

Australian Performance of Construction Index



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CONSTRUCTION FALLS AT STEEPEST RATE IN SIX YEARS

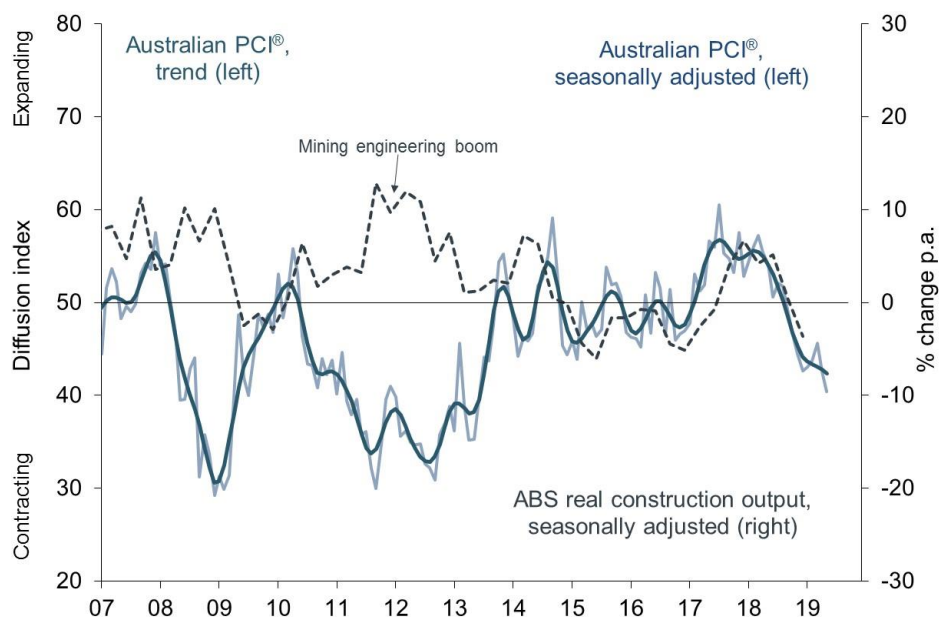
The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 40.4 points (seasonally adjusted) in May. This was down by 2.2 points from the previous month, indicating that the construction industry on aggregate declined more sharply in May, and at the steepest rate in six years.

May also marked the ninth consecutive month of contracting conditions in the **Australian PCI®** with overall industry activity and new orders falling further into negative territory.

Across sectors of the **Australian PCI®**, house building was the weakest performing area of activity, declining for a tenth consecutive month amid the sector's sharpest fall in new orders in 6½ years. The apartment building sector also remained in negative territory, although its rate of contraction eased slightly compared with April. Subdued conditions were again evident in commercial construction while engineering construction activity was broadly stable in May, continuing the steady pattern of activity evident over the past three months.

Residential building respondents to the **Australian PCI®** commented on slow market conditions due to soft new orders, tight lending conditions and falling prices. Reports also indicated that demand conditions had been negatively impacted by uncertainty ahead of the 18th May Federal election which had led to hesitancy by some clients in committing to new projects.

Australian PCI® (seasonally adjusted and trend)



AUSTRALIAN PCI®

40.4

↓ 2.2 POINTS
(seasonally adjusted)

ACTIVITY

39.7

↓ 1.9 POINTS
(seasonally adjusted)

NEW ORDERS

39.4

↓ 5.0 POINTS
(seasonally adjusted)

EMPLOYMENT

39.5

↑ 0.3 POINTS
(seasonally adjusted)

HOUSE BUILDING ACTIVITY

34.4

↓ 0.4 POINTS
(trend)

APARTMENT ACTIVITY

37.7

↑ 2.0 POINTS
(trend)

ENGINEERING ACTIVITY

50.3

↑ 0.4 POINTS
(trend)

COMMERCIAL ACTIVITY

44.7

-
(trend)

Australian PCI® summary

Construction sectors: House building activity (34.4 points trend) contracted for a 10th month in May, although the rate of decline was broadly unchanged from April. Also weighing heavily on overall industry conditions was a 14th consecutive month of contracting apartment building activity (37.7 points trend). Across the major project areas, commercial construction (44.7 points trend) recorded a tenth consecutive month of contraction in May amid a further overall fall in demand for commercial building projects. Engineering construction (50.3 points trend) remained stable in May although there were reports of rising tender opportunities.

Construction prices and wages: Cost pressures continued to be exerted in the construction of building projects in May, with the input prices index increasing by 7.7 points to 69.4 points, indicating that input price inflation lifted during the month. The selling prices sub-index in the **Australian PCI®** increased by 4.4 points to 36.2 points in May. Although this indicates an easing in rate of decline in May, it was the second sharpest rate of contraction in almost six years. This reflects strong 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 are tightening for many businesses in the construction industry.

Construction activity: Across the construction industry, **Australian PCI®** data for May revealed that the key activity sub-index (39.7 points) contracted more sharply while new orders (39.4 points) fell for a ninth consecutive month, and at the steepest rate in just over four years. This was associated with a continued decline in deliveries from suppliers (45.0 points) and a further drop in employment (39.5 points).

Construction highlights: Across the residential construction sectors, falls in approvals, commencements and work in the pipeline is continuing to weigh on workloads for residential builders. Commercial construction is also detracting from industry-wide performance, although its rate of contraction has not accelerated over the past six months. Businesses operating in the engineering construction sector have experienced more subdued conditions in recent months due to a shortfall of new contracts to replace completed infrastructure projects. Although engineering construction conditions remained stable in May there were indications of some improvement in 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 relatively high prices for commodities and imported construction materials. Reports are also widespread about difficulties in filling skilled vacancies.

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®	40.4	-2.2	46.0	Australian PCI®	42.3	-0.4	47.3
Activity	39.7	-1.9	44.5	House building	34.4	-0.4	40.7
Employment	39.5	0.3	46.0	Apartments	37.7	2.0	34.4
New Orders	39.4	-5.0	45.9	Commercial construction	44.7	0.0	46.8
Supplier Deliveries	45.0	-1.4	49.6	Engineering construction	50.3	0.4	51.6
Input Prices	69.4	7.7	72.3				
Selling Prices	36.2	4.4	44.1	<i>Seasonally adjusted</i>	%	ppt	%
Average Wages	60.9	5.2	61.1	Capacity Utilisation (%)	77.8	0.2	76.2

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 Apr 2019	70.8	-	-11.5	61.7% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Apr 2019	43.9	-	-10.3	38.3% 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 Mar 2019	138.3	-0.9	-4.3	7.3% of total GDP
Number of employed persons, '000, February 2019, trend	1,154	-0.8	-2.5	9.0% 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 2018 (seasonally adjusted and inflation-adjusted), accounting for 17.3% of all construction work done.

House building activity contracted for a tenth consecutive month in May. The sector's sub-index drifted marginally lower by 0.4 points to 34.4 points (trend), the softest reading on housing activity since September 2012. This on-going weakness in activity was associated with a tenth month of contraction in new orders. The house building activity index is currently tracking at a level which is 6.3 points below its 12-month average.

House building new orders

The total number of private house approvals fell to 8,545 in April 2019 (trend).

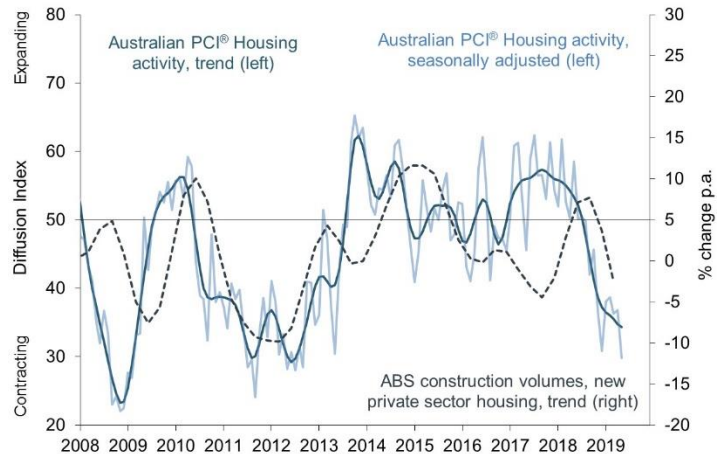
New orders in the house building sector continued to contract in May, and at a sharper rate. The sub-index declined by 1.9 points to 32.9 points (trend), placing it below the critical 50-points no change threshold for ten consecutive months. This indicates a continuation of broad weakness in demand and points to on-going subdued house building activity in coming months. It follows the 1.9% m/m fall (-16.8% p.a.) in private sector house approvals in April (ABS, trend data).

Apartments activity

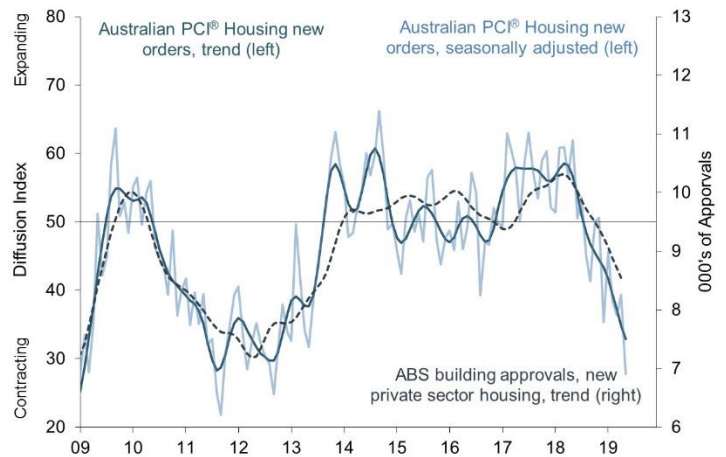
The volume of new multi-unit dwelling building work done fell by 3.3% q/q but increased by 1.0% p.a. to \$7.8bn in the December quarter 2018 (seasonally adjusted and inflation-adjusted), accounting for 15.3% of all construction work done.

Apartment building activity contracted for an 14th month in May, although at a slower rate with the sector's sub-index rising by 2.0 points to 37.7 points (trend). The apartment sector has now experienced steady or declining activity in 20 of the past 22 months. This has coincided with a weakening in new orders since September 2017.

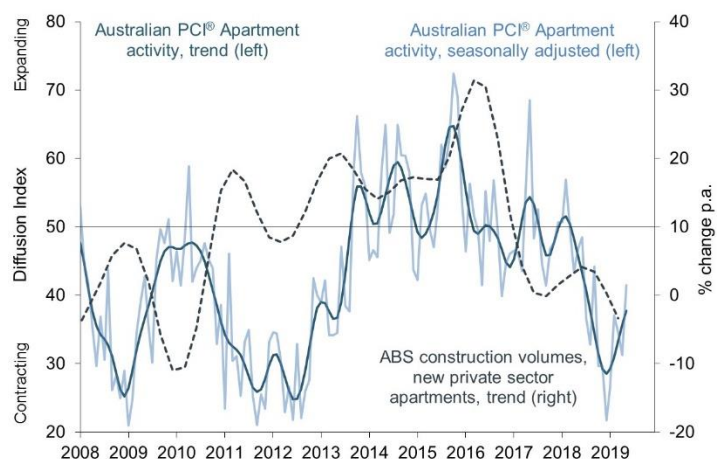
House building activity and ABS construction volumes



House building new orders and ABS building approvals



Apartments activity and ABS construction volumes

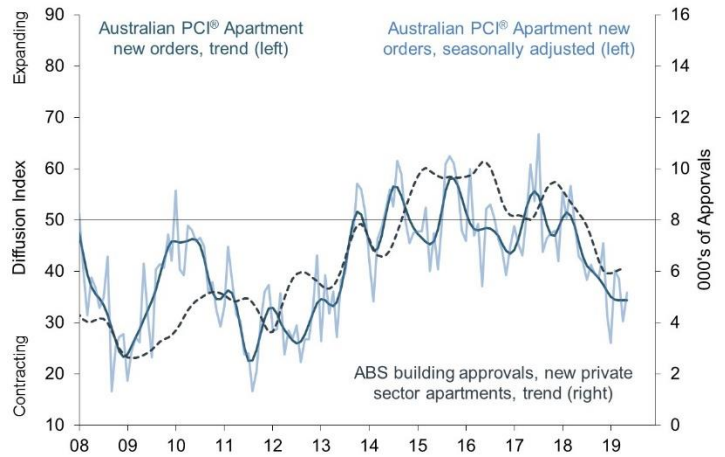


Apartment new orders

The total number of private 'other dwellings' approvals (apartments, flats and townhouses) stood at 6,116 in April 2019 (trend).

In the apartment building sector, new orders recorded a 14th month of contraction. However, the rate of decline was broadly unchanged, with the sub-index decreasing by 0.1 points to 34.3 points (trend). This on-going weakness in new orders reflects ABS data for apartment ('other dwellings') approvals. Apartment approvals increased by 1.2% m/m in April but were sharply down by -27.8% p.a. over the year to April. (ABS trend data).

Apartments new orders and ABS building approvals

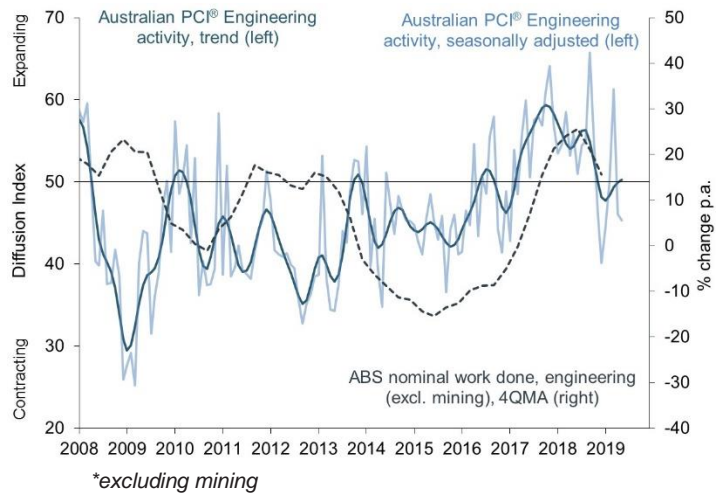


Engineering construction activity

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 2018 (seasonally adjusted and inflation-adjusted), accounting for 43.3% of all construction work done.

Engineering construction recorded largely stable conditions in May, with the sector's sub-index registering 50.3 points, an increase of 0.4 points from April (trend). It was the third consecutive month that the activity index reading for the sector has been at or close to the no-change 50 points level. It is likely to be related to delays in the start of projects. Heightened uncertainty in the lead-up to the 18th May Federal election appears to have also led to some reluctance by clients in committing to new project spending.

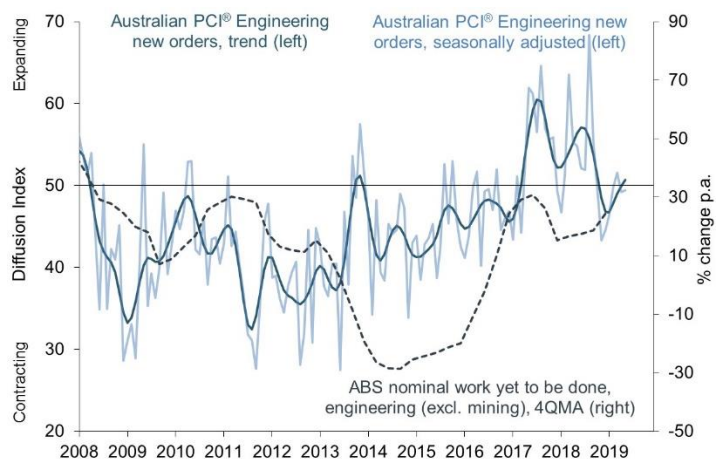
Engineering construction activity and ABS work done*



Engineering new orders

In the engineering construction sector, new orders remained close to stabilisation for a second consecutive month in May with this sub-index registering 50.7 points in May, a rise of 0.8 points from April (trend). Nevertheless, a solid pipeline of public infrastructure works including transport, wind and solar projects and pipelines is likely underpin more robust conditions for this sector over the months ahead.

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 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.

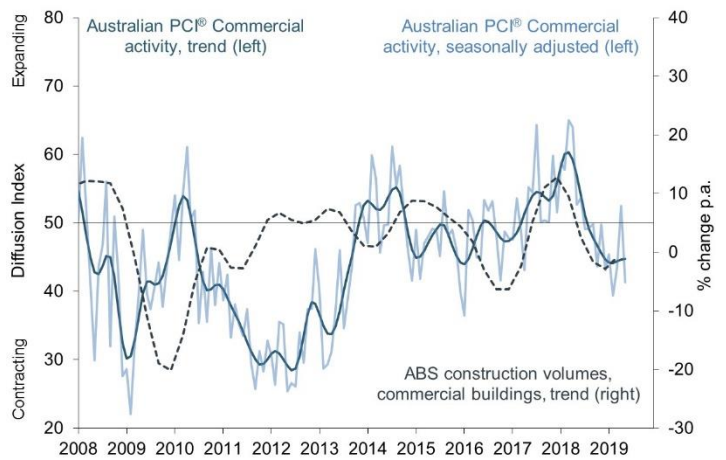
Commercial construction recorded a tenth consecutive month of contraction in May. The rate of decline was however unchanged with the sector's sub-index holding steady at 44.7 points (trend). Despite this overall decline, conditions across the sector are mixed with respondents indicating growth opportunities in key commercial building categories, including offices, retail, warehouses and industrial buildings.

Commercial new orders

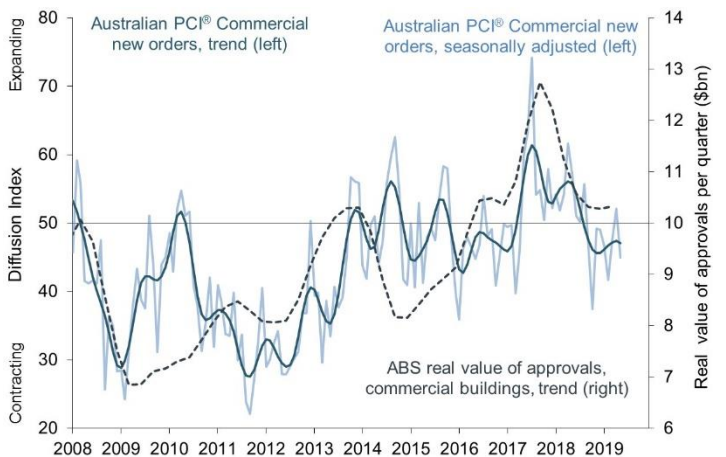
The real value of non-residential building approvals increased by 1.5% q/q but was down by 16.8% p.a. to \$10.1bn in the September quarter 2018 (seasonally adjusted).

New orders in the commercial construction sector recorded a tenth consecutive month of decline in May. The sub-index fell marginally by 0.3 points to 47.1 points (trend), indicating a largely unchanged rate 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).

Commercial construction activity and ABS work done



Commercial construction new orders and ABS commercial building approvals



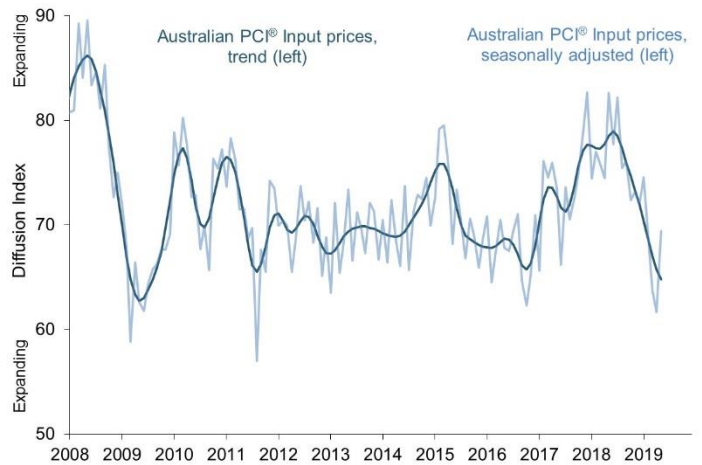
Australian PCI® prices and wages

Input prices

The Australian PCI® input prices sub-index registered 69.4 points in May. This was an increase of 7.7 points from April, 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



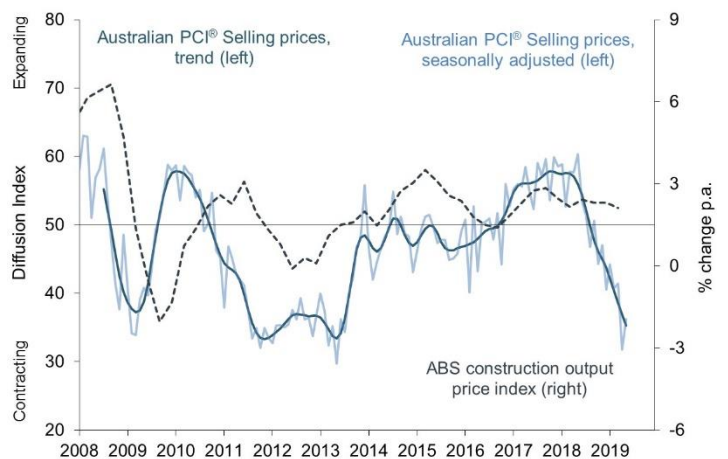
Selling prices

The ABS 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 May. The selling prices sub-index in the Australian PCI® registered 36.2 points in May, an increase of 4.4 points from April. Although this indicates an easing in rate of decline in May, it was the second sharpest rate of contraction in almost six years. This reflects strong competition among builders in securing work consistent with wide reporting of a highly competitive quoting and tendering environment.

The sizable gap between these price series in the Australian PCI® demonstrates that profit margins are being squeezed for many businesses in the construction industry.

Selling prices and ABS construction industry output prices

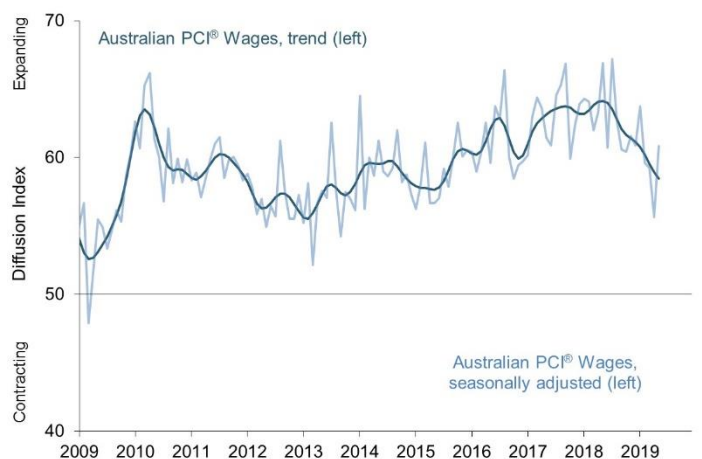


Average wages

The ABS wage index for private sector construction rose by 0.5% q/q and 1.8% p.a. in the December quarter 2018.

Growth in wages continued in May, and at a faster pace with the wages sub-index increasing by 5.2 points to 60.9 points. This elevated wages sub-index provides further evidence that overall wages growth remains relatively high overall in the construction industry 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 2018 quarter compared with a 2.8% average increase for all industry sectors.

Average wages



Australian PCI® activity

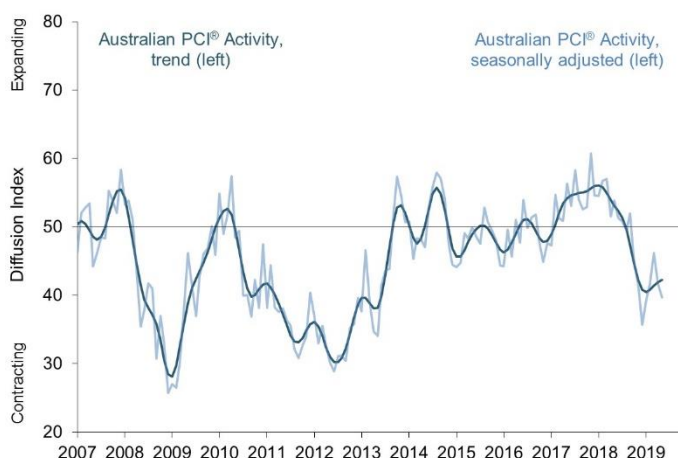
Activity

The activity sub-index in the Australian PCI® registered 39.7 points in May.

This was down by 1.9 points from the previous month, signaling a steeper rate of contraction in total construction activity. It marked the eighth-consecutive month of declining industry activity and the third sharpest rate of decline recorded in the past five years.

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

Activity

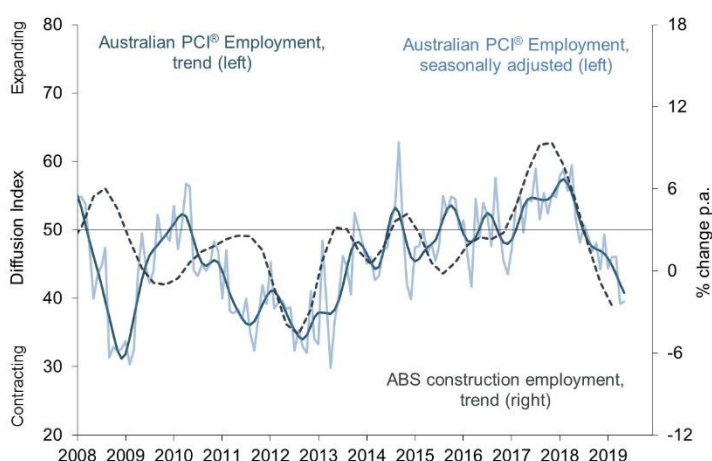


Employment

The construction sector employed 1,153,900 people in February 2019 (9.0% of total employment).

Construction employment continued to decline in May, although the pace of decline was broadly unchanged over the month. The employment sub-index within the Australian PCI® increased by 0.3 points to 39.5 points. This marked a tenth consecutive month of contraction in employment consistent with the more subdued readings on activity from mid-2018. It indicates that construction businesses are responding to the on-going weakness of overall demand conditions by exerting greater caution in terms of their labour recruitment. It follows a -0.8% q/q (-2.5% p.a.) in total construction employment in February 2019 (ABS trend data).

Employment and ABS construction industry employment

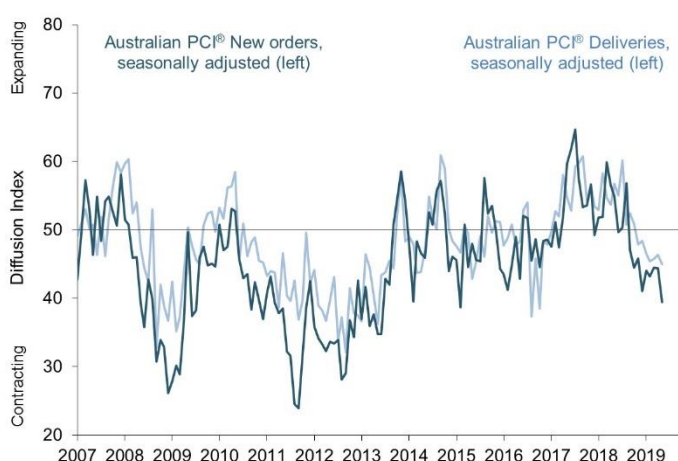


New orders and supplier deliveries

The new orders index in the Australian PCI® registered 39.4 points in May. This was a decrease of 5.0 points from April, indicating a steeper pace of contraction on an aggregate industry basis. It was also the lowest new orders result (and therefore the steepest rate of decline) in just over four years.

The further drop in new orders points to continued downside risks to the near-term outlook for construction activity.

New orders and supplier deliveries



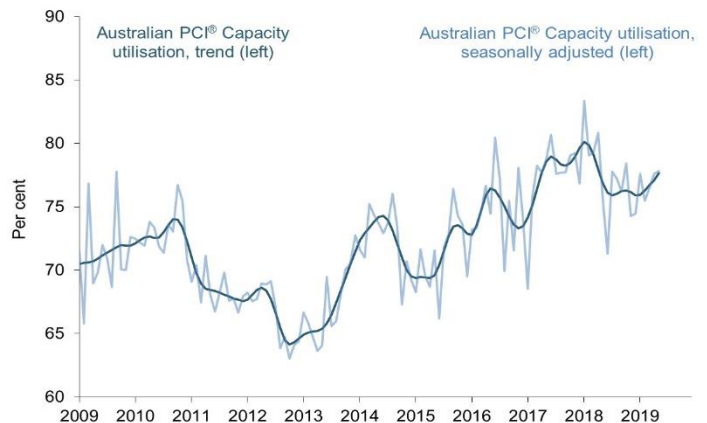
Australian PCI® activity

Capacity utilisation

The rate of capacity utilisation stood at 77.8% across the construction industry, broadly unchanged from 77.6% in March.

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 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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