

AUSTRALIAN Performance of Construction Index



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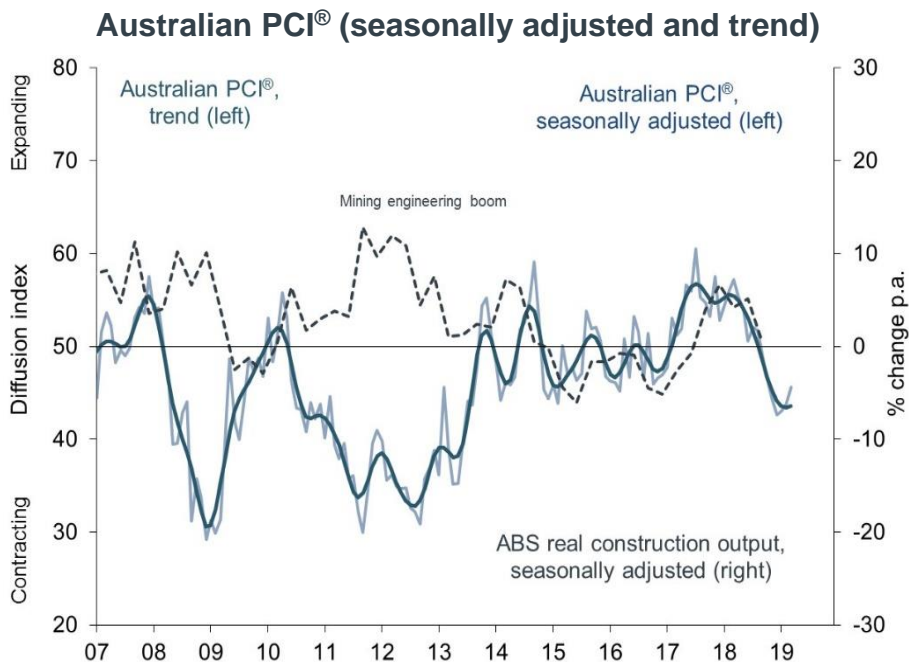
CONSTRUCTION DOWNTURN SHOWS SOME SIGNS OF EASING IN MARCH

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 45.6 points (seasonally adjusted) in March. This was an increase of 1.8 points from February, indicating a slight easing (for a second consecutive month) in the construction industry’s aggregate rate of contraction.

Australian PCI® data for March revealed that the key activity sub-index remained in contraction, although the latest reading signaled the slowest pace of decline in six months. The rate of contraction in new orders moderated slightly in March while employment fell at a pace that was broadly unchanged from February.

Across sectors of the **Australian PCI®**, apartment building was again the weakest performing area of activity, declining for a 12th consecutive month, albeit at a slightly milder rate. The house building sector remained in negative territory with its rate of contraction unchanged compared with February. Subdued conditions were also evident in commercial construction which declined for an eighth consecutive month. However, engineering construction activity stabilised in March following four consecutive months of contraction.

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



AUSTRALIAN PCI®
45.6
 ↑ 1.8 POINTS
 (seasonally adjusted)

ACTIVITY
46.1
 ↑ 4.5 POINTS
 (seasonally adjusted)

NEW ORDERS
44.5
 ↑ 1.3 POINTS
 (seasonally adjusted)

EMPLOYMENT
46.1
 ↑ 0.1 POINTS
 (seasonally adjusted)

HOUSE BUILDING ACTIVITY
35.9
 ↑ 0.1 POINTS
 (trend)

APARTMENT ACTIVITY
31.3
 ↑ 1.0 POINTS
 (trend)

ENGINEERING ACTIVITY
50.5
 ↑ 1.5 POINTS
 (trend)

COMMERCIAL ACTIVITY
41.9
 ↓ 0.8 POINTS
 (trend)

Australian PCI® summary

Construction sectors: Apartment building activity (31.3 points trend) contracted for a 12th month in March, although at a slightly slower rate from February. Also weighing heavily on overall industry conditions was an eighth consecutive month of contracting house building activity (35.9 points trend). Across the major project areas, commercial construction (41.9 points trend) recorded an eighth consecutive month of contraction in March amid a further overall fall in demand for commercial building projects. After four months of contraction, engineering construction (50.5 points trend) stabilised in March in line with reports of some improvement in new projects starts and an increase in tender opportunities.

Construction prices and wages: Although cost pressures continued to be exerted in the construction of building projects in March, the input prices index decreased by 5.0 points to 63.7 points, indicating that input price inflation moderated during the month. The selling prices sub-index in the **Australian PCI®** increased by 0.7 points to 41.4 points in March, signaling a slightly slower rate of contraction in output prices. However, 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 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 construction industry, activity (46.1 points) continued to contract, although the rate of decline was the least marked over the past six months. New orders (44.5 points) also fell in March and at a rate that was only slightly lower than in February. In response to the continued weakness in overall demand conditions, deliveries from suppliers (45.8 points) fell for a fifth consecutive month (and at a broadly unchanged rate compared with February) while employment (46.1 points) again contracted, albeit at an unchanged 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 tougher conditions in recent months due to a shortfall of new contracts to replace completed infrastructure projects. However, March saw signs of stability emerging in both activity and 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 supplier price rises. Respondents also expressed concerns about the slowing economy and uncertainty in the lead-up to the Federal election which were influencing decision making and holding back client demand.

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®	45.6	1.8	48.3	Australian PCI®	43.6	0.2	49.3
Activity	46.1	4.5	46.5	House building	35.8	0.1	44.0
Employment	46.1	0.1	48.7	Apartments	31.3	1.0	36.0
New Orders	44.5	1.3	48.2	Commercial construction	41.9	-0.8	48.7
Supplier Deliveries	45.8	0.4	51.1	Engineering construction	50.5	1.5	52.4
Input Prices	63.7	-5.0	74.4	<i>Seasonally adjusted</i>			
Selling Prices	41.4	0.7	48.2		%	ppt	%
Average Wages	59.2	-0.4	62.2	Capacity Utilisation (%)	76.5	1.0	76.3

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 Feb 2019	73.7	-	-6.0	63.2% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Feb 2019	42.9	-	-14.1	36.8% 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 an eighth consecutive month in March. However, the rate of contraction was unchanged with the sub-index relatively steady at 35.9 points. The continuation of weak conditions in the housing sector is consistent with a seventh month of contraction in new orders. The house building activity index is currently tracking at a level which is 8.1 points below its 12-month average.

House building new orders

The total number of private house approvals fell to 9,092 in February 2019 (trend).

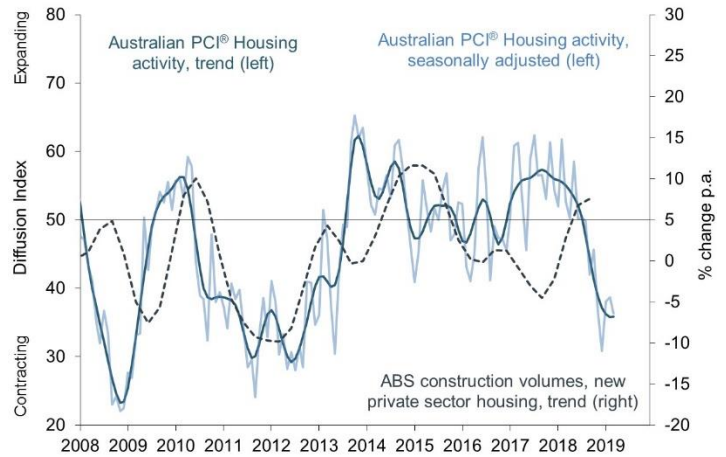
New orders in the house building sector continued to contract in March, and at a slightly sharper rate. The sub-index drifted lower by 1.6 points to 38.2 points, placing it below the critical 50-points no change threshold for eight consecutive months. It points to a continuation of a softening in housing activity in coming months and follows the 0.8% m/m fall (-12.0% p.a.) in private sector house approvals in February (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 a 12th month in March, although at a slightly slower rate from February with the sector's sub-index rising by 1.0 points to 31.3 points. The apartment sector has now experienced steady or declining activity in 17 of the past 20 months. This has coincided with a weakening in new orders since September 2017.

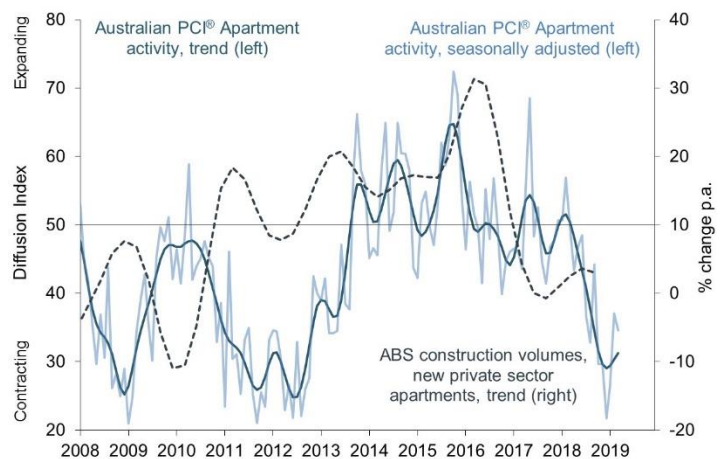
House building activity and ABS construction volumes



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 5,988 in February 2019 (trend).

In the apartment building sector, new orders contracted for a 12th month with the sector's sub-index registering 35.2 points in March. This was an increase of 0.2 points from February, signaling a broadly unchanged pace of contraction. ABS data shows that private sector apartment ('other dwellings') approvals increased by 2.6% m/m in February but were down a sizable -32.6% p.a. over the year to February. Apartment approvals are also 36.9% lower than the peak recorded in November 2017.

Engineering construction activity

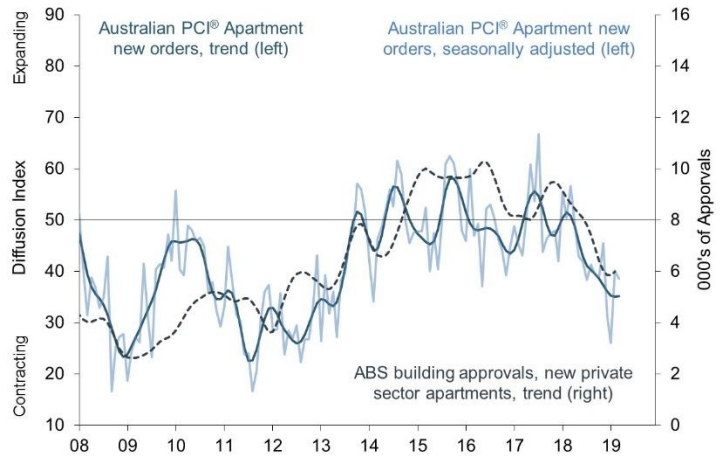
The volume of engineering construction work done fell by 5.0% q/q and by 7.8% p.a. to \$21.5bn in the December quarter of 2018 (seasonally adjusted and inflation-adjusted), accounting for 43.3% of all construction work done.

Engineering construction recorded broadly stable conditions in March following four months of declining activity. The sector's sub-index increased by 1.5 points to 50.5 points. This improvement was linked to the securing of new work contracts to replace recently completed projects. A sizeable pipeline of public funded infrastructure projects and new project additions by governments, points to a more distinct recovery in activity ahead.

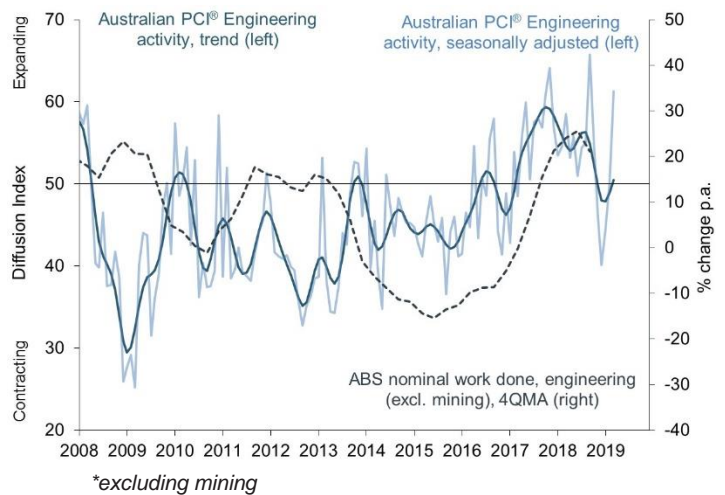
Engineering new orders

In the engineering construction sector, new orders moved closer to stabilisation with the sub-index rising by 1.5 points to 48.4 points to be just below the 50 points no-change threshold. 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 likely to be reflected in an improved flow of new tender opportunities for businesses through 2019.

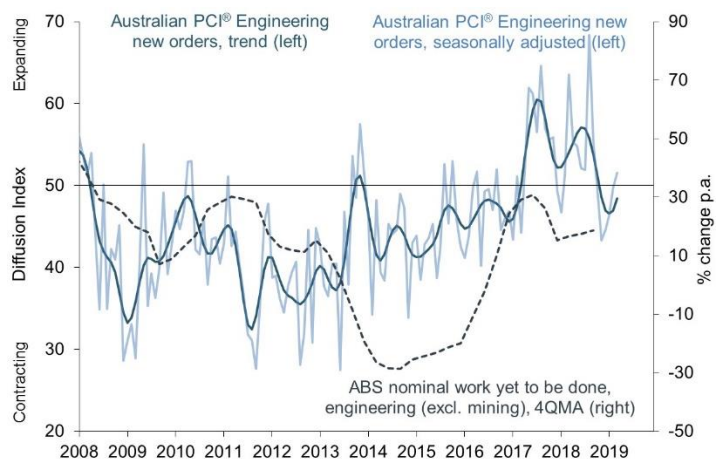
Apartments new orders and ABS building approvals



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 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.

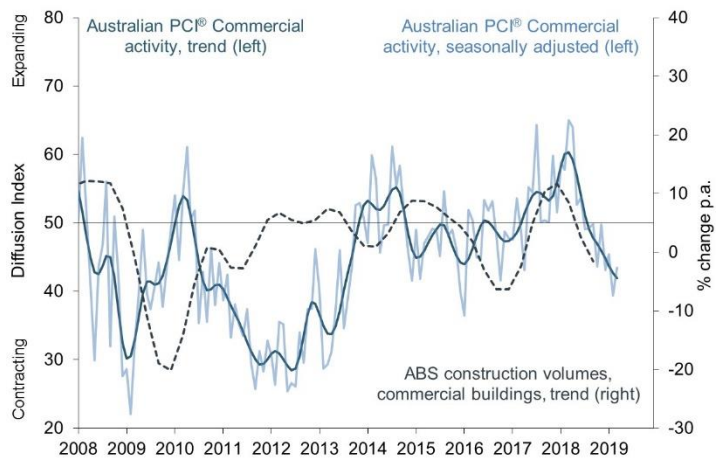
Commercial construction recorded an eighth consecutive month of contraction in March. The rate of decline was also marginally steeper with the sector's sub-index decreasing by 0.8 points to 41.9 points. However, the demands of a growing population and a solid investment pipeline in key commercial and social project areas will be important influences supporting overall commercial activity in 2019.

Commercial new orders

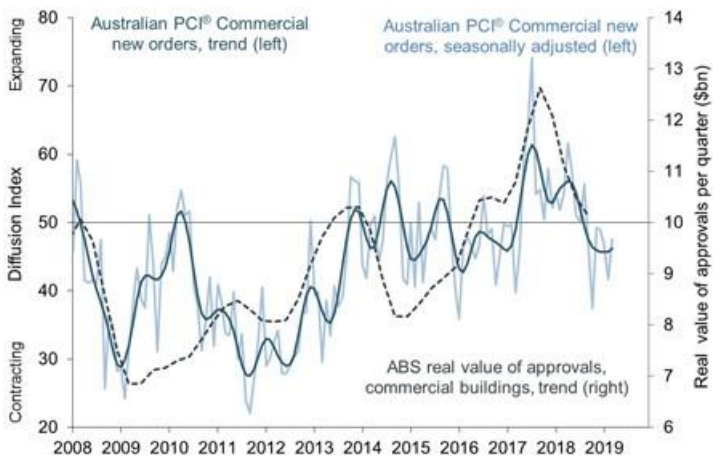
The real value of non-residential building approvals increased by 1.5% q/q but was down by 16.8% p.a. to \$10.1bn in the September quarter 2018 (seasonally adjusted).

New orders in the commercial construction sector continued the decline evident since mid-2018. The sub-index increased by 0.5 points to 46.2 points, indicating a mild easing in the rate of contraction. Current weakness in demand conditions follows a sustained period of growth in new orders over the 16 months to July 2018 which has supported a relatively healthy pipeline of work in key project areas (including accommodation, offices, education and industrial buildings).

Commercial construction activity and ABS work done



Commercial construction new orders and ABS commercial building approvals



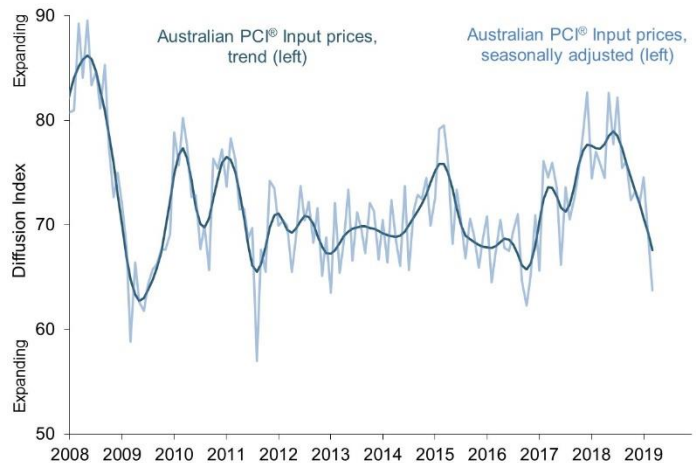
Australian PCI[®] prices and wages

Input prices

The **Australian PCI[®]** input prices sub-index registered 63.7 points in March. This was a decrease of 5.0 points from February, 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

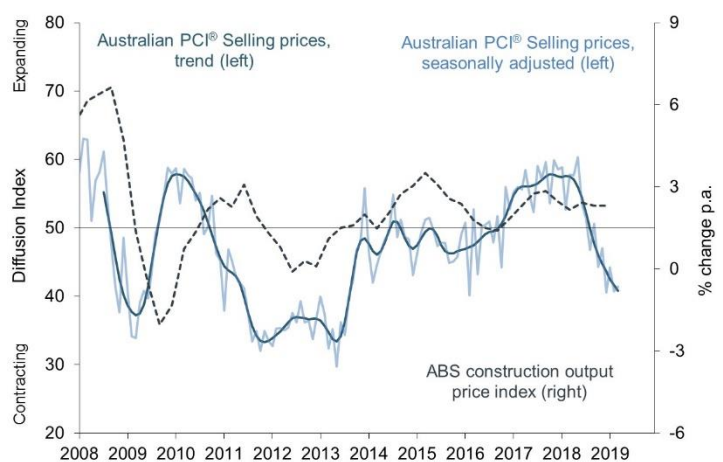
The **ABS construction industry's output price index (PPI)** rose by 0.4% q/q and 2.3% p.a. in the December quarter of 2018.

Selling prices continued to contract in March, although at slightly slower rate. The selling prices sub-index in the **Australian PCI[®]** increased by 0.7 points to 41.4 points in March. 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.

Selling prices and

ABS construction industry output prices

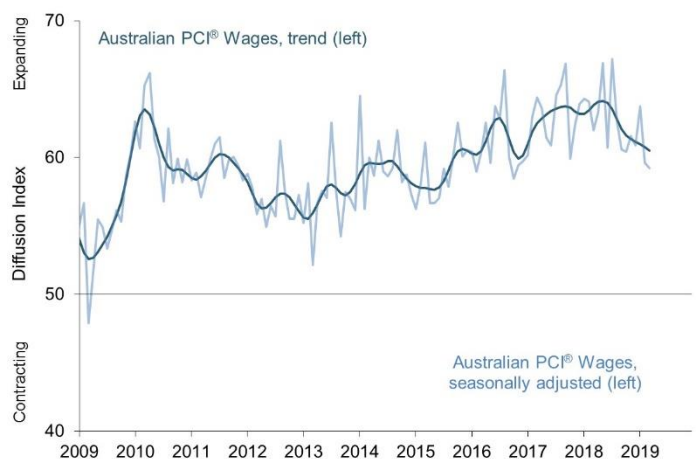


Average wages

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 March and at a broadly unchanged rate with the wages sub-index decreasing by 0.4 points to 59.2 points. However, the wages sub-index remains elevated, indicating 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 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 46.1 points in March.

This was up by 4.5 points from the previous month, signaling a slower rate of contraction in total construction activity. It marked the six-consecutive month of declining industry activity.

The decline in construction activity in March reflected a continuation of soft levels of demand and new orders experienced in aggregate over the past eight months.

Employment

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

Construction employment continued to decline in March, although at broadly unchanged rate. The employment sub-index within the **Australian PCI®** increased by 0.1 points to 46.1 points.

This marked an eighth consecutive month of contraction in employment and the ninth decline in the past ten months consistent with the more subdued readings on activity from mid-2018.

It suggests that construction businesses are maintaining a cautious approach in their hiring intentions in response to the continued contraction in new orders during March.

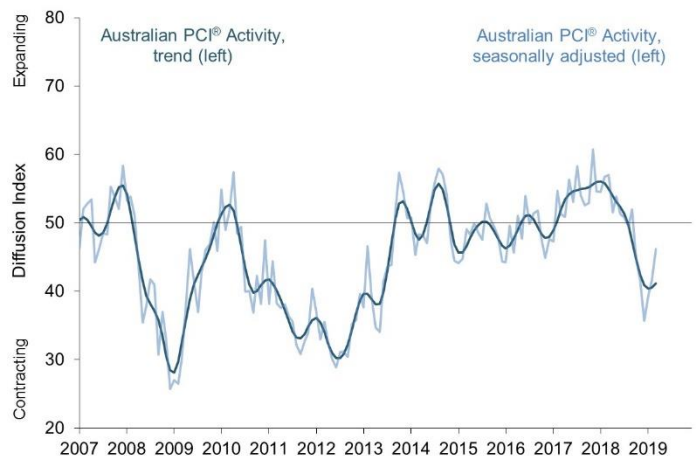
New orders and supplier deliveries

The new orders index in the **Australian PCI®** registered 44.5 points in March. This was an increase of 1.3 points from February, indicating a slightly slower pace of decline on an aggregate industry basis.

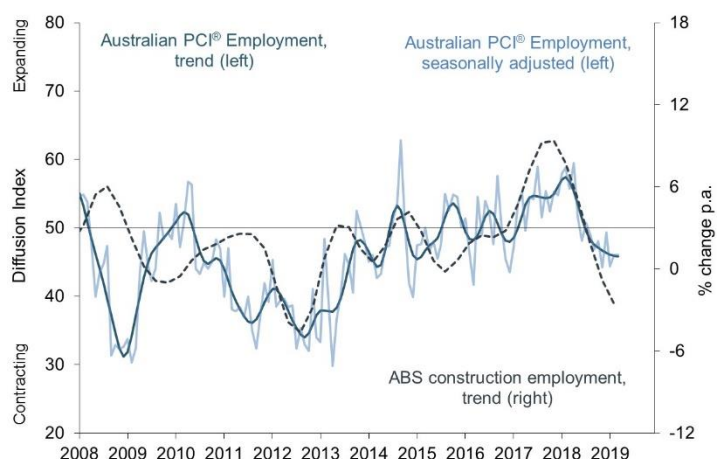
Nevertheless, the continued decline in new orders is of particular concern as the industry looks for growth opportunities in 2019.

In line with ongoing softness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the **Australian PCI®**, albeit at a marginally slower rate. The supplier delivery index increased by 0.4 points to 45.8 points, marking a fifth consecutive month of contraction.

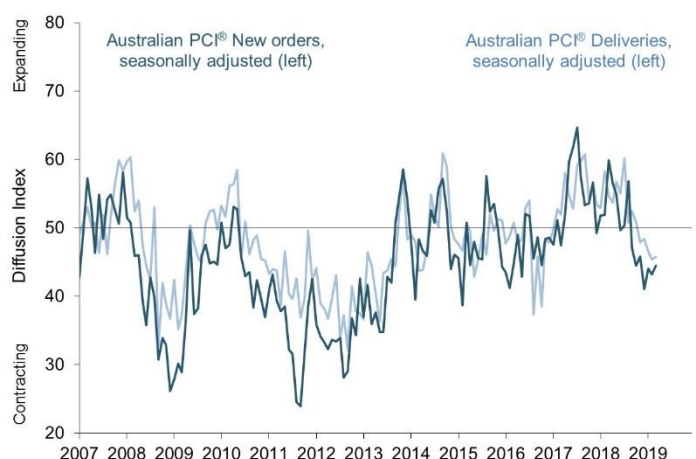
Activity



Employment and ABS construction industry employment



New orders and supplier deliveries



Australian PCI® activity

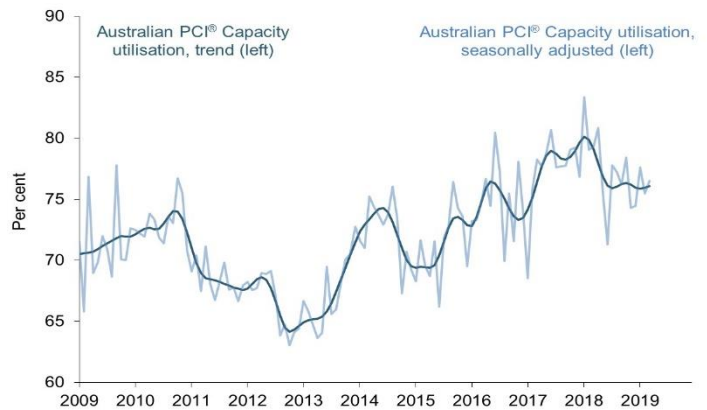
For more information about the Ai Group Australian PCI® visit:

Capacity utilisation

The rate of capacity utilisation stood at 76.5% across the construction industry, up only slightly from 75.5% in February.

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



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 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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