oct 2019	49.9	-	11.6	43.3% of building approvals
Real value of building work done, \$bn, year to Sep 2019	121.7	-0.5	-5.1	58.4% of all construction done
Real value of engineering work done, \$bn, year to Sep 2019	86.2	-0.2	-9.6	41.6% of all construction done
Real value of all construction work done, \$bn, year to Sep 2019	207.9	-0.4	-7.0	-
Real value-added output, \$bn, year to Sep 2019	136.0	0.5	-3.3	7.2% of total GDP
Number of employed persons, '000, August 2019, trend	1,180.7	1.2	0.5	9.1% of employed persons

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

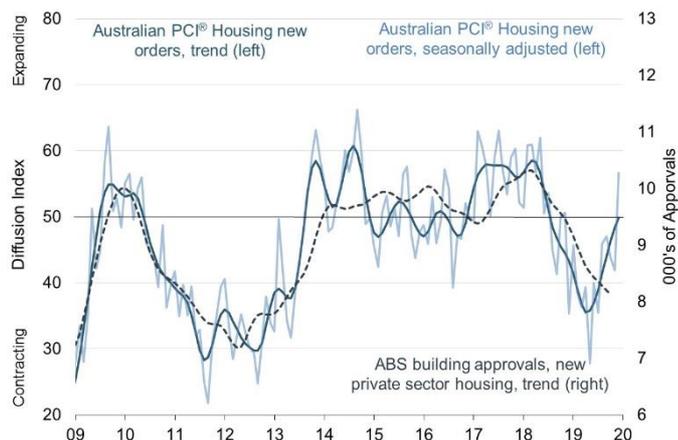
## House building activity

- The volume of new house building work done fell by 3.7% q/q and 8.9% p.a. to \$8.8bn in the September quarter 2019 (seasonally adjusted and inflation-adjusted), according to the ABS. House building accounted for 17.2% of all construction work done.
- The Australian PCI® house building activity index remained broadly stable in December, lifting by 0.8 points to 50.8 points (trend). This was a second month of steady conditions following 15 months of contraction.
- The house building activity index is now at a level last seen in mid-2018 prior to the onset of the sector's downturn.



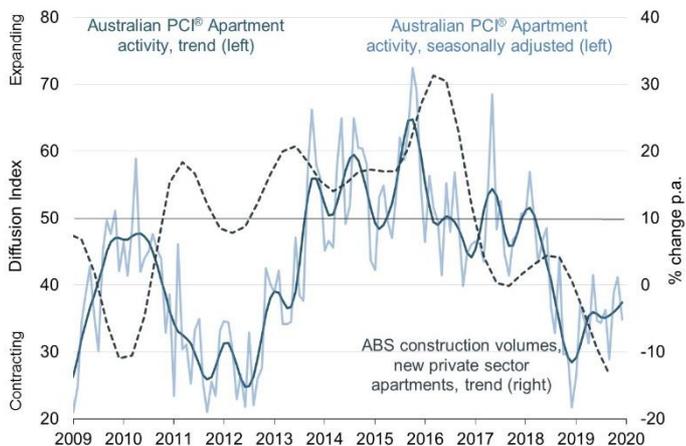
## House building new orders

- The total number of private house approvals fell by 0.9% m/m and 15.1% p.a. to 8,126 in October 2019 (trend), according to the ABS.
- New orders in the house building sector were broadly stable in December with the Australian PCI® new orders index up by 1.4 points to 49.8 points (trend). This follows an easing in the rate of contraction over each of the previous six months.



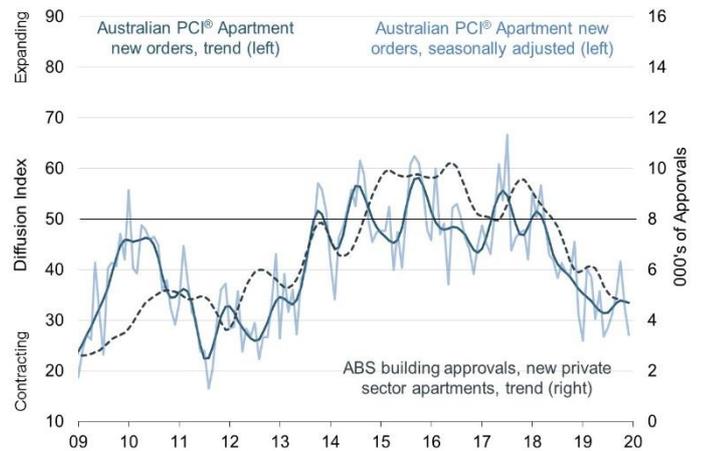
## Apartments activity

- The volume of new multi-unit dwelling building work done fell by 3.2% q/q and 13.3% p.a. to \$7.3bn in the September quarter 2019 (seasonally adjusted and inflation-adjusted), according to the ABS. Apartment building accounted for 14.3% of all construction work done.
- The Australian PCI® apartment building activity index rose by 0.9 points to 37.4 points (trend) in December. This was the 21<sup>st</sup> month of contraction, but the rate of contraction appears to be slowing. This has coincided with falls in new orders since September 2017 and a declining trend in apartment approvals.



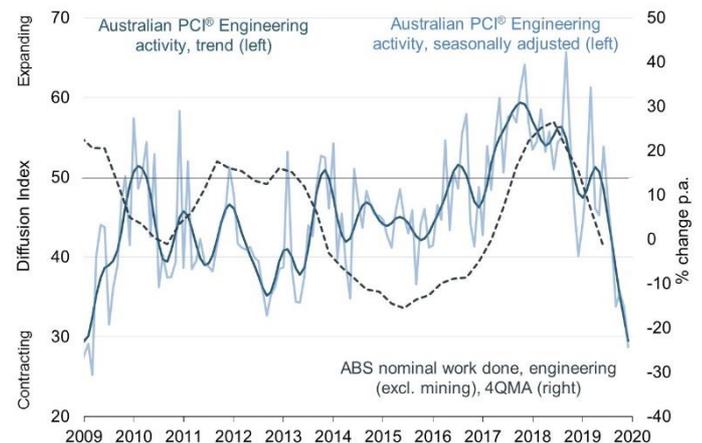
### Apartment new orders

- The total number of private ‘other dwellings’ approvals (apartments, flats and townhouses) decreased to 4,841 in October 2019 (down 0.5% m/m and 23.5% p.a.). Approvals numbers are 48.8% lower than the peaks recorded in October and November 2017 (ABS, trend).
- The Australian PCI® apartment building new orders index fell by 0.3 points to 33.4 points in December (trend). This new orders index has been under 50 points and indicating a decline for 21 consecutive months.



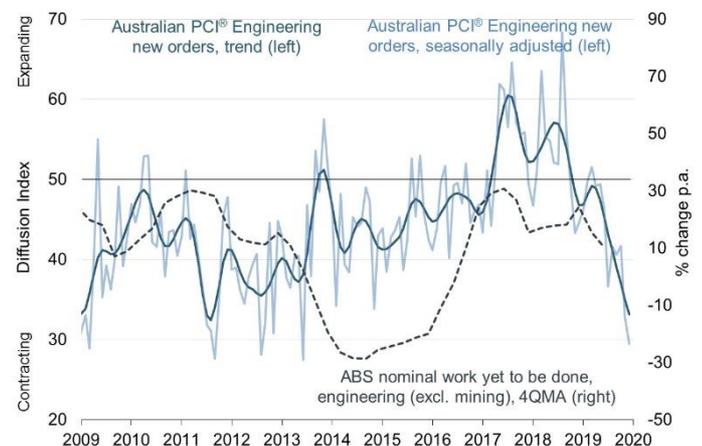
### Engineering construction activity

- The volume of engineering construction work done fell by 0.2% q/q and by 9.6% p.a. to \$86.2bn over the year to September 2019 (seasonally adjusted and inflation-adjusted), according to the ABS. Engineering construction accounted for 41.6% of all construction work done.
- The Australian PCI® engineering construction activity index fell deeper into negative territory in December, decreasing by 2.7 points to 29.5 points (trend). This was the lowest monthly result (and indicating the sharpest rate of contraction) for engineering construction activity since January 2009. Respondents reported fewer or slower new projects to replace completed infrastructure projects.



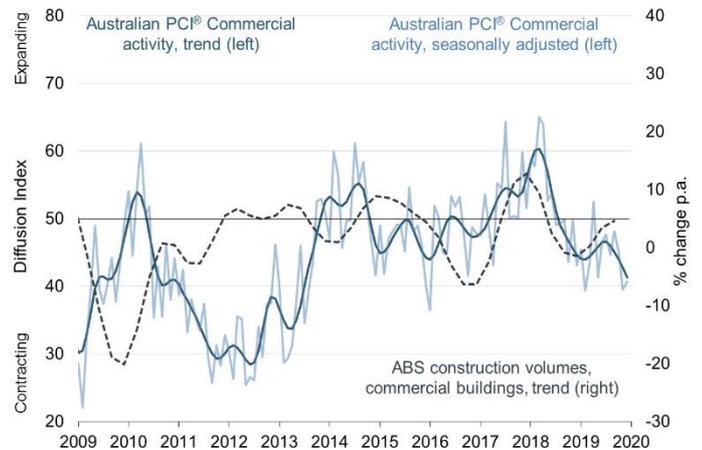
### Engineering new orders

- The Australian PCI® engineering construction sector's new orders index decreased by 1.9 points to 33.1 points in December (trend). This was a 14<sup>th</sup> month of contraction for this index and at a faster pace.
- Construction businesses reported slower progress on the planning stages of new major projects and lower investment spending by clients.
- *Looking ahead, a sizeable pipeline of Government funded projects and the emerging recovery in mining investment should help to support engineering construction activity in 2020.*



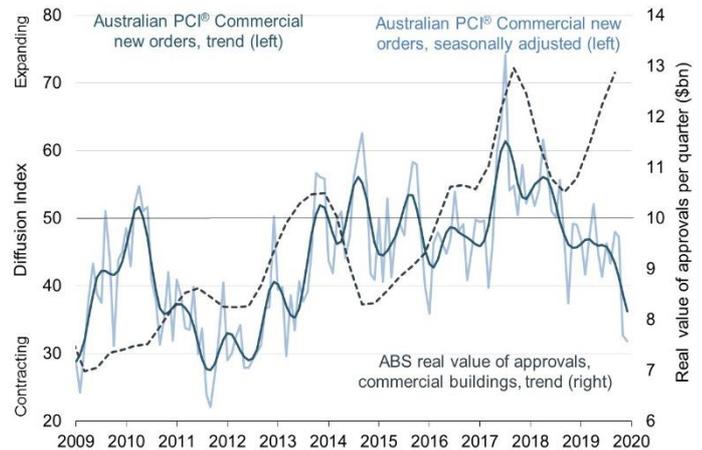
### Commercial construction activity

- The volume of non-residential building work done increased by 4.0% q/q in the September quarter 2019, to be 5.3% p.a. higher over the year (seasonally adjusted and inflation-adjusted), according to the ABS. This work accounted for 22.5% of all construction work done.
- The Australian PCI® commercial construction activity index fell by 1.5 points to 41.3 points in December (trend). This was a 17<sup>th</sup> consecutive month of contraction in December.
- Despite this further decline, developments in some major commercial and social building categories (including industrial premises, schools and hospitals) are supporting the sector’s overall performance.



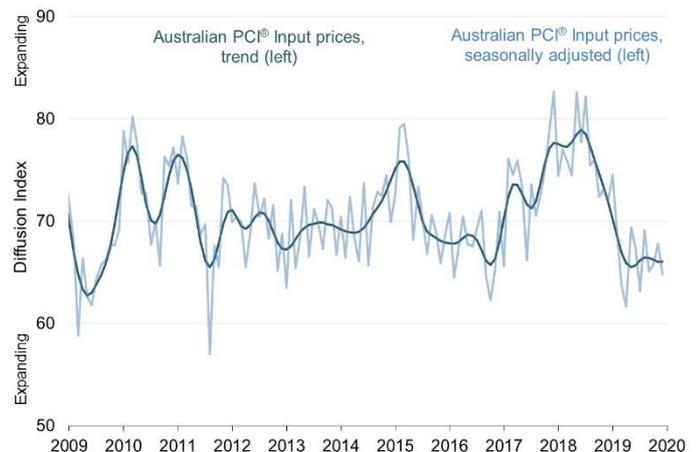
### Commercial new orders

- The real value of non-residential building approvals increased by 5.2% q/q and 22.4% p.a. to \$12.9bn in the June quarter 2019 (trend), according to the ABS.
- The Australian PCI® new orders index for commercial construction fell by 2.6 points to 36.2 points in December (trend). The current decline in new orders for commercial construction has been evident since the middle of 2018.



### Input prices

- The Australian PCI® input prices index fell by 2.9 points to 64.9 points in December.
- This indicated that cost pressures in the construction industry eased slightly during the month.
- Construction costs remain relatively high due to elevated energy costs and supplier price rises, some of which are related to the continued strength in commodity prices.



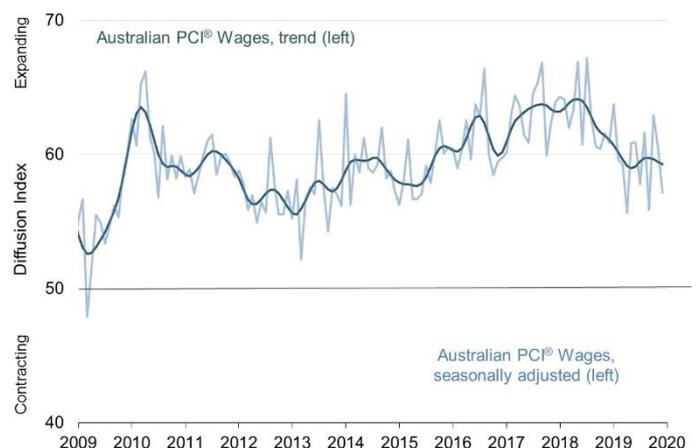
### Selling prices

- The ABS construction industry’s producer price index (PPI) rose by 1.0% p.a. in the September quarter 2019, which is well below headline consumer inflation of 1.7% p.a. over the same period.
- The selling prices index in the Australian PCI® rose by 4.3 points to 48.0 points in December.
- This indicates that rising input prices and other costs are not, on average, being passed on to customers. This general reluctance to raise prices reflects the strong competition among builders in securing work.



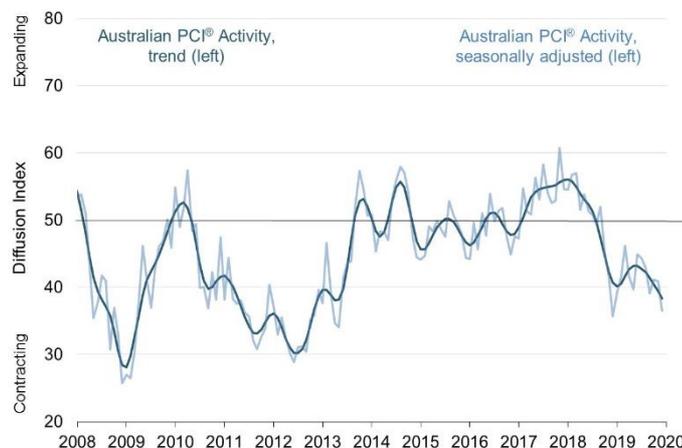
### Average wages

- The ABS wage index for private sector construction rose by 0.5% q/q and 1.9% p.a. in the September quarter of 2019.
- The Australian PCI® wages index decreased by 3.4 points to 57.1 points in December.
- Federal Enterprise Bargaining Trends (Department of Education, Employment and Workplace Relations) indicate that annual wage rises in approved EBA’s in the construction industry averaged 3.3% in Q3 2019 compared with a 2.7% average annual wage increase for all industries.



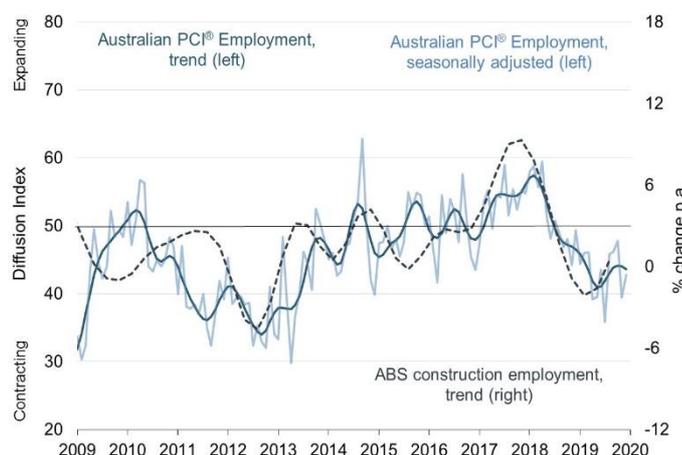
Activity

- The construction industry accounted for \$135.6bn in real value-added output in the year to Q3 2019 (7.2% of Gross Domestic Product, GDP). Construction industry annual value-added output increased by 0.5% in Q3 2019 but fell by 3.3% over the year to Q3 2019.
- The activity index in the Australian PCI® fell by 4.4 points to 36.5 points (seasonally adjusted) in December.
- This marked a 15<sup>th</sup> consecutive month of declining industry activity and the sharpest rate of contraction for 2019.



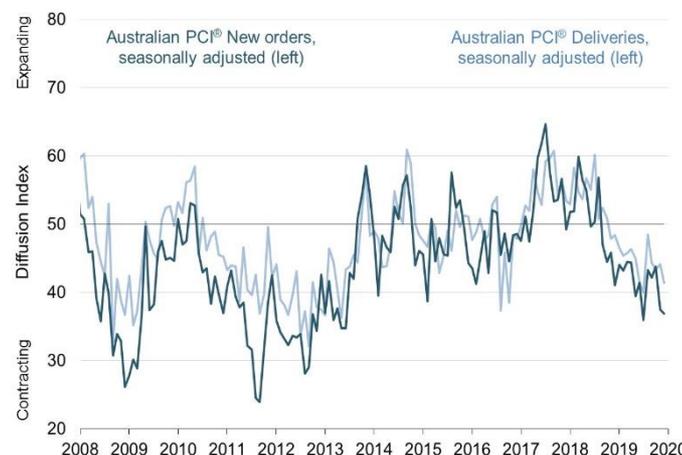
Employment

- There were 1,156,200 filled jobs in construction in Q3 2019 (8.0% of filled jobs in Australia), according to the ABS Labour Account. Total filled construction jobs increased by 1.3% in the quarter but were 1.5% lower over the year to Q3 2019.
- Construction employment continued to decline in December, although at slower rate.
- The employment index in the Australian PCI® increased by 3.4 points to 42.8 points in December (seasonally adjusted). This marked an 18<sup>th</sup> consecutive month of falling employment and is consistent with the declining trend in activity since mid-2018.



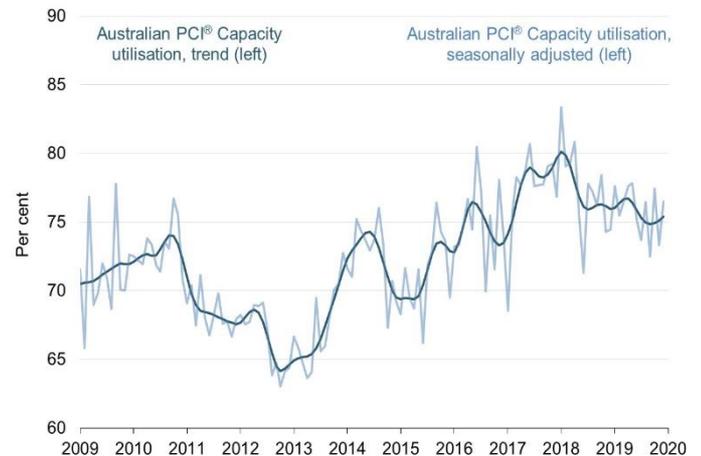
New orders and supplier deliveries

- The Australian PCI® new orders index fell by 0.6 points to 36.9 points in December, indicating a further contraction in new orders and at a slightly faster pace (seasonally adjusted).
- This points to downside risks to industry activity ahead, despite the stabilisation in housing demand in recent months.
- The Australian PCI® supplier delivery index fell by 2.7 points to 41.4 points in December (seasonally adjusted). This reflected weaker activity and new orders.



## Capacity utilisation

- The rate of capacity utilisation rose to 76.5% across the construction industry in December, up from 73.3% in November (seasonally adjusted).
- This is below the 12-month average of 75.8%.



### 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 of indices for activity, new orders, deliveries 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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