



**AUSTRALIAN Performance of Construction Index**

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

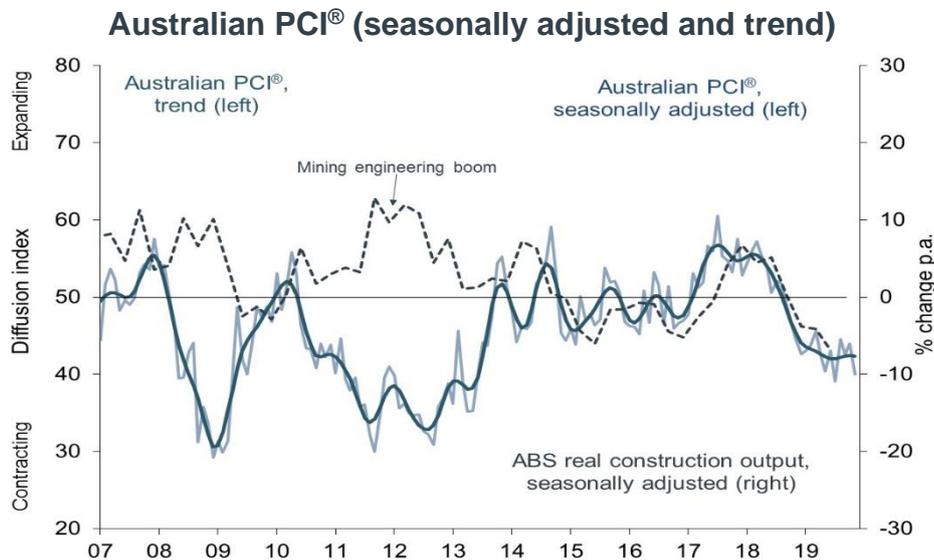
**CONSTRUCTION DROPS AGAIN IN NOVEMBER, BUT HOUSING ACTIVITY STABILISES**

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) registered 40.0 points (seasonally adjusted) in November. This was down by 3.9 points from the previous month, indicating that the construction industry on aggregate declined more sharply in November.

November was the 15<sup>th</sup> consecutive month of contraction in the **Australian PCI®** with aggregate industry activity remaining firmly entrenched in negative territory and overall new orders falling more sharply. This on-going weakness in business conditions was associated with a steeper fall in employment and a continued reduction in deliveries from suppliers.

The **Australian PCI®** (on a trend basis) showed encouraging signs of a stabilisation in house building activity in November. This is consistent with a slower rate of contraction in housing sector new orders over recent months. However, apartment building continued to exhibit weakness, declining for a 20<sup>th</sup> consecutive month, albeit at a slightly slower rate. Commercial construction also remained subdued while engineering construction again declined amid on-going reports of slow activity on construction sites, lower investment spending by clients and insufficient progress on planned developments.

Reports from residential building respondents to the **Australian PCI®** indicated that new home buyer demand was showing some improvement in response to interest rate cuts and an easing in bank lending restrictions. However, some house builders noted that uncertainty surrounding the economic outlook and associated risk aversion remained a brake on housing activity. Concerns were also expressed about the continued pull-back by investors in the apartment market.



**AUSTRALIAN PCI®**  
**40.0**  
 ↓ 3.9 POINTS  
 (seasonally adjusted)

**ACTIVITY**  
**40.9**  
 ↓ 0.3 POINTS  
 (seasonally adjusted)

**NEW ORDERS**  
**37.5**  
 ↓ 6.3 POINTS  
 (seasonally adjusted)

**EMPLOYMENT**  
**39.4**  
 ↓ 8.4 POINTS  
 (seasonally adjusted)

**HOUSE BUILDING ACTIVITY**  
**49.7**  
 ↑ 1.5 POINTS  
 (trend)

**APARTMENT ACTIVITY**  
**37.0**  
 ↑ 0.6 POINTS  
 (trend)

**ENGINEERING ACTIVITY**  
**33.3**  
 ↓ 2.6 POINTS  
 (trend)

**COMMERCIAL ACTIVITY**  
**43.7**  
 ↓ 0.5 POINTS  
 (trend)

# Australian PCI<sup>®</sup> summary

**Construction sectors:** House building was the best performing sector (49.7 points trend) in November with activity stabilising following 15 months of contraction. However, weighing heavily on overall industry conditions was a continued decline in apartment building activity (37.0 points trend) with activity in the sector falling at a rate that was only marginally slower than the previous month. Across the major project areas, commercial construction (43.7 points trend) again declined in November with demand conditions remaining patchy across key industrial and commercial property categories. Engineering construction (33.3 points trend) also fell in the month, and at its sharpest rate in over a decade.

**Construction prices and wages:** Cost pressures continued to be exerted in the construction of building projects in November, with the input prices index in the **Australian PCI<sup>®</sup>** increasing by 2.0 points to 67.8 points, indicating that input price inflation lifted during the month. The selling prices sub-index in the Australian PCI<sup>®</sup> fell by 0.9 points to 43.7 points in November. This on-going negative index reading highlights the strong competition between builders that is continuing to restrict pricing freedom and the ability of builders to recover rising costs. The wide gap between these price series in the **Australian PCI<sup>®</sup>** also demonstrates that profit margins remain tight for many businesses in the construction industry.

**Construction activity:** Across the construction industry, **Australian PCI<sup>®</sup>** data for November revealed that the activity sub-index (40.9 points) continued to fall sharply and at a rate that was broadly unchanged from October. This reflects ongoing weakness in the uptake of new work on an aggregate industry basis with the latest data signaled that the rate of decline in new orders (37.5 points) was steeper in November. Construction businesses responded to these subdued conditions by continuing to reduce their supplier deliveries (44.1 points) while employment (39.4 points) fell at a markedly steeper rate in the month.

**Construction highlights:** Across the residential construction sectors, downside risks to the outlook persist amid on-going falls in new orders. However, these risks have been tempered somewhat by encouraging signs of stabilising housing activity. The commercial construction sector is continuing to decline, although higher approvals in some key project areas are likely to be more supportive of activity in 2020. Engineering activity is also a negative influence on industry-wide performance, linked by businesses to a lack of new tender opportunities and a slow roll-out of new infrastructure projects.

**Construction concerns:** **Australian PCI<sup>®</sup>** survey respondents continue 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. Difficulties in filling skilled vacancies were also frequently cited. There were also reports that construction spending decisions had been negatively impacted by the slowing economy and the uncertain economic outlook.

AUSTRALIAN PCI <sup>®</sup> 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<sup>®</sup></b>	<b>40.0</b>	<b>-3.9</b>	<b>42.6</b>	<b>Australian PCI<sup>®</sup></b>	<b>42.3</b>	<b>-0.1</b>	<b>42.7</b>
Activity	40.9	-0.3	41.5	House building	49.7	1.5	40.4
Employment	39.4	-8.4	43.6	Apartments	37.0	0.6	34.0
New Orders	37.5	-6.3	41.7	Engineering construction	33.3	-2.6	44.9
Supplier Deliveries	44.1	0.8	44.9	Commercial construction	43.7	-0.5	45.0
Input Prices	67.8	2.0	67.4				
Selling Prices	43.7	-0.9	39.1	<i>Seasonally adjusted</i>	%	ppt	%
Average Wages	60.5	-2.4	60.0	Capacity Utilisation (%)	73.3	-4.1	75.7

Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI<sup>®</sup> 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 Mar 2019	136.0	-1.4	-6.9	7.3% of total GDP
Number of employed persons, '000, August 2019, <i>trend</i>	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.*

For more detail about the Ai Group Australian PCI<sup>®</sup> visit: [www.aigroup.com.au/policy-and-research/economics/](http://www.aigroup.com.au/policy-and-research/economics/)

# Australian PCI® sectors

## 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), accounting for 17.2% of all construction work done.

House building activity stabilised in November, following 15 months of contraction. The sector's sub-index lifted by 1.5 points to 49.7 points (trend), placing it marginally below the no-change threshold.

House building activity has now returned to conditions similar to those experienced in mid-2018 prior to the onset of the sector's downturn.

## House building new orders

The total number of private house approvals fell to 8,126 in October 2019 (trend).

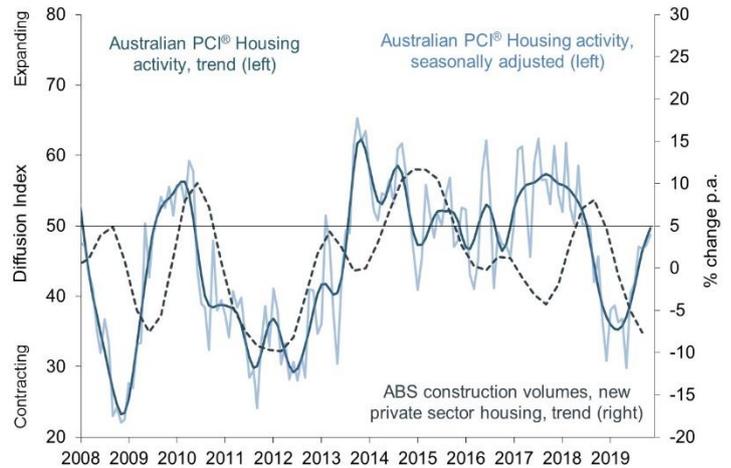
New orders in the house building sector continued to fall in November with the new orders sub-index registering 45.7 points (trend). However, this was an increase of 1.1 points to signal that the rate of contraction was slower in November, following a similar easing in each of the previous five months. Nevertheless, the continued contraction in new orders points to housing activity remaining relatively subdued in coming months. It follows the 0.9% m/m fall (-15.1% p.a.) in private sector house approvals in October (ABS, trend data).

## Apartments activity

The volume of new multi-unit dwelling building work done fell by 4.3% q/q and 11.2% p.a. to \$7.4bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 15.2% of all construction work done.

Apartment building activity contracted for an 20<sup>th</sup> month in November, although at a marginally slower rate with the sector's sub-index rising by 0.6 points to 37.0 points (trend). The apartment sector has experienced steady or declining activity in 26 of the past 28 months. This has coincided with ongoing falls in new orders since September 2017, consistent with the declining trend in apartment approvals over this period.

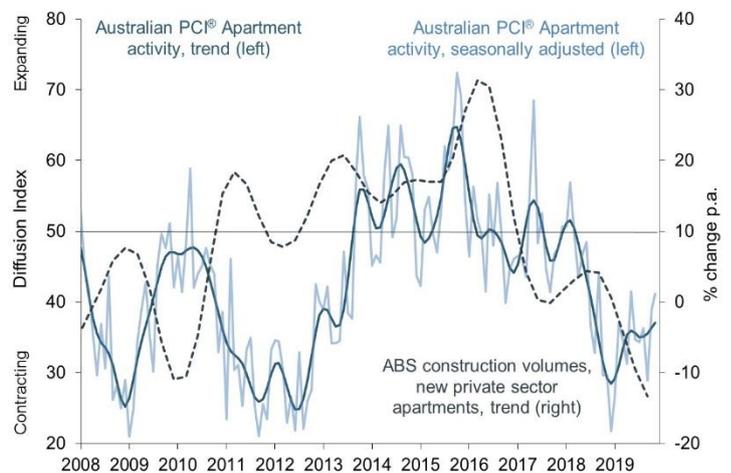
## House building activity and ABS construction volumes



## House building new orders and ABS building approvals



## Apartments activity and ABS construction volumes



# Australian PCI<sup>®</sup> sectors

## Apartment new orders

The total number of private 'other dwellings' approvals (apartments, flats and townhouses) stood at 4,841 in October 2019 (trend).

In the apartment building sector, new orders recorded a 20<sup>th</sup> month of contraction. The rate of decline was, however, slightly slower with the sub-index increasing by 0.8 points to 36.1 points (trend). ABS trend data shows that private sector apartment ('other dwellings') approvals decreased by 0.5% m/m in October to be down a sizable 23.5% p.a. over the year to October. The number of private sector apartment approvals is also 48.8% lower than the peaks recorded in October and November 2017 (ABS, trend).

## Engineering construction activity

The volume of engineering construction work done fell by 1.1% q/q and by 15.9% p.a. to \$20.3bn in the June quarter 2019 (seasonally adjusted and inflation-adjusted), accounting for 41.6% of all construction work done.

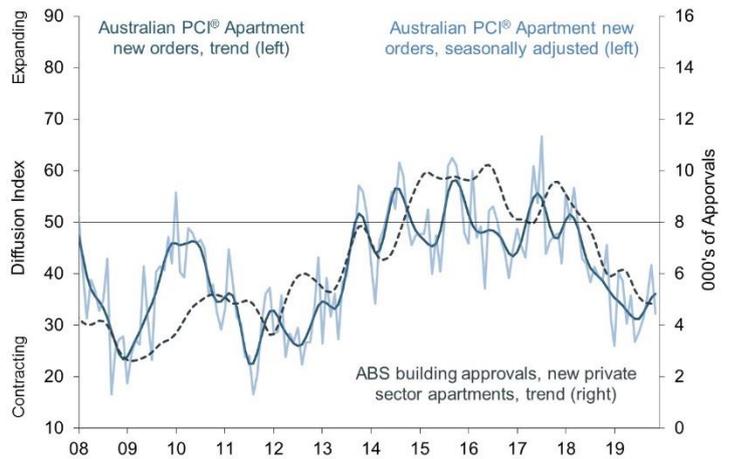
Engineering construction activity fell further into negative territory in November. The sector's sub-index decreased by 2.6 points to 33.3 points (trend), placing it well below the 12-months' average of 44.9 points. It was also the lowest reading (and therefore the sharpest rate of contraction) on engineering construction activity since March 2009. Respondents continued to report soft demand conditions due to a lack of new contracts to replace completed infrastructure projects. This was linked to slow progress on planned projects and lower investment spending among clients.

## Engineering new orders

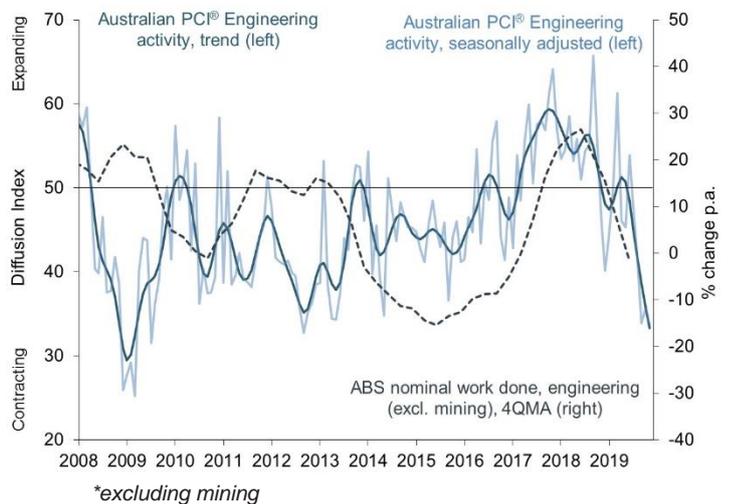
In the engineering construction sector, new orders contracted for a 13<sup>th</sup> month with this sub-index decreasing by 1.2 points to 36.7 points. This indicates a steeper rate of decline in November, although a sizeable pipeline of Government funded projects should become more supportive of engineering construction activity ahead.

Excluding the resources sector (mining, oil, pipelines and downstream mineral processing), work to be done by the private sector was at a near-historical high of \$41.8 billion in Q2 2019 (nominal, unadjusted data). When mining-related engineering work is included, the total value of private sector work yet to be done stood at \$70.8 billion in Q2 2019. This is the highest amount of work in the pipeline since September 2015.

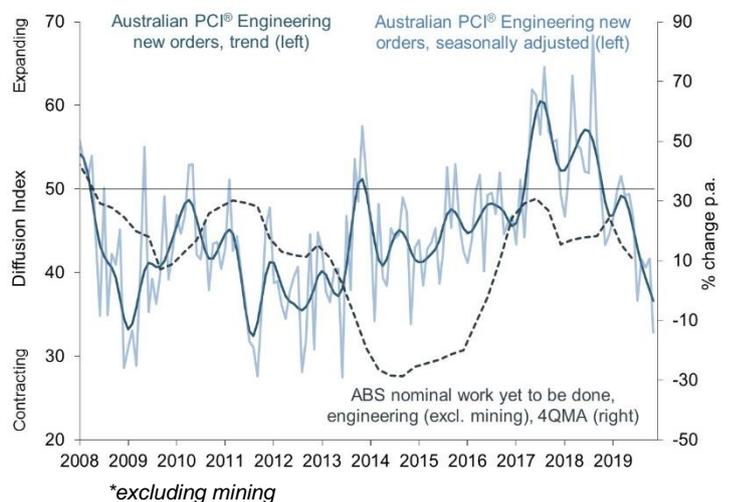
## Apartments new orders and ABS building approvals



## Engineering construction activity and ABS work done\*



## Engineering construction new orders and ABS work yet to be done\*



## Commercial construction activity

The volume of non-residential building work done fell by 6.6% q/q in the June quarter 2019, to be 3.3% p.a. lower over the year (seasonally adjusted and inflation-adjusted), accounting for 21.5% of all construction work done.

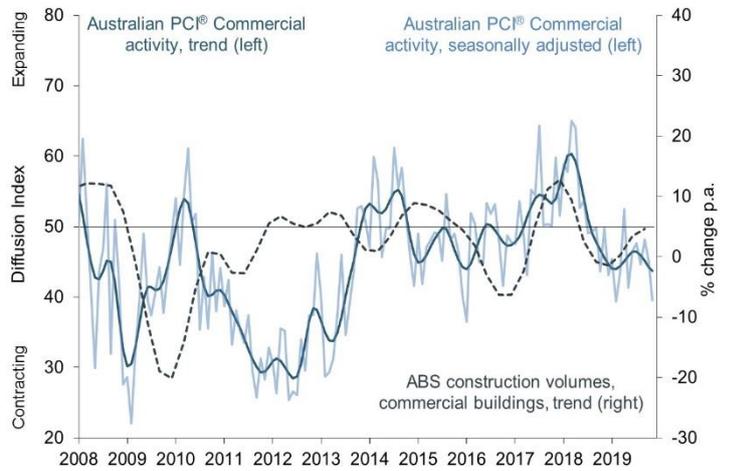
Commercial construction recorded a 16<sup>th</sup> consecutive month of contraction in November. The rate of decline, however was only slightly sharper with the sector's sub-index falling by only 0.5 points to 43.7 points (trend). While conditions vary significantly across the sector, developments in some major commercial and social building categories are providing support to the sector's overall performance. Population growth and the relatively low Australian dollar is also expected to remain supportive of activity in this sector in 2020.

## Commercial new orders

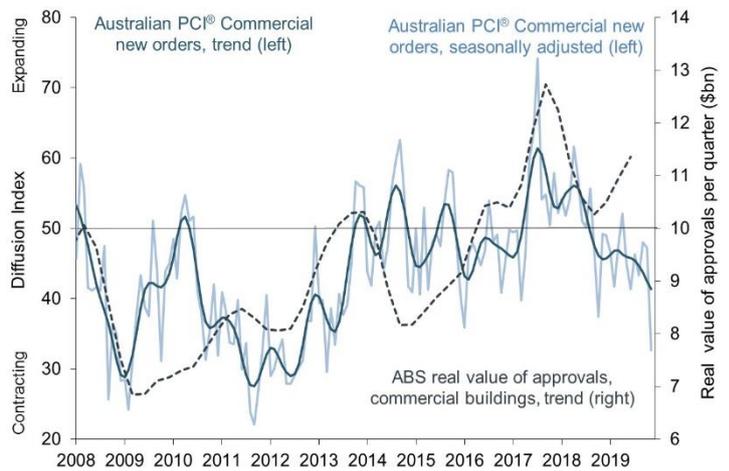
The real value of non-residential building approvals increased by 1.1% q/q but was down by 7.7% p.a. to \$10.5bn in the March quarter 2019 (seasonally adjusted).

New orders in the commercial construction sector fell at a steeper rate in November with the sub-index decreasing by 1.1 points to 41.4 points (trend). The current softness in overall demand conditions, which has been evident since mid-2018, follows a sustained 16-month period of growth in new orders which has supported a relatively healthy pipeline of work across key project areas including warehouses, health, aged care and education.

## Commercial construction activity and ABS work done



## Commercial construction new orders and ABS commercial building approvals

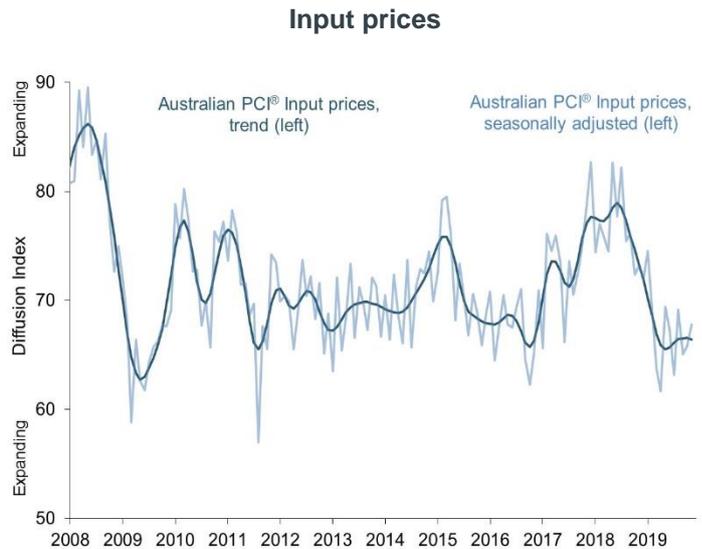


# Australian PCI<sup>®</sup> prices and wages

## Input prices

The Australian PCI<sup>®</sup> input prices sub-index registered 67.8 points in November. This was an increase of 2.0 points from October, indicating that cost pressures in the construction of building projects lifted during the month.

Upward pressure on input prices on an industry-wide basis is continuing due to elevated energy costs and supplier price rises, some of which are related to the continued strength in commodity prices.

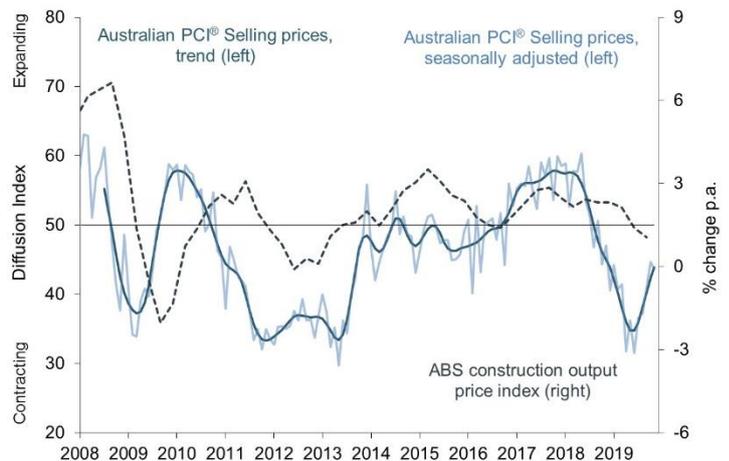


## Selling prices

The ABS building construction industry's output price index (PPI) rose by 1.0% p.a. in the September quarter 2019.

Selling prices continued to contract in November, and at a slightly steeper rate. The selling prices sub-index in the **Australian PCI<sup>®</sup>** registered 43.7 points in November, a decrease of 0.9 points from October. This negative reading indicates that rising input prices and other costs are not, on average, being passed on to customers, and instead are largely absorbed by builders. Constraints on the ability of businesses to raise prices reflects the strong competition among builders in securing work, consistent with reports of a highly competitive quoting and tendering environment. The ongoing gap between these price series in the **Australian PCI<sup>®</sup>** demonstrates that profit margins remain tight across the construction industry.

## Selling prices and ABS construction industry output prices

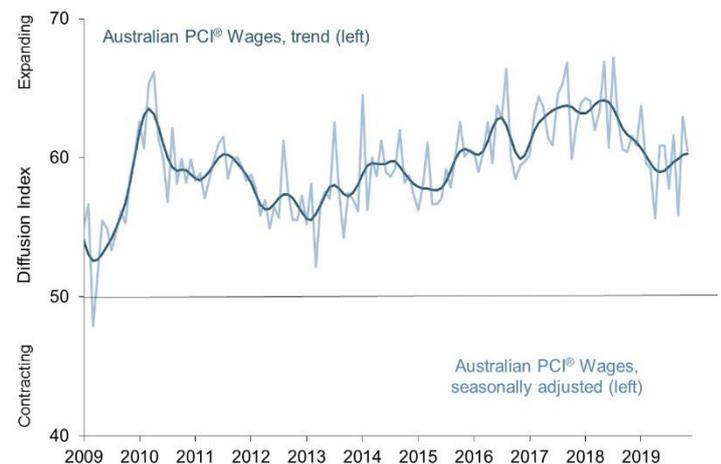


## Average wages

The ABS wage index for private sector construction rose by 0.7% q/q and 1.9% p.a. in the June quarter 2019.

Growth in wages continued in November, although at a slower pace with the wages sub-index decreasing by 2.4 points to 60.5 points. This elevated sub-index continues to indicate that overall wages growth is lifting 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 3.3% in the June quarter 2019 compared with a 2.7% average increase for all industry sectors.

## Average wages



# Australian PCI® activity

## Activity

The activity sub-index in the Australian PCI® registered 40.9 points in November.

This was down by 0.3 points from the previous month, signaling a broadly unchanged rate of contraction in total construction activity.

Nevertheless, it marked the 14<sup>th</sup> consecutive month of declining industry activity and was slightly below the 12-month average reading of 41.5 points.

Levels of activity on an aggregate industry basis continue to be negatively impacted by subdued overall levels of demand and new orders that have been experienced in aggregate since August 2018.

## Employment

*The construction sector employed 1,180,700 people in August 2019 (9.1% of total employment).*

Construction employment continued to decline in November, and at a sharper rate.

The employment sub-index within the **Australian PCI®** decreased by 8.4 points to 39.4 points. This marked the 16<sup>th</sup> consecutive month of falling employment on an industry-wide basis and the steepest rate of decline over the past four months.

Official statistics show marginal growth of 0.5% p.a. in total construction employment in the year to August 2019 (ABS trend data).

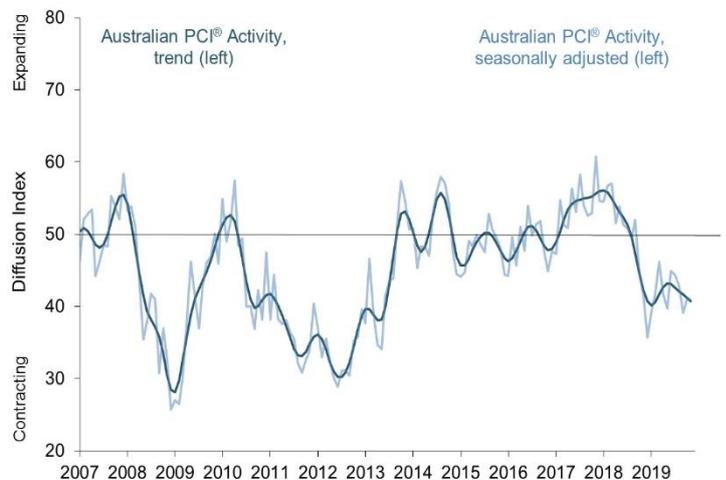
## New orders and supplier deliveries

The new orders index in the **Australian PCI®** registered 37.5 points in November. This was a decrease of 6.3 points from October indicating that the overall drop in new orders was steeper in the month.

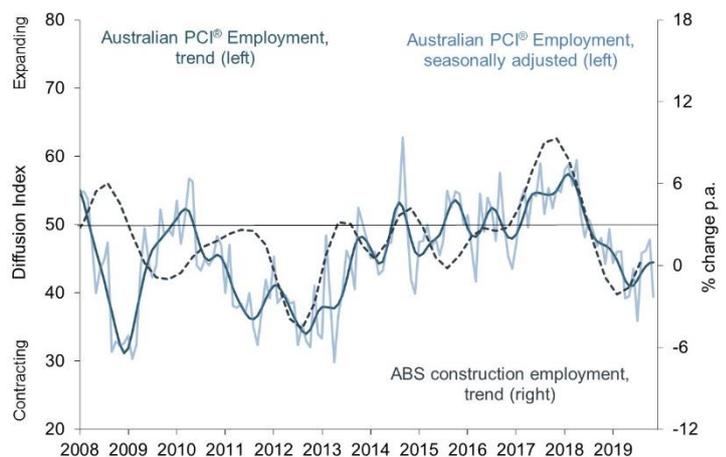
This further fall in new orders continues to point to downside risks to overall industry activity ahead, despite signs of some improvement in residential demand conditions and housing market sentiment.

Reflecting the weakness in aggregate industry demand, deliveries of inputs from suppliers continued to contract in the **Australian PCI®**, albeit at a slower rate. The supplier delivery index registered 44.1 points in November, a slight rise of 0.8 points from October.

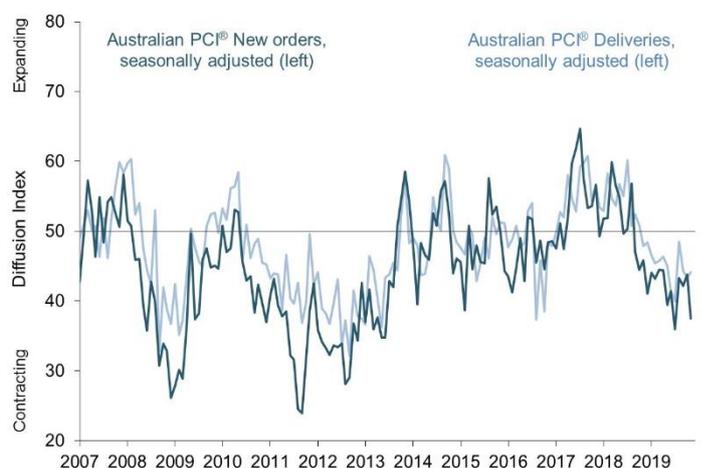
## Activity



## Employment and ABS construction industry employment



## New orders and supplier deliveries



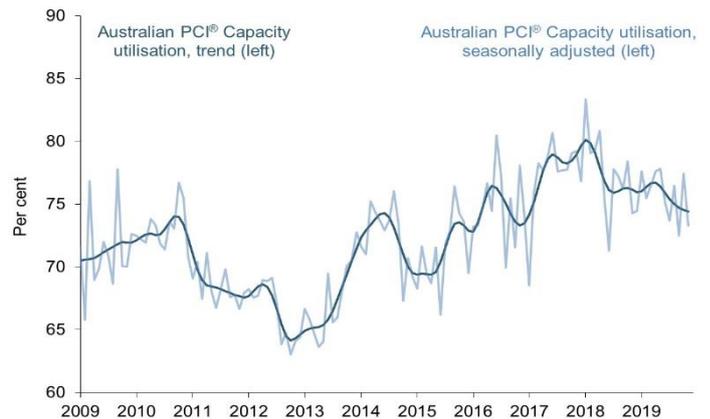
# Australian PCI® activity

## Capacity utilisation

The rate of capacity utilisation stood at 73.3% across the construction industry in November, down from 77.4% in October.

This was the lowest capacity utilisation reading in four months and below the 12-month average of 75.7%. This 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/](http://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 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, 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/>.

© The Australian Industry Group, 2019. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part to be reproduced by any process or means without the prior written permission of The Australian Industry Group.

Disclaimer: The Australian Industry Group provides information services to its members and others, including economic policy and information services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or inference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.