

APRIL 2020

Construction industry index plunges to a record low in April

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) dropped by 16.3 points to 21.6 points in April (seasonally adjusted). This was the lowest result on record for the **Australian PCI®** and the largest single-month fall since the survey commenced in September 2005. Results below 50 points indicate contraction with lower results indicating a faster rate of contraction.

Activity, new orders, employment and average wages all fell to their lowest levels on record for the **Australian PCI®**. Capacity utilised across the construction industry fell to a 12-year low. Supplier deliveries fell to their lowest since 2012.

Activity and new orders indexes for all four construction sectors included in the **Australian PCI®** fell to record lows in April. Apartment building was the weakest sector, with its activity index falling to just 22.1 points (trend).

Respondents reported deteriorating demand across the board in April. Australian construction has not experienced the enforced shut-downs of many other industries, but economic uncertainty due to the COVID-19 pandemic has resulted in a loss of client confidence, heightened risk aversion, deferred or cancelled orders and lower investment spending.

Survey respondents also reported supply chain delays, cost increases and outright shortages of raw materials.

MEDIA CONTACTS

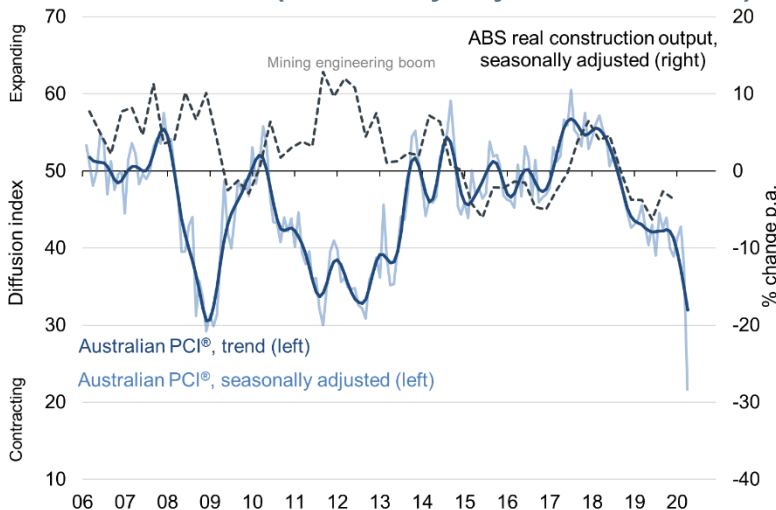
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Australian PCI® ▼16.3 points (seasonally adjusted)	21.6
Australian PCI® ▼ 2.8 points (trend)	32.0
Activity ▼ 21.1 points (seasonally adjusted)	18.0
New orders ▼19.7 points (seasonally adjusted)	15.7
Employment ▼ 10.8 points (seasonally adjusted)	25.6
House building ▼ 5.3 points (trend)	37.1
Apartments ▼ -4.5 points (trend)	22.1
Engineering activity ▼ 1.1 points (trend)	36.6
Commercial activity ▼ -4.3 points (trend)	24.5

Australian PCI® (seasonally adjusted and trend)



Construction sectors: Indexes for all four construction sectors fell to record lows in April (seasonally adjusted) and to recent lows in trend terms. Of the four, apartment building was lowest in April (22.1 points, trend), with the lowest activity index result since this index commenced in 2006. In house building (37.1 points, trend), respondents reported lower enquiries, home sales and cancelled contracts. Commercial construction (24.5 points, trend) and engineering construction (36.6 points, trend) also deteriorated further, compared to March.

Construction wages and prices: Strong input cost pressures remain evident in the construction industry but eased somewhat in April 2020, with the input price index decreasing by 5.7 points to 65.3 points.

The selling prices index decreased sharply, falling by 13.2 points to 26.2 points in April. This was the lowest monthly result since the start of this pricing series in 2008. The widening gap between these pricing series in the Australian PCI® indicates a significant tightening in profit margins for many construction businesses.

The average wages index fell to its lowest level on record – and the first move below 50 points – in April, indicating that at least some construction businesses had to reduce their wages in April.

Construction activity: Three of the four activity indexes in the Australian PCI® fell to record low levels in April 2020 (seasonally adjusted), with sharp single-month drops indicating a very rapid deterioration in conditions across the industry. The supplier deliveries index fell to the lowest level for this index since 2012.

Construction highlights: The Australian PCI® shows the national activity restrictions due to COVID-19 have taken a heavy toll on construction industry activity already, even though the industry has not been subject to mandatory shut-down requirements like many other industries. Construction businesses report steep declines in activity and new orders across the board. Existing major projects are being cancelled or deferred, with timetables for recommencement uncertain.

Construction concerns: The impact of COVID-19 activity restrictions are only just beginning for the construction industry. Construction-related investment and spending decisions will be affected for some time to come. For construction, it is possible that worse declines in activity and demand are yet to be felt.

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®	21.6	-16.3	39.7	Australian PCI®	32.0	-2.8	40.0
Activity	18.0	-21.1	39.5	House building	37.1	-5.3	44.8
Employment	25.6	-10.8	40.1	Apartments	22.1	-4.5	33.4
New Orders	15.7	-19.7	38.2	Engineering construction	36.6	-1.1	40.0
Supplier Deliveries	34.1	-8.7	42.2	Commercial construction	24.5	-4.3	40.3
Input Prices	65.3	-5.7	67.5	<i>Seasonally adjusted</i>			
Selling Prices	26.2	-13.2	39.4		%	ppt	%
Average Wages	43.7	-10.5	57.3	Capacity Utilisation (%)	60.5	-11.4	73.9

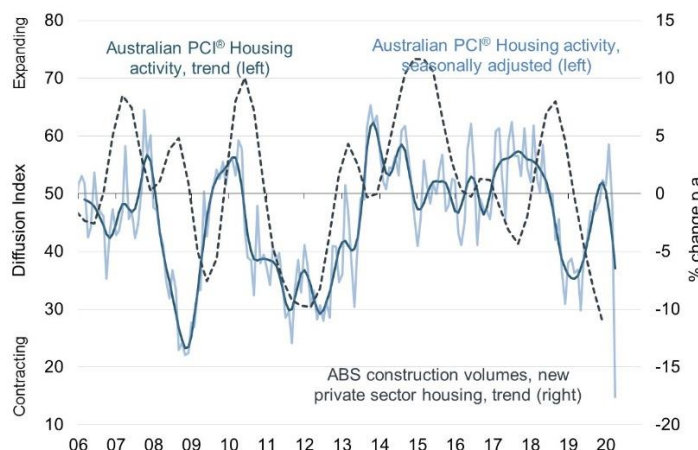
Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® are reported in trend terms (Henderson 13-month filter).

CONSTRUCTION REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total, %
<i>Latest ABS data, seasonally adjusted</i>				
Nom. value of residential building approvals, \$bn, year to Mar 2020	\$bn	%	%	%
Nom. value of non-residential building approvals, \$bn, year to Mar 2020	65.1	-	-9.7	55.6% of building approvals
Real value of building work done, \$bn, year to Dec 2019	52.0	-	16.7	44.4% of building approvals
Real value of engineering work done, \$bn, year to Dec 2019	120.2	-4.1	-7.1	58.1% of all construction done
Real value of all construction work done, \$bn, year to Dec 2019	84.6	-1.5	-8.0	41.9% of all construction done
Real value-added output, \$bn, year to Dec 2019	204.8	-3.0	-7.4	-
Number of employed people, '000, February 2020, trend	134.6	-2.3	-3.6	6.9% of total GDP
	1,184.2	-0.3	3.3	9.1% of employed people

ABS data sources: National Accounts; Business Indicators; Labour Force Quarterly Detail; Building Approvals; Construction Work Done.

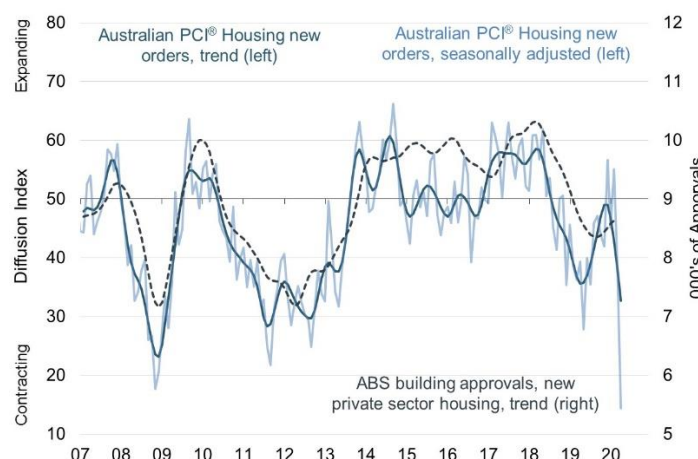
House building activity

- The volume of new house building work done fell by 6.3% q/q and 11.8% p.a. to \$8.8bn in the December quarter (Q4) of 2019 (seasonally adjusted), according to the ABS. House building accounted for 16.7% of all construction work done in Q4 of 2019.
- The Australian PCI® house building index fell by 5.3 points to 37.1 points in April (trend), indicating a sharper rate of decline and the lowest result for this index since May 2019.
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid onset for this sudden deterioration.



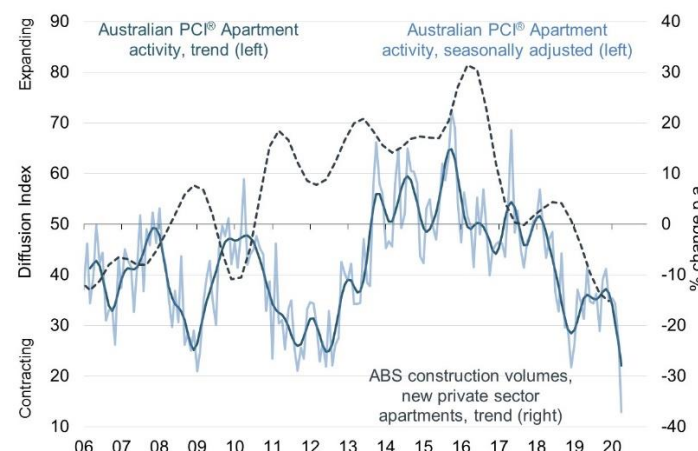
House building new orders

- The total number of private house approvals increased by 0.2% m/m to 8,629 in March 2020, but were 2.0% lower over the year (trend), according to the ABS.
- New orders in the house building sector contracted again in April, with the Australian PCI® new orders index for housing falling by 5.3 points to 32.7 points (trend).
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid deterioration in new orders. This indicates activity will weaken further in coming months.



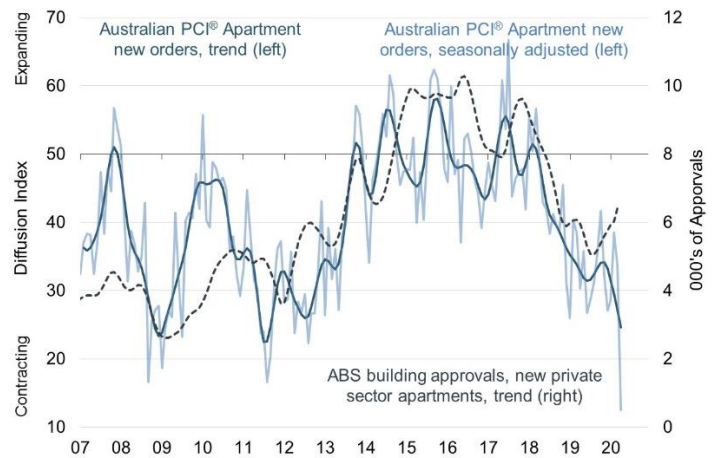
Apartment building activity

- The volume of new multi-unit dwelling building work done in Q4 2019 fell by 3.5% q/q and 15.9% p.a. to \$7.0bn (seasonally adjusted and inflation-adjusted), according to the ABS. Apartment building activity accounted for 14.0% of all construction work done in Q4.
- The apartment building activity index fell by 4.5 points to 22.1 points (trend). This was the lowest result for this index since this series began in 2006.
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid onset for this sudden deterioration.



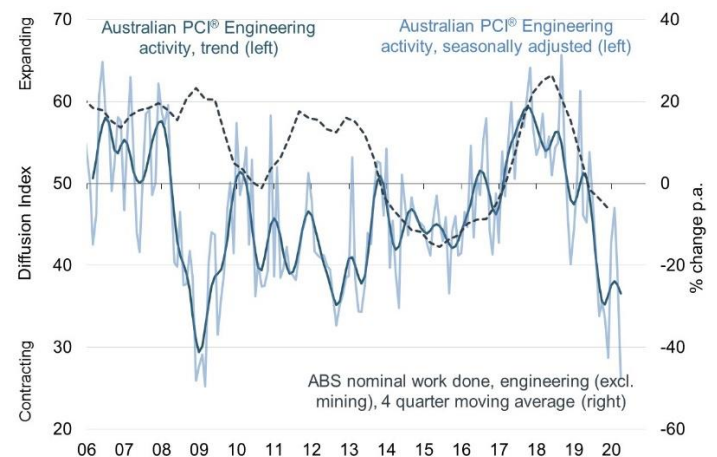
Apartment new orders

- The total number of private ‘other dwellings’ approvals (apartments, flats and townhouses) increased by 2.8% m/m in March 2020, to be 5.2% p.a. higher over the year to March (trend). This was still 33.2% lower than the peak recorded in November 2017.
- The Australian PCI® apartment building new orders index fell by 2.6 points to 24.6 points in April (trend), the lowest result for this index since August 2011.
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid deterioration in new orders. This indicates activity will weaken further in coming months.



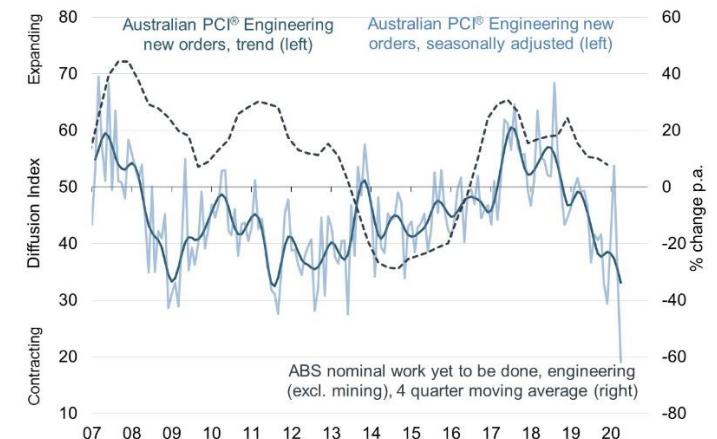
Engineering construction activity

- The volume of engineering construction work done in Q4 2019 fell by 1.5% q/q and 8.0% p.a. to \$20.8bn (seasonally adjusted and inflation-adjusted), according to the ABS. Engineering construction accounted for 41.9% of all construction work done in Q4 of 2019.
- The Australian PCI® engineering construction activity index decreased by 1.1 points to 36.6 points (trend), indicating a steeper rate of decline in April. This index has been bouncing around its record low in 2020 to date.
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid onset for this sudden deterioration.



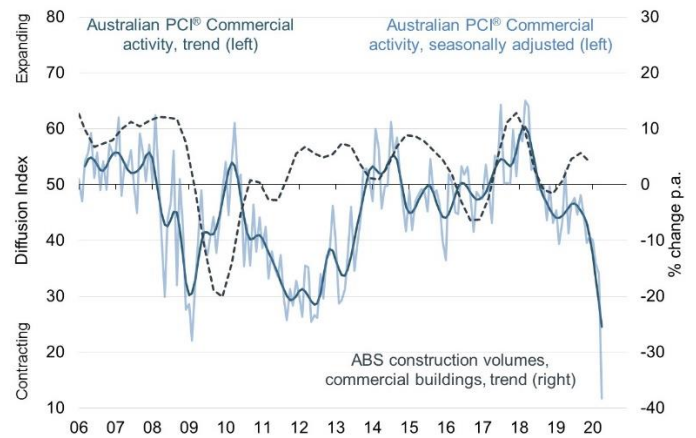
Engineering new orders

- The Australian PCI® engineering construction sector’s new orders index decreased by 2.4 points to 33.1 points in April (trend), indicating a faster pace of decline.
- This was the 18th month of contraction for this index.
- Engineering sector respondents reported a lack of new contracts and existing projects being placed on hold. They also noted access restrictions on some major construction sites.
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid deterioration in new orders. This indicates activity will weaken further in coming months.



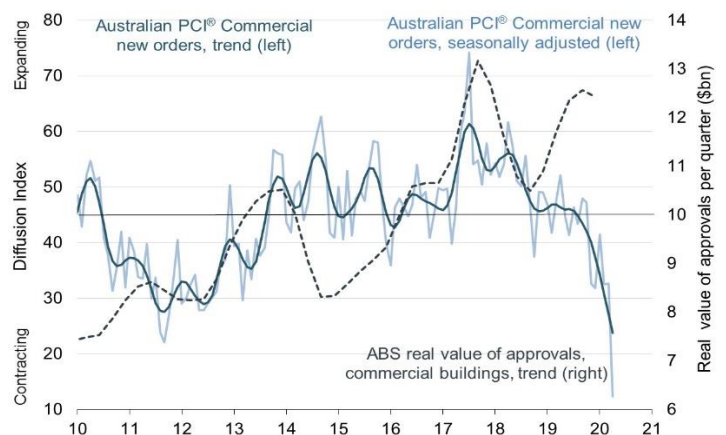
Commercial construction activity

- The volume of non-residential building work done fell by 3.4% q/q in Q4 of 2019 (seasonally adjusted and inflation-adjusted) to be 3.3% higher over the year, according to the ABS.
- Non-residential building accounted for 23% of all construction work done in Q4 of 2019.
- The Australian PCI® commercial construction activity index fell by 4.3 points to 23.5 points in April (trend), the lowest result since this series began in 2006.
- This was the 21st consecutive month of contraction in the Australian PCI® commercial building index.
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid onset for this sudden deterioration.



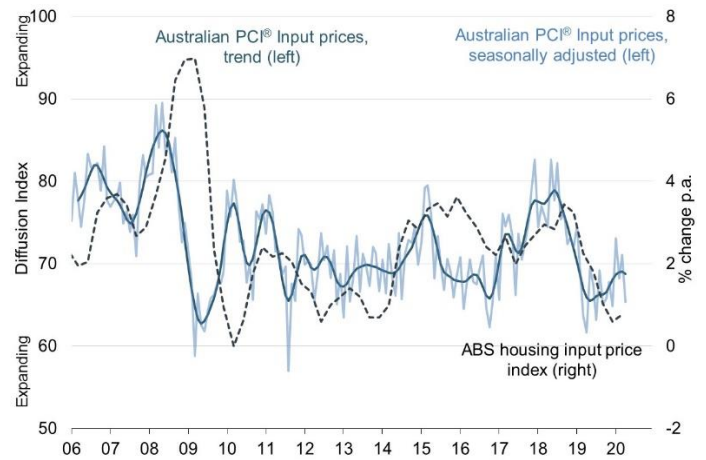
Commercial new orders

- The value of non-residential building approvals increased by 2.3% m/m to be 8.5% higher over the year at \$12.4bn in March 2020 (trend), according to the ABS.
- The Australian PCI® new orders index for commercial construction fell by 3.4 points to 23.8 points in April (trend).
- This was the lowest monthly result for the commercial construction new orders index (trend) since this series began in March 2006. It been below 50 points (and indicating decline) for most of the past two years.
- In seasonally adjusted terms, this index is at a record low. The size of the monthly movement (the largest single-month drop in the history of this series) signals an extremely rapid deterioration in new orders. This indicates activity will weaken further in coming months.



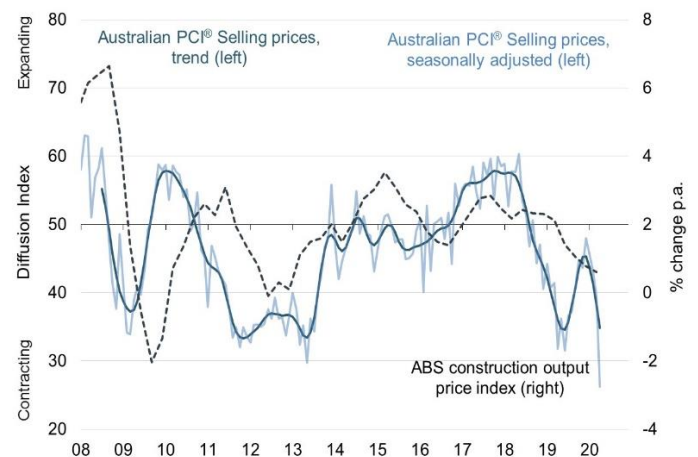
Input prices

- House construction industry input prices rose by 0.8% p.a. in Q1 of 2020, according to the ABS Producer Price Index.
- The input price index decreased by 5.7 points to 65.3 points, indicating that cost pressures in the construction industry moderated during the month.
- The Australian PCI® input price index remains elevated compared to 2019 but is below its long-run average.
- Respondents said that input prices were up due to the lower Australian dollar (which pushes up prices for imported inputs) and ongoing pressure from high energy prices. Lower oil prices may have meant lower transport costs for some construction businesses.



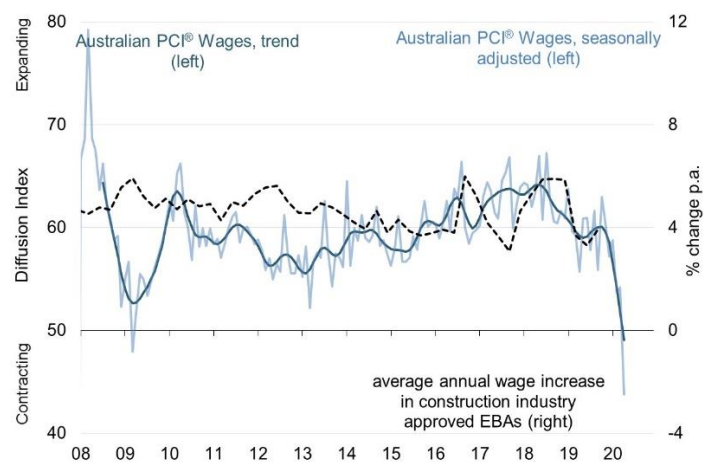
Selling prices

- Building construction industry output (selling) prices rose by 0.6% p.a. in Q1 of 2020, according to the ABS Producer Price Index. This is well below headline consumer inflation of 2.2% p.a. over the same period.
- The selling prices index in the Australian PCI® fell by 13.2 points to 26.2 points in April (seasonally adjusted). This was the lowest result for this index since the survey began in September 2005.
- This indicates that rising input prices and other costs are not, on average, being passed on to customers. They are largely being absorbed by builders and squeezing already-slim margins.



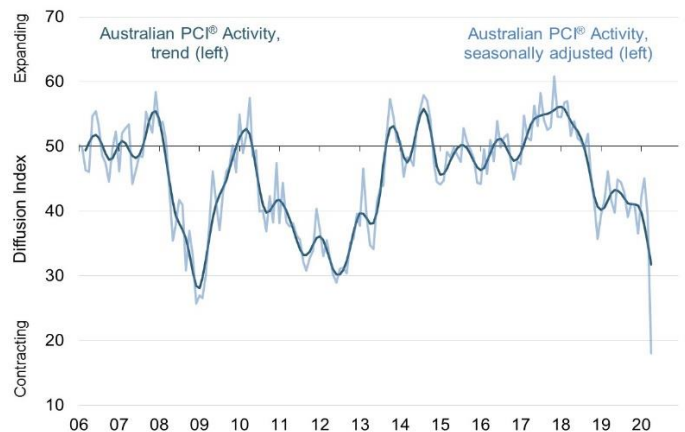
Average wages

- Average wage rates for private sector construction workers rose by 0.5% q/q and 1.9% p.a. in Q4 of 2019, according to the ABS wage price index.
- Wages in approved Enterprise Bargaining Agreements (EBAs) in the construction industry rose by an average of 3.9% in Q3 of 2019 (well above the average of 2.7% for all industries), according to the Department of Education, Employment and Workplace Relations' Federal Enterprise Bargaining Trends report.
- The Australian PCI® wages index fell by 10.5 points to 43.7 points in April. This was the first move under 50 points (indicating an outright decline) and the lowest monthly result for this index since it began in 2008.



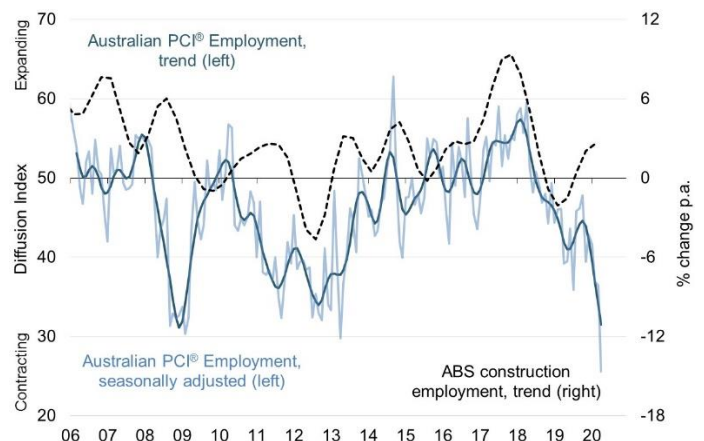
Activity

- The construction industry accounted for \$134.6bn in real value-added output in the year to Q4 2019 (6.9% of Gross Domestic Product, GDP). Construction industry annual value-added output decreased by 2.3% in Q4 2019 and 3.6% over the year to Q4 2019.
- The activity index in the Australian PCI® fell by 21.1 points to 18.0 points in April (seasonally adjusted). This lowest level for this index in the survey's history and the largest single-month drop.
- This indicates a very sharp and deep cut in activity levels across the industry, from already modest levels activity through 2019.



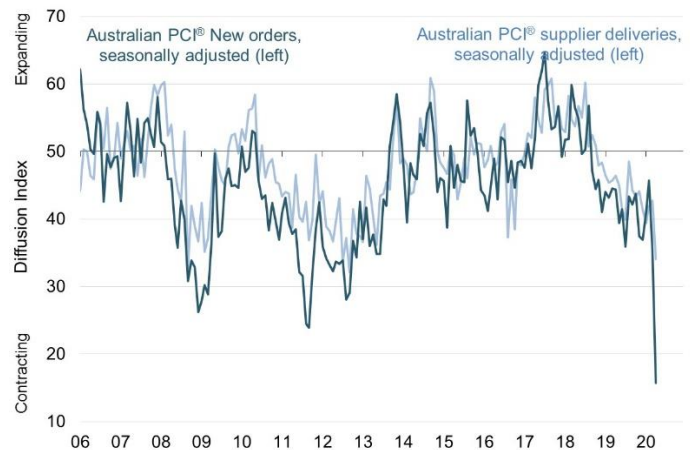
Employment

- There were 1,184,200 people employed in construction in February 2020 (9.1% of all people employed in Australia), according to the ABS. Total construction employment fell by 0.3% q/q in February 2020 but was 3.3% p.a. higher over the year to February.
- The employment index in the Australian PCI® decreased by 10.8 points to 25.6 points in April (seasonally adjusted). This was the lowest result ever recorded for the employment index in the Australian PCI®.
- This low result suggests that a large and increasing number of businesses are shedding labour due to the sudden drop in activity and concerns about the outlook.



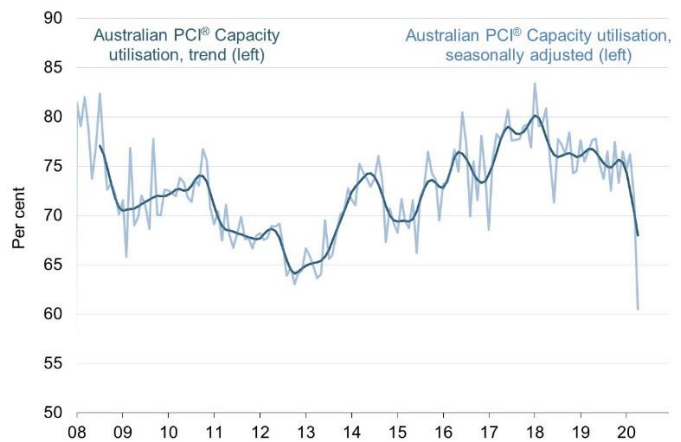
New orders and supplier deliveries

- The Australian PCI® new orders index fell by 19.7 points to 15.7 points in April (seasonally adjusted).
- This was the lowest level and the largest drop recorded in this survey, signaling much tougher conditions ahead.
- The Australian PCI® supplier delivery index decreased by 8.7 points to 34.1 points in April (seasonally adjusted), its lowest level since 2012.
- Respondents reported significant supplier delivery disruptions in April due to COVID-19 activity restrictions, for both local and imported building materials.



Capacity utilisation

- The rate of capacity utilisation decreased to 60.5% of available capacity being utilised across the construction industry in April, down from 71.9% in March (seasonally adjusted).
- This was the lowest level of capacity being utilised (seasonally adjusted), since this index began in 2008.
- Capacity utilisation has been declining since its recent peak in January 2018.



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 and employment with varying weights. An Australian PCI® result above 50 points indicates that construction 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. Sector weights are 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 www.aigroup.com.au/resourcecentre/economics/

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