

AUSTRALIAN Performance of Construction Index



Media Contact: Tony Melville, Australian Industry Group. 0419 190 347

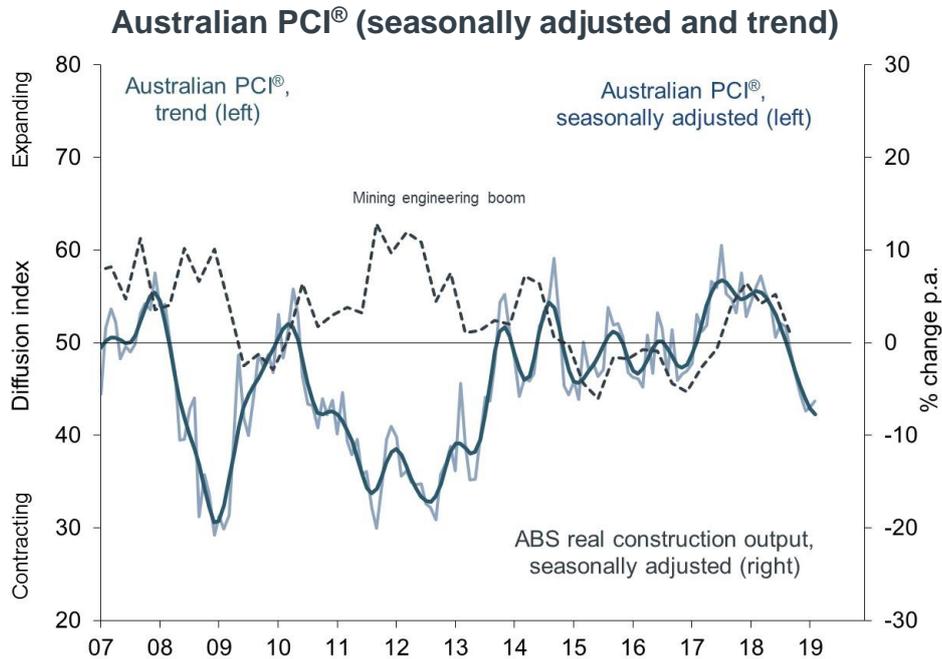
MODEST EASING IN CONSTRUCTION DOWNTURN IN FEBRUARY

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 43.8 points (seasonally adjusted) in February. This was an increase of 0.7 points from January, indicating a slightly slower rate of decline for the construction industry on aggregate.

The milder contraction in the **Australian PCI®** in February reflected less pronounced falls in activity and employment. However, both new orders and deliveries from suppliers contracted at slightly steeper rates in February with businesses attributing this to overall sluggish demand conditions.

All four sectors of the **Australian PCI®** contracted in February. Weighing heavily on industry conditions was continued weakness in the house and apartment building sectors where rates of decline in new orders were the most marked since mid-2013. Commercial construction fell further into negative territory while engineering construction declined for a third month due to a shallower pool of new work to replace completed and more advanced projects.

Residential building respondents to the **Australian PCI®** mainly commented on slow market conditions due to soft new orders, tight lending conditions, falling prices and caution by prospective buyers.



AUSTRALIAN PCI®
43.8
 ↑ 0.7 POINTS
 (seasonally adjusted)

ACTIVITY
41.6
 ↑ 2.2 POINTS
 (seasonally adjusted)

NEW ORDERS
43.2
 ↓ 0.9 POINTS
 (seasonally adjusted)

EMPLOYMENT
46.0
 ↑ 1.6 POINTS
 (seasonally adjusted)

HOUSE BUILDING ACTIVITY
35.2
 ↓ 0.6 POINTS
 (trend)

APARTMENT ACTIVITY
28.6
 ↑ 0.2 POINTS
 (trend)

ENGINEERING ACTIVITY
43.9
 ↓ -1.4 POINTS
 (trend)

COMMERCIAL ACTIVITY
42.2
 ↓ 1.2 POINTS
 (trend)

Australian PCI[®] summary

Construction sectors: Apartment building (28.6 points trend) remained the weakest performing sector, declining for an 11th consecutive month and at a rate that was broadly unchanged from January. The house building sector (35.2 points trend) also remained in negative territory with its rate of contraction the most marked in almost six and half years. Commercial construction (42.2 points trend) fell for a seventh month and at a slightly steeper rate than in January. This coincided with a further weakening in demand, although conditions are mixed with growth opportunities noted by respondents in some key commercial and social building project areas. The weak patch for engineering construction (43.9 points trend) continued with the sector recording a third month of contraction and the lowest activity reading in just over three years.

Construction prices and wages: Although strong cost pressures continued to be exerted in the construction of building projects in February, the input prices index decreased by 5.9 points to 68.7 points, indicating that input price inflation moderated somewhat during the month. The selling prices sub-index in the **Australian PCI[®]** decreased by 3.5 points to 40.7 points in February, signaling a slightly slower rate of contraction in output prices. However, this negative reading continues to indicate that rising input prices and other costs are not, on average, being passed on to customers, reflecting the strong competition among builders in securing work. The on-going 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 overall construction industry, both activity (41.6 points) and new orders (43.2) continued to contract in February with on-going softness in new orders likely to act as a headwind to stronger activity over coming months. In response to this weakening in demand conditions, businesses reported a steeper fall in deliveries of inputs from suppliers (45.4 points) while employment continued to contract (46.0 points), albeit at a slower rate.

Construction highlights: Across the residential construction sectors, the downtrend in approvals from historic highs is continuing to weigh on overall industry conditions. Commercial construction is also detracting from industry-wide performance. Businesses operating in the engineering construction sector have experienced a much weaker uptake of new work in recent months reflecting a shortfall of new contracts to replace completed 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 on-going pressures from a highly competitive tendering environment and tight margins. Cost pressures in the delivery of construction projects also remains a concern for many constructors due to elevated energy costs and supplier price rises, some of which are related to the strength in commodity prices.

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 [®]	43.8	0.7	49.2	Australian PCI [®]	42.3	-0.7	49.1
Activity	41.6	2.2	47.4	House building	35.2	-0.6	45.5
Employment	46.0	1.6	49.5	Apartments	28.6	0.2	37.3
New Orders	43.2	-0.9	49.5	Commercial construction	42.2	-1.2	50.2
Supplier Deliveries	45.4	-1.1	51.9	Engineering construction	43.9	-1.4	52.1
Input Prices	68.7	-5.9	75.4	<i>Seasonally adjusted</i>			
Selling Prices	40.7	-3.5	49.6		%	ppt	%
Average Wages	59.6	-4.1	62.5	Capacity Utilisation (%)	75.5	-2.1	76.5

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 Jan 2019	74.0	-	-5.7	63.1% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Jan 2019	43.3	-	-11.1	36.9% 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, November 2018	1,156	-1.6	-0.6	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/

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 seventh consecutive month in February with the sector's sub-index registering 35.2 points (trend). This was a fall of 0.6 points from January, indicating a slightly steeper rate of decline in the month. Softer conditions in the housing sector are consistent with a seventh month of contraction in new orders. The house building activity index is currently tracking at a level which is 10.3 points below its 12-month average.

House building new orders

The total number of private house approvals fell to 9,330 in January 2019 (trend).

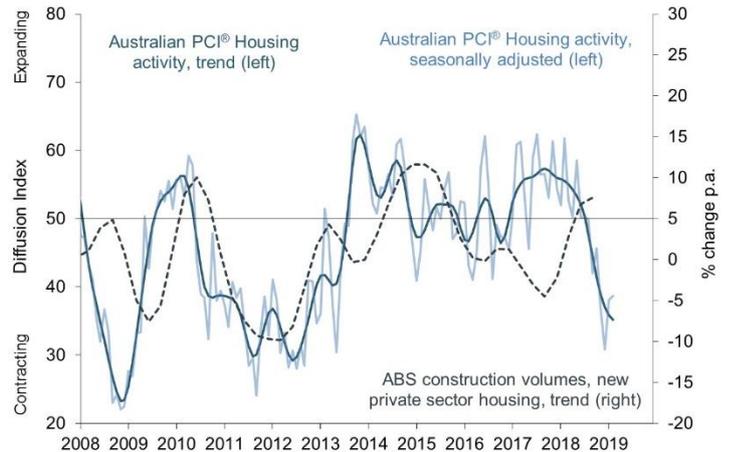
New orders in the house building sector continued to contract in February, and at slightly sharper rate. The sub-index drifted lower by 0.9 points to 41.1 points, placing it below the critical 50-points no change threshold for seven consecutive months. It points to a continuation of a softening in housing activity in coming months and follows the 0.4% m/m fall (-9.3% p.a.) in private sector house approvals in December (ABS, trend data).

Apartments activity

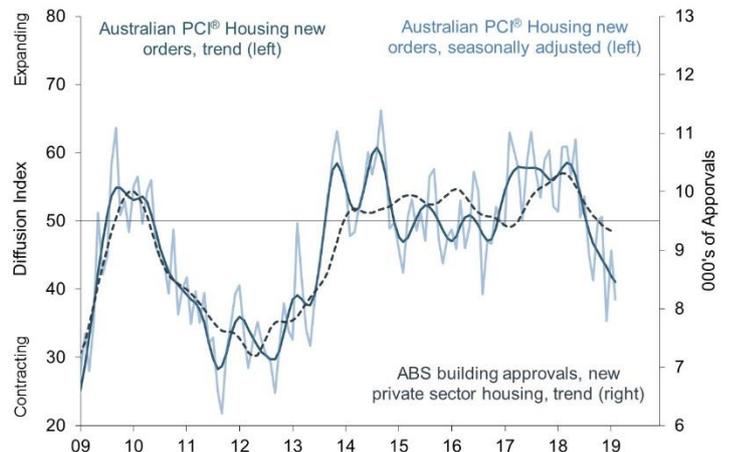
The volume of new multi-unit dwelling building work done fell by 3.3% q/q but increased by 1.0% p.a. to \$7.8bn in the September quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 15.3% of all construction work done.

Apartment building activity contracted for an 11th month in February, although the rate of decline was unchanged from January with the sector's sub-index rising by just 0.2 points to 28.6 points. The apartment sector has now experienced steady or declining activity in 16 of the past 19 months following a weakening in new orders since September 2017.

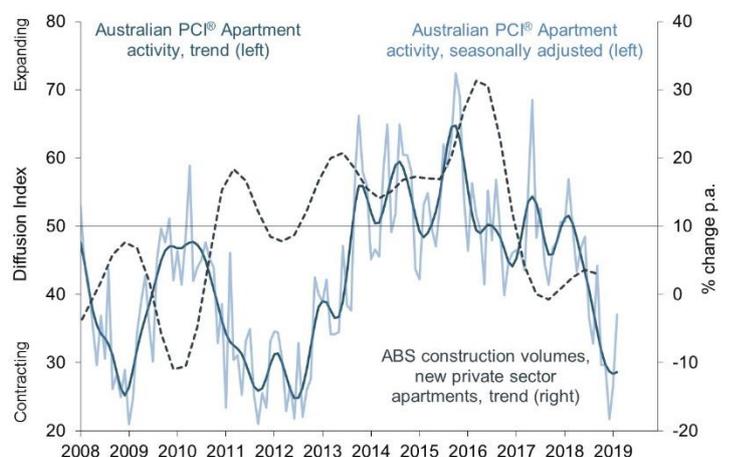
House building activity and ABS construction volumes



House building new orders and ABS building approvals



Apartments activity and ABS construction volumes



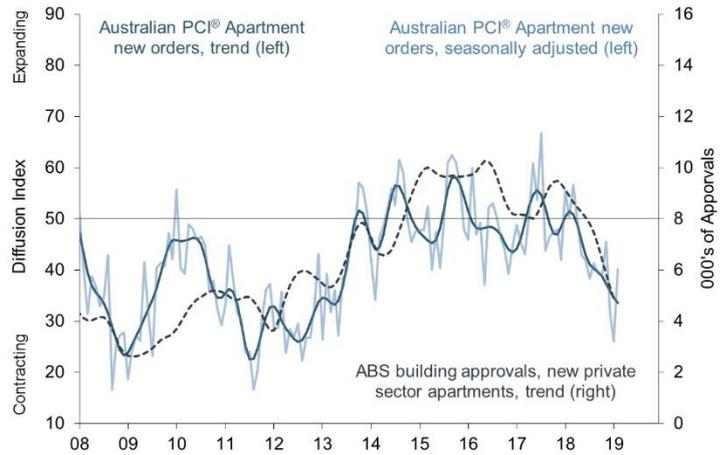
Australian PCI® sectors

Apartment new orders

The total number of private 'other dwellings' approvals (apartments, flats and townhouses) fell to 4,871 in January 2019 (trend).

In the apartment building sector, new orders contracted for an 11th month with the sector's sub-index registering 33.6 points in February. This was a decrease of 1.0 points from January, signalling a steeper pace of contraction. This reflects ABS data showing that apartment ('other dwellings') fell 8.1% m/m in January to be down sharply by -46.7% p.a. over the year to January.

Apartments new orders and ABS building approvals



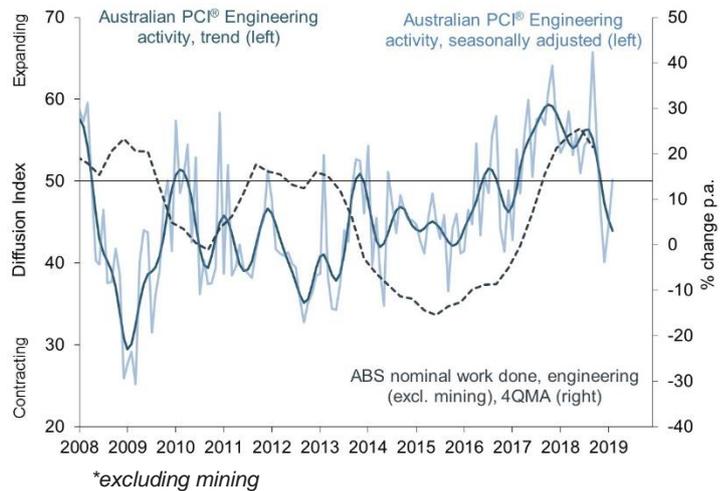
Engineering construction activity

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 contracted for a third month in February, and at a steeper rate. The sector's sub-index decreased by 1.4 points to 43.9 points.

This reflects a shortfall of new contracts to replace completed work on infrastructure projects. It is likely to also 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.

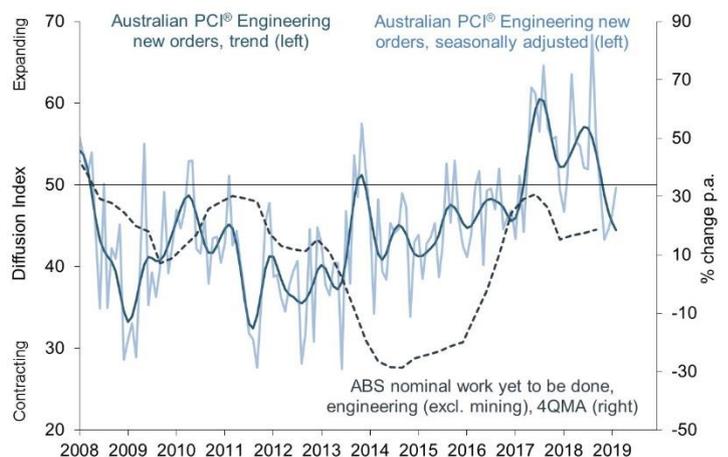
Engineering construction activity and ABS work done*



Engineering new orders

In the engineering construction sector, new orders remained in negative territory for a fourth month with this sub-index decreasing by 1.1 points to 44.4 points. Whilst this points to a steeper rate of decline in February, activity should continue to be supported over 2019 by the solid pipeline of public funded capital works. ABS data shows that engineering work in the pipeline (excluding mining related projects) was valued at \$38.3 billion in Q3 2018 (nominal, unadjusted data). While this is below the record high of \$46.4 billion in Q3 2012, it remains elevated and is set to underpin renewed strength in engineering construction activity, particularly as Governments commit to new projects.

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 September 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.

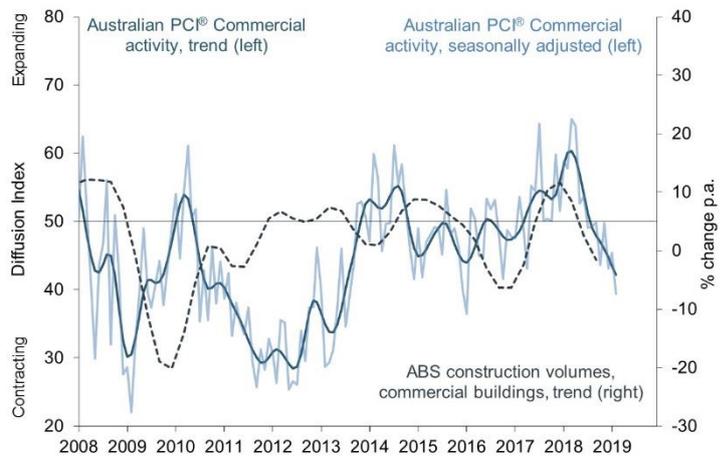
Commercial construction recorded a seventh consecutive month of contraction in February. The rate of decline was also slightly steeper with the sector's sub-index decreasing by 1.2 points to 42.2 points. However, the demands of growing population and a relatively healthy pipeline of work in key commercial and social project areas (including offices, industrial premises and education buildings) will be key factors supporting overall activity in the year ahead.

Commercial new orders

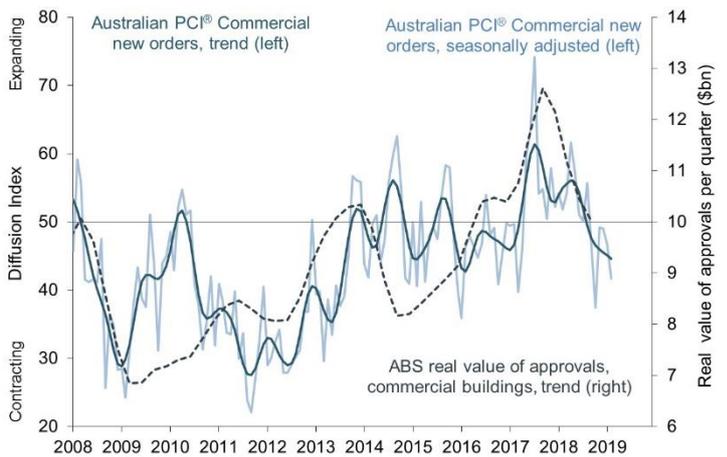
The real value of non-residential building approvals increased by 1.5% q/q but was down by 16.8% p.a. to \$10.1bn in the September quarter 2018 (seasonally adjusted).

New orders in the commercial construction sector recorded a seventh consecutive month of decline in February. However, the rate of contraction was broadly unchanged, with the sub-index decreasing by just 0.5 points to 44.6 points. Current weakness in demand conditions follows a sustained period of growth in new orders over the 16 months to July 2018.

Commercial construction activity and ABS work done



Commercial construction new orders and ABS commercial building approvals

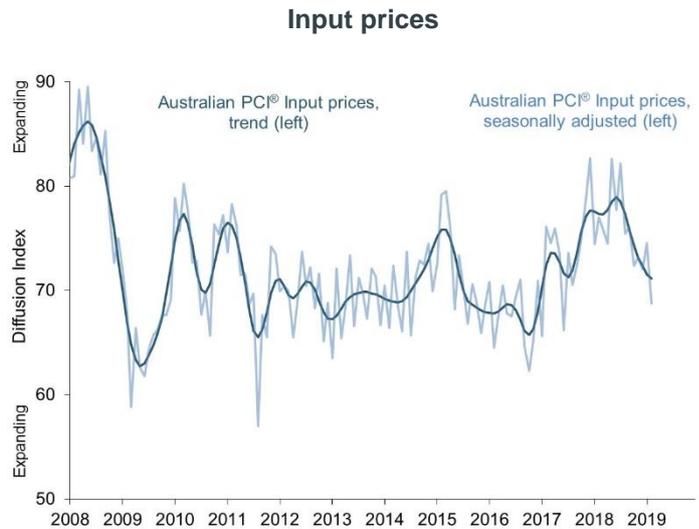


Australian PCI® prices and wages

Input prices

The **Australian PCI®** input prices sub-index registered 68.7 points in February. This was a decrease of 5.9 points from January, indicating that cost pressures in the construction of building projects moderated somewhat during the month.

Nevertheless, cost pressures on builders and constructors remains relatively high due to elevated energy costs and supplier price rises, some of which are related to the strength in commodity prices.



Selling prices

The **ABS construction industry's output price index (PPI)** rose by 0.4% q/q and 2.3% p.a. in the December quarter of 2018.

Selling prices continued to contract in February, and at a sharper rate. The selling prices sub-index in the **Australian PCI®** decreased by 3.5 points to 40.7 points in February. This negative reading indicates that rising input prices and other costs are not, on average, being passed on to customers. This reflects the continued strong competition among builders in securing work.

The ongoing gap between these price series in the **Australian PCI®** demonstrates that profit margins remain tight for businesses in the construction industry. This is consistent with reports of a highly competitive quoting and tendering environment.

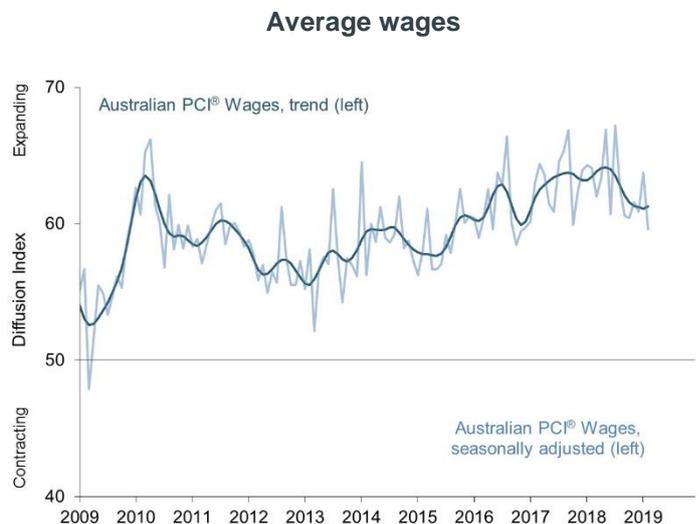


Average wages

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 February. However, the rate of increase was slower than the previous month with the wages sub-index decreasing by 4.1 points to 59.6 points.

Despite this easing, the wages sub-index remains elevated providing further evidence that overall wages growth remains relatively high due to difficulties that still exist in sourcing skilled workers, particularly in states and regions experiencing tighter than average labour market conditions.



Australian PCI® activity

Activity

The activity sub-index in the **Australian PCI®** registered 41.6 points in February (seasonally adjusted). This was up by 2.2 points from the previous month, signaling a slower rate of contraction in total construction activity. It marked the fifth consecutive month of declining industry activity.

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

Employment

The construction sector employed 1,156,900 people in November 2018 (9.1% of total employment).

Construction employment continued to decline in February, although at a slower rate. The employment sub-index within the **Australian PCI®** increased by 1.6 points to 46.0 points.

This marked a seventh consecutive month of contraction in employment and the eighth decline in the past nine months consistent with the more subdued readings on activity from mid-2018. Lower levels of forthcoming building commencements and some easing in infrastructure activity appear to be contributing to a general reluctance by businesses to increase their workforce capacity.

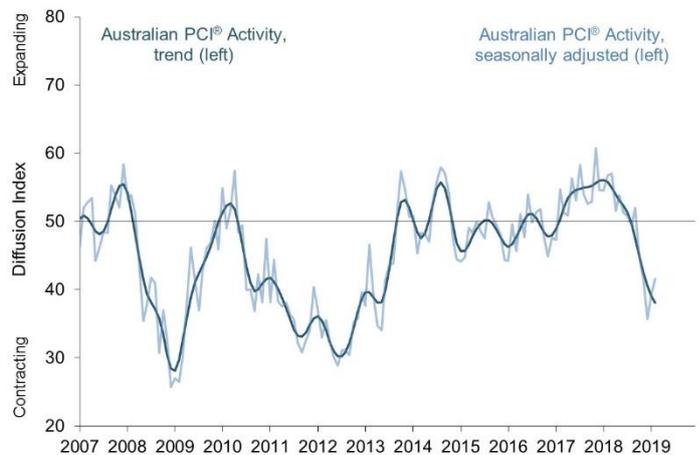
New orders and supplier deliveries

The new orders index in the **Australian PCI®** registered 43.2 points in February. This was a decrease of 0.9 points from January, indicating a slightly steeper rate of decline on an aggregate industry basis. The on-going softness in new orders is likely to act as a headwind to stronger activity over coming months.

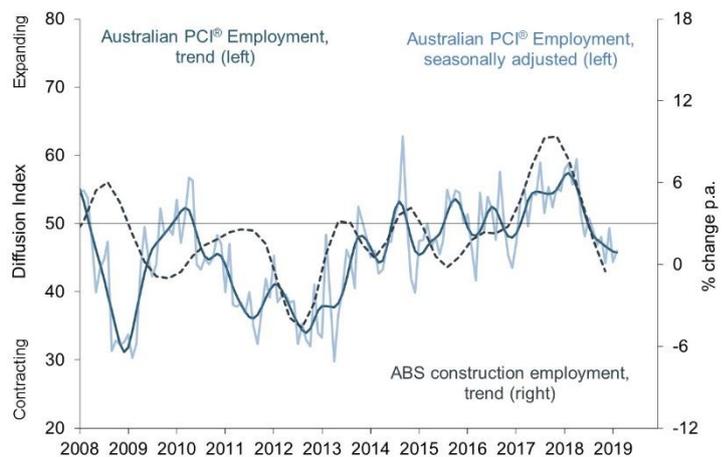
Steeper falls in new orders (trend) were recorded in all four construction sub-sectors in the **Australian PCI®** in February.

In line with ongoing softness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the **Australian PCI®**. The supplier delivery index decreased by 1.1 points to 45.4 points, marking a fourth consecutive month of contraction.

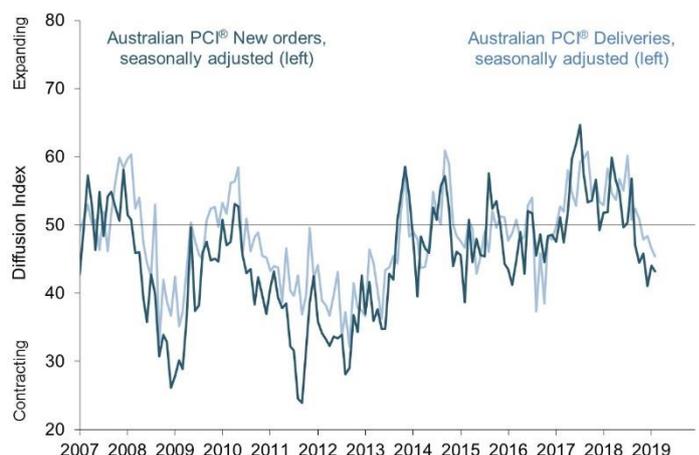
Activity



Employment and ABS construction industry employment



New orders and supplier deliveries



Australian PCI® activity

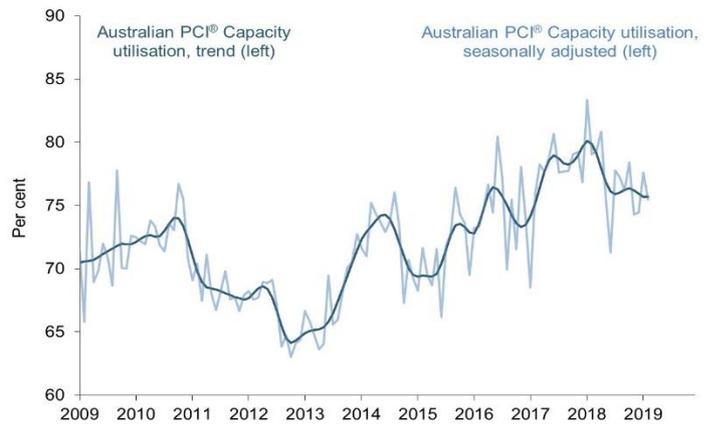
For more information about the Ai Group Australian PCI® visit:

Capacity utilisation

The rate of capacity utilisation stood at 75.5% across the construction industry, down from 77.6% in January. In trend terms, capacity utilisation at 75.7% is at its lowest level in two years.

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 organizing 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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