The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (Australian PCI®) registered 43.0 points (seasonally adjusted) in June. This was an increase of 2.6 points from May, indicating a slight easing in the construction industry’s overall rate of contraction.

The slower fall in the Australian PCI® in June reflected less pronounced reductions in activity, new orders and employment. However, highlighting the subdued overall state of business conditions, deliveries from suppliers declined at a steeper rate in the month.

Across sectors of the Australian PCI® (on a trend basis), engineering construction expanded mildly in June, continuing the soft growth pattern of the previous two months. Both the apartment building and commercial construction sectors declined at slightly slower rates in June, while house building fell for an 11th month – albeit at a rate that was broadly unchanged from May.

Reports from residential building respondents to the Australian PCI® were mixed. Some businesses commented on an improvement in housing sentiment in June with the passing of the Federal election bringing more stability to the market. However, there was also wide reporting of subdued market conditions amid the negative influences of tight lending conditions, falling prices and uncertainty surrounding the economic outlook.
**Construction sectors:** House building was the weakest performing sector (36.3 points trend), contracting for an 11th month, although at a rate that was broadly unchanged from May. Despite apartment building (37.9 points trend) remaining in negative territory in June, the sector’s rate of decline was the slowest in 10 months. Across the major project areas, commercial construction (46.1 points trend) again contracted in June amid a further overall fall in demand for commercial building projects. However, engineering construction (51.6 points trend) expanded mildly in the month accompanied by reports of some pick-up in tender opportunities and improved progress on planned projects.

**Construction prices and wages:** Input price inflation in the Australian PCI® remained elevated in June. The input prices index fell by 2.0 points to 67.4 points, indicating that cost pressures moderated during the month but remained significant. The selling prices sub-index in the Australian PCI® decreased by 4.6 points to 31.6 points in June, highlighting the strong competition between builders which is pushing down construction selling prices. The ongoing 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 June revealed that construction industry activity (44.9 points) continued to contract, although the rate of decline was the least marked over the past three months. This was associated with a continued, albeit slower, fall in new orders (41.5 points) and a further reduction in deliveries from suppliers (41.5 points). Employment contracted for an 11th consecutive month, although the rate of decline moderated with employment sub-index increasing by 4.1 points to 43.6 points.

**Construction highlights:** Across the residential construction sectors, falls in approvals, commencements and work in the pipeline are continuing to weigh on workloads for residential builders, although there are signs that the downturn in activity is abating. Commercial construction is continuing to detract from industry-wide performance, although its rate of contraction has not accelerated over the past seven months. Weakness in these sectors is being cushioned to some extent by growth in engineering construction. Survey respondents continue to report growth opportunities from public infrastructure works including transport and wind and solar 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.

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### Australian PCI® Summary Table

<table>
<thead>
<tr>
<th>AUSTRALIAN PCI® KEY NUMBERS</th>
<th>Index this month</th>
<th>Change from last month</th>
<th>12-month average</th>
<th>Trend</th>
<th>Index this month</th>
<th>Change from last month</th>
<th>12-month average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian PCI®</td>
<td>43.0</td>
<td>2.6</td>
<td>45.4</td>
<td></td>
<td>Australian PCI®</td>
<td>-0.3</td>
<td>45.4</td>
</tr>
<tr>
<td>Activity</td>
<td>44.9</td>
<td>5.2</td>
<td>44.0</td>
<td></td>
<td>House building</td>
<td>0.2</td>
<td>39.6</td>
</tr>
<tr>
<td>Employment</td>
<td>43.6</td>
<td>4.1</td>
<td>45.6</td>
<td></td>
<td>Apartments</td>
<td>1.2</td>
<td>33.8</td>
</tr>
<tr>
<td>New Orders</td>
<td>41.5</td>
<td>2.1</td>
<td>45.2</td>
<td></td>
<td>Commercial construction</td>
<td>0.7</td>
<td>46.2</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>41.5</td>
<td>-3.5</td>
<td>48.4</td>
<td></td>
<td>Engineering construction</td>
<td>0.4</td>
<td>51.4</td>
</tr>
<tr>
<td>Input Prices</td>
<td>67.4</td>
<td>-2.0</td>
<td>71.4</td>
<td></td>
<td>Seasonally adjusted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling Prices</td>
<td>31.6</td>
<td>-4.6</td>
<td>42.2</td>
<td></td>
<td>Capacity Utilisation (%)</td>
<td>75.2</td>
<td>-2.6</td>
</tr>
<tr>
<td>Average Wages</td>
<td>60.9</td>
<td>0.0</td>
<td>61.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

### CONSTRUCTION REPORT CARD: Latest ABS data

<table>
<thead>
<tr>
<th>Latest ABS data, seasonally adjusted</th>
<th>Level</th>
<th>change q/q</th>
<th>change y/y</th>
<th>Share of total, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nom. value of residential building approvals, $bn, year to May 2019</td>
<td>$bn</td>
<td>%</td>
<td>%</td>
<td>61.3% of building approvals</td>
</tr>
<tr>
<td>Nom. value of non-residential building approvals, $bn, year to May 2019</td>
<td>$bn</td>
<td>%</td>
<td>-13.1%</td>
<td>38.7% of building approvals</td>
</tr>
<tr>
<td>Real value of building work done, $bn, year to Mar 2019</td>
<td>120.7</td>
<td>-0.4%</td>
<td>-1.0%</td>
<td>58.7% of all construction done</td>
</tr>
<tr>
<td>Real value of engineering work done, $bn, year to Mar 2019</td>
<td>89.5</td>
<td>-3.9%</td>
<td>-12.4%</td>
<td>41.3% of all construction done</td>
</tr>
<tr>
<td>Real value of all construction work done, $bn, year to Mar 2019</td>
<td>210.2</td>
<td>-1.9%</td>
<td>-6.0%</td>
<td>-</td>
</tr>
<tr>
<td>Real value-added output, $bn, year to Mar 2019</td>
<td>138.3</td>
<td>-0.9%</td>
<td>-4.3%</td>
<td>7.3% of total GDP</td>
</tr>
<tr>
<td>Number of employed persons, '000, May 2019, trend</td>
<td>1,169.2</td>
<td>0.7%</td>
<td>-1.3%</td>
<td>9.1% of employed persons</td>
</tr>
</tbody>
</table>

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 but rose by 7.4% p.a. to $8.8bn in the December quarter 2018 (seasonally adjusted and inflation-adjusted), accounting for 17.3% of all construction work done.

House building activity contracted for an eleventh consecutive month in June. However, the rate of contraction was unchanged with the sub-index relatively steady at 36.3 points – a rise of just 0.2 points from May. The continuation of soft conditions in the housing sector is consistent with the downward trend in private sector house approvals and the continued contraction in new orders. The house building activity index is currently tracking at a level which is 3.3 points below its 12-month average.

House building new orders

The total number of private house approvals fell by 1.3% m/m to 8,480 in May 2019 (trend).

New orders in the house building sector continued to fall in June, although the rate of decline was only marginally sharper than the previous month. The new orders sub-index drifted marginally lower by 0.1 points to 35.1 points, placing it below the critical 50-points no change threshold for eleven consecutive months. It suggests that housing activity will remain subdued in coming months and follows the 1.9% m/m fall (-16.8% p.a.) in private sector house approvals in April (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 2018 (seasonally adjusted and inflation-adjusted), accounting for 15.3% of all construction work done.

Apartment building activity contracted for a 15th month in June, although the rate of decline eased with the sector’s sub-index rising by 1.2 points to 37.9 points (trend). This also signaled the sector’s slowest rate of contraction in activity over the past 11 months. Nonetheless, the apartment sector has experienced steady or declining activity in 21 of the past 23 months. This has coincided with ongoing declines in new orders since September 2017.
Apartment new orders

The total number of private ‘other dwellings’ approvals (apartments, flats and townhouses) stood at 6,122 in May 2019 (trend).

In the apartment building sector, new orders recorded a 15th month of contraction. However, the rate of decline was only marginally sharper, with the sub-index decreasing by 0.4 points to 32.0 points (trend). ABS trend data shows that private sector apartment (‘other dwellings’) approvals increased by 1.2% m/m in April but were down a sizable -27.8% p.a. over the year to April. Apartment approvals are also 34.9% lower than the peak recorded in November 2017 (ABS, trend).

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 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 June. The sector’s sub-index increased by 0.4 points to 51.6 points (trend) indicating a broadly unchanged pace of growth compared with May. Some businesses noted increased workflows as projects that were previously on hold moved into construction. A solid pipeline of public infrastructure works (including transport and renewable energy projects) and new project additions by governments is likely underpin more robust conditions for this sector over the months ahead.

Engineering new orders

In the engineering construction sector, new orders remained close to stabilisation for a fourth consecutive month in June with this sub-index registering 49.0 points in June, a decline of just 0.4 points from May (trend). 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. This is likely to be reflected in an improving flow of new tender opportunities for businesses through the remainder of 2019.
Commercial construction activity

The volume of non-residential building work done increased by 1.9% q/q in the December quarter 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 an 11th consecutive month of contraction in June. The rate of decline, however eased slightly with the sector’s sub-index increasing by 0.7 points to 46.1 points (trend). Despite this overall decline, conditions across the sector are mixed with respondents indicating growth 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 also fell for an 11th month in June. The sub-index decreased by 0.7 points to 44.9 points (trend), indicating a marginally sharper pace of contraction in the month. 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 in key project areas (including accommodation, offices, education and industrial buildings).
The Australian PCI® input prices sub-index registered 67.4 points in June. This was a decrease of 2.0 points from May, 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.

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 2019.

Selling prices continued to contract in June, and at a sharper rate. The selling prices sub-index in the Australian PCI® registered 31.6 points in June, a decrease of 4.6 points from May. 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.

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 2018.

Growth in wages continued in June, although at an unchanged rate with the wages sub-index holding steady at 60.9 points. This indicates wages growth remains relatively high 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.
Australian PCI® activity

Activity

The activity sub-index in the Australian PCI® registered 44.9 points in June. This was up by 5.2 points from the previous month, signaling a slower rate of contraction in total construction activity.

It marked the ninth-consecutive month of contracting industry activity, although it was the least marked rate of decline over the past three months and the second slowest since October 2018.

Whilst this was an encouraging move closer to stabilisation, overall levels of activity continued to be negatively impacted by soft levels of demand and new orders that have been experienced in aggregate over the past 10 months.

Employment

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

Construction employment continued to decline in June, although there was an easing in the pace of decline over the month. The employment sub-index within the Australian PCI® increased by 4.1 points to 43.6 points. Despite the slower rate of decline, it marked an 11th consecutive month of contraction in employment and continued to point to caution among construction businesses in terms of additional job hiring.

It follows marginal growth of 0.7% q/q (-1.3% p.a.) in total construction employment in May 2019 (ABS trend data).

New orders and supplier deliveries

The new orders index in the Australian PCI® registered 41.5 points in June. This was an increase of 2.1 points from May, indicating a slower pace of decline on an aggregate industry basis.

Nevertheless, the on-going decline in new orders points to continued downside risks to the near-term outlook for the construction industry on aggregate. In line with the overall softness in industry demand, deliveries of inputs from suppliers continued to contract in the Australian PCI®, and a steeper rate. The supplier delivery index decreased by 3.5 points to 41.5 points, marking a fifth consecutive month of contraction.
Australian PCI® activity

Capacity utilisation

The rate of capacity utilisation stood at 75.2% across the construction industry, broadly down from 77.8% in May.

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.

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


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 (ANZIC 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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