

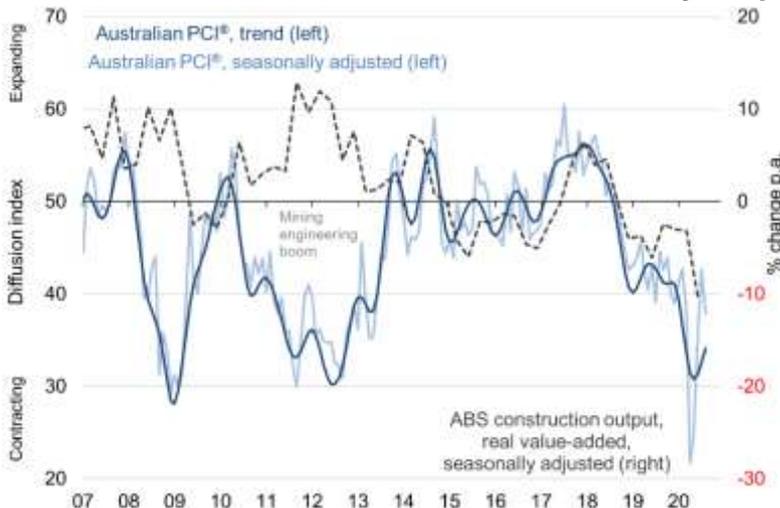
# Construction industry slump continues into August 2020

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) fell by 4.8 points to 37.9 points in August. After a pause in July, the pace of decline in business conditions worsened again across all construction sectors, as COVID-19 activity restrictions stepped up in Victoria and state borders were closed again elsewhere. Results below 50 points in the **Australian PCI®** indicate contraction with lower results indicating a faster rate of contraction. The ABS estimates that value-added output from the construction industry fell by 8.2% q/q and 10.3% p.a. nationally in Q2.

Across the states, the **Australian PCI®** remained well below 50 points in all states. It fell sharply (more negatively) in Victoria and WA, remained the same in NSW and improved in SA and QLD. Builders around the country said they are being adversely affected by the lockdown in Victoria plus border closures in other states and reduced confidence. New orders are down sharply across the board, with few customer inquiries translating into firm contract commitments. Regulatory processes, OH&S requirements and disrupted supplies are slowing work on site, even in locations with no local activity restrictions for construction. Input prices have jumped higher due to local and international supply delays.

Looking ahead, the **Australian PCI®** new orders indexes fell sharply for new housing and especially new apartments. In the meantime, the JobKeeper and Apprentice Support wage subsidy schemes are providing life support to struggling businesses across all facets of the construction industry.

**Australian PCI® and ABS construction industry output**



AUGUST 2020

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<b>Australian PCI®</b> ▼ -4.8 points (seasonally adjusted)	<b>37.9</b>
<b>Australian PCI®</b> ▲ 2.0 points (trend)	<b>36.8</b>
<b>Activity</b> ▼ -14.5 points (seas. adj.)	<b>31.1</b>
<b>Employment</b> ▲ 4.7 points (seas. adj.)	<b>46.1</b>
<b>New orders</b> ▼ -8.4 points (seas. adj.)	<b>35.1</b>
<b>Housing activity</b> ▼ -9.6 points (seas. adj.)	<b>37.4</b>
<b>Apartments activity</b> ▼ -11.1 points (seas. adj.)	<b>22.8</b>
<b>Commercial activity</b> ▼ -9.6 points (seas. adj.)	<b>32.4</b>
<b>Engineering activity</b> ▼ -18.5 points (seas. adj.)	<b>27.0</b>

**Construction sectors:** Activity and new orders indices deteriorated again in August across all four sectors included in the **Australian PCI®**. New orders indices fell sharply for housing and apartments, with the steepest falls in Victoria.

**Construction prices:** The index for input prices rose by 9.0 points to 67.3 points in August. This index remains well below its long-run average (72.3 points) and reflects weak demand for building materials and other inputs. The selling prices index also recovered in August but remains relatively weak due to reduced demand across all parts of construction.

**Construction wages and employment:** The average wages index recovered by a further 6.1 points and the employment index recovered by a further 4.7 points from recent lows in August. The employment index remains below 50 points and indicating (milder) contraction in August. The ABS estimates that total construction employment fell by 0.7% in the three months to May. Survey participants continue to stress the importance of the JobKeeper and Apprentice Support schemes in supporting employment and incomes at present.

**Construction activity:** The **Australian PCI®** activity index slid 14.5 points lower again in August. Activity and travel restrictions due to COVID-19 continue to take a heavy toll on construction activity in all states, with an especially marked impact in Victoria in August. Nationally, most building sites have been affected by delays, distancing and PPE requirements.

**Construction new orders:** Looking ahead, the new orders index fell by 8.4 points to 35.1 points in August, indicating a sharper decline and wiping out most of the gain made in July. House builders reported fewer queries and contracts as a result of new government activity restrictions, with a strong decline in Melbourne (and regional Victoria).

**Construction supplier deliveries:** The supplier deliveries index recovered by a further 6.3 points to 43.5 points in August after falling to a record low in May. Participants reported reduced orders, but less price discounting from local suppliers.

**Construction capacity utilisation:** The capacity utilisation index in the **Australian PCI®** fell to 73.4% of capacity being utilised in August, after falling to a record low of 60.5% in April. This drop was due to activity restrictions and delays in more locations in August, with some residential and commercial building businesses reporting that they are not working at all.

**Construction highlights:** The national JobKeeper and Apprentice Support schemes continue to provide crucial support to employment and incomes. Activity, new orders and confidence took another hit in August but will hopefully pick up again relatively quickly when activity restrictions and border closures can be lifted in all states over the coming months.

**Construction concerns:** The COVID-19 pandemic has resulted in a large demand shock to all segments of Australian construction. Supply disruptions appear to be easing in line with reduced activity restrictions in some parts of Australia, but new activity restrictions in Victoria have hit construction hard. New orders suggest lower levels of activity are likely ahead.

AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average	AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average
<b>Australian PCI®</b>	<b>37.9</b>	<b>-4.8</b>	<b>37.5</b>	<b>Construction sectors</b>			
Activity	31.1	-14.5	36.3	House building activity	37.4	-9.6	42.7
Employment	46.1	4.7	39.5	Apartments activity	22.8	-11.1	31.4
New Orders	35.1	-8.4	36.0	Commercial activity	32.4	-9.6	34.5
Supplier Deliveries	43.5	6.3	39.6	Engineering activity	27.0	-18.5	34.6
Input Prices	67.3	9.0	66.1				
Selling Prices	42.4	6.6	39.9				
Average Wages	53.5	6.1	53.3	Capacity utilisation (% of capacity)	73.4	-2.9	72.8

CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted	Level	Change	Change	Share of total
<b>Approvals</b> , \$bn per month, July 2020	\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals	5.4	9.5	5.9	62.0
Value of non-residential building approvals	3.3	-19.8	-15.7	38.0
<b>Activity</b> , \$bn per quarter, June 2020	\$bn	% q/q	% y/y	% of construction activity
Volume of residential building	16.6	-5.5	-12.1	33.2
Volume of non-residential building	11.8	-1.5	6.2	23.5
Volume of engineering construction	21.7	3.8	2.2	43.3
<b>Output</b> , real value-added output, \$bn per quarter, June 2020	30.2	-8.2	-10.3	6.9% of total GDP
<b>Employment</b> , million people employed, May 2020	1.174	-0.7	-0.1	9.1% of employed people

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: <https://www.aigroup.com.au/resourcecentre/economics/>

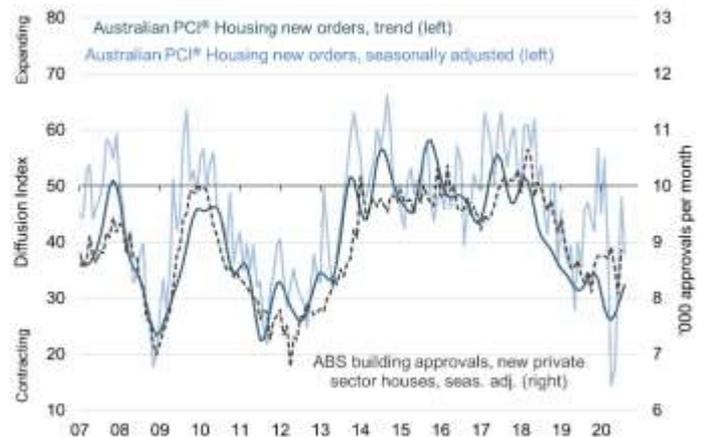
### House building activity

- The volume of new house building activity (across the public and private sectors) fell by 5.5% q/q and 9.4% p.a. in Q2 2020 (ABS, seasonally adjusted). House building accounted for 16.5% of all construction work done in Q2.
- The Australian PCI® house building index fell by 9.6 points to 37.4 points in August, more than wiping out the gains made in July (seasonally adjusted). This suggests a further, sharper, contraction in August.
- House builders reported more disruptions again in August due to activity restrictions in Victoria. Work is slower due to physical distancing on site and delays for deliveries and travel, especially across state borders.



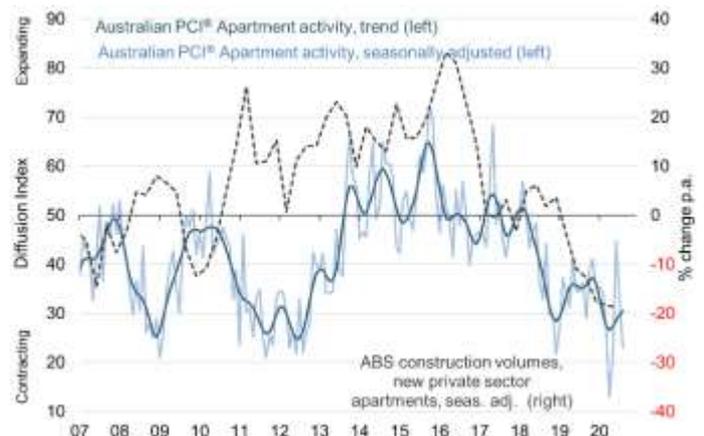
### House building new orders

- The number of approvals for private sector houses rose by 8.5% m/m and 5.6% p.a. to 8,852 dwellings approved in July 2020, after falling in four of the previous five months (ABS, seasonally adjusted).
- The new orders index in the house building sector plunged by 10 points to 37.9 points in August, wiping out most of the recovery made in July (seasonally adjusted).
- House building orders were hit hard by the closure of display homes and travel restrictions in April and May. House builders reported a partial recovery in inquiries and confirmed orders (signed contracts) in June and July but this reversed again in August, particularly in Victoria which has closed display homes and sales again.



### Apartment building activity

- The volume of building work done on new multi-unit dwellings (across the public and private sectors) fell by 5.6% q/q and 18.6 p.a. in Q2 2020 (ABS, seasonally adjusted). Apartment building activity accounted for 12.2% of all construction work done in Q2.
- The apartment building activity index fell by a further 11.1 points to 22.8 points in August, taking it back towards its record low in April (seasonally adjusted). This index has been in contraction (below 50 points) since early 2018 as the industry cycles down from boom conditions in 2017.
- Apartment building activity retreated at a rapid pace in July and August due to the COVID-19 crisis and the reinstatement of activity restrictions in Victoria and state border closures elsewhere. Large apartment building sites are being severely disrupted by delivery delays, travel restrictions for workers, physical distancing and the implementation of new PPE requirements on site.



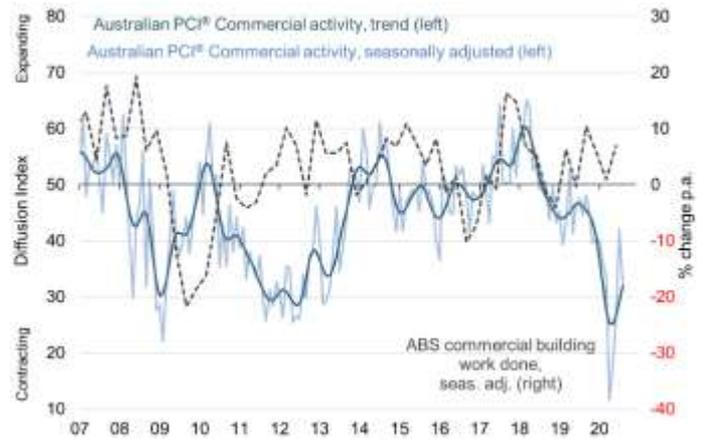
### Apartment building new orders

- The number of private dwellings other than houses (apartments and flats) approved for construction recovered by 22.7% m/m and 7.5% p.a. in July to 4,684 units (ABS, seasonally adjusted), after falling sharply in five of the previous six months. This is about one third of the peak of 13,000 units approved in November 2017.
- The Australian PCI® apartment building new orders index fell by 11.8 points to 29.3 points in August, wiping out the gains made in June and July (seasonally adjusted).
- This renewed deterioration in new orders for apartments reflects new activity restrictions in Victoria and border closures elsewhere. The sharp reduction in demand for new apartments from local and international investors is expected to continue through 2020 and 2021.



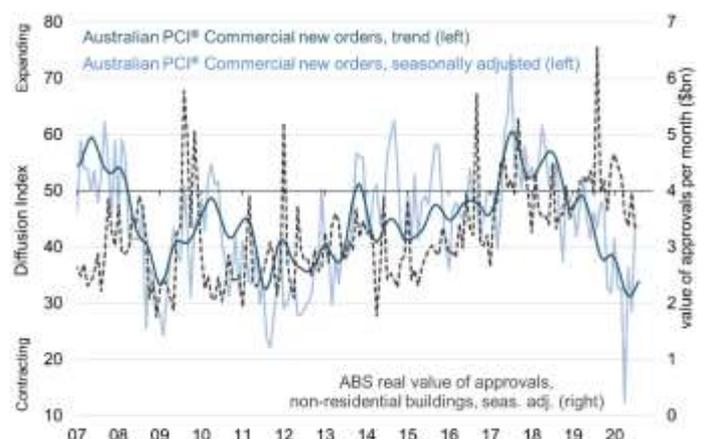
### Commercial construction activity

- The volume of non-residential building work done across the public and private sectors fell by 1.5% q/q in Q2 2020 but was up by 6.2% p.a. (ABS, seasonally adjusted). Non-residential building accounted for 23% of all construction work done in Q2 of 2020.
- The Australian PCI® commercial construction activity index fell by 9.6 points to 32.4 points in August, indicating a faster pace of contraction and unwinding part of the improvement evident in July (seasonally adjusted).
- This index remains at an historically low level and signals further contraction after the record lows in activity in April and May. Work on commercial and industrial sites has been disrupted again due to renewed activity restrictions in Victoria and border closures elsewhere. All work is slower due to distancing and PPE requirements on site.



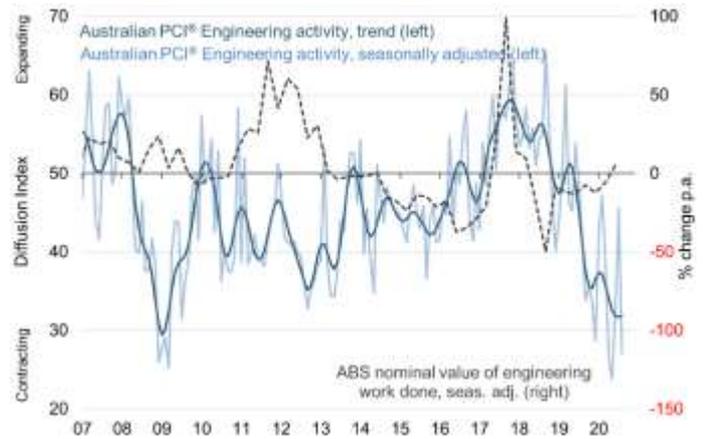
### Commercial construction new orders

- The value of non-residential building approvals fell by 19.8% m/m and 15.7% p.a. to \$3.3bn in July. This was the lowest value since Jan 2018 and half of the peak of \$6.6bn in Aug 2019 (ABS, seasonally adjusted)
- The Australian PCI® new orders index for commercial construction was steady at 43.6 points in August. It dropped to a record low of 12.3 points in April (seasonally adjusted). This signals a further fall in activity ahead.
- The failure to lift new orders for commercial construction projects suggests activity will stay relatively weak in coming months, even in states where activity restrictions are lifting, because local confidence remains tentative.



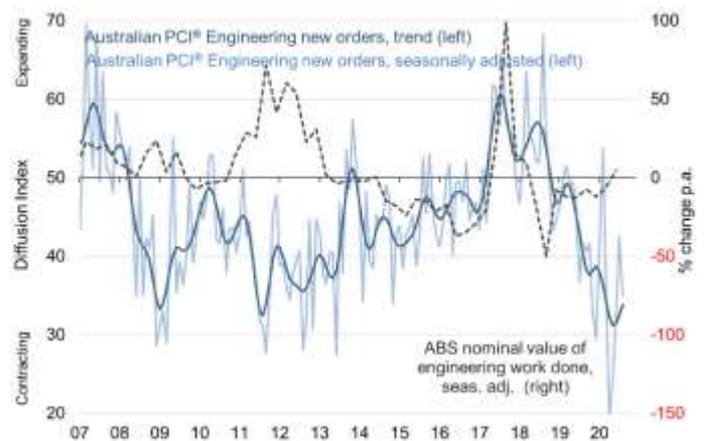
### Engineering construction activity

- The volume of engineering construction work done recovered by 3.8% q/q and 2.2% p.a. in Q2 2020 but remains 40% lower than its latest peak in Q3 of 2017 (ABS, seasonally adjusted). Engineering construction accounted for 43% of all construction work in Q2 of 2020.
- The Australian PCI® engineering construction activity index fell by 18.5 points to 27.0 points in August, taking it down towards its record low in May (seasonally adjusted).
- Respondents continue to report that few new non-mining engineering projects are commencing and that existing projects are being delayed by transport problems, physical distancing and PPE requirements on site.



### Engineering construction new orders

- The Australian PCI® engineering construction sector's new orders index fell by a further 7.5 points to 35.0 points in August, indicating a sharper pace of decline and reversing much of the gain in July (seasonally adjusted).
- This index has been indicating contraction (under 50 points) in most months since 2018, with heightened volatility in 2020. This trend signals weaker activity levels in engineering construction in the months ahead.
- Engineering sector respondents reported few new civil engineering contracts coming up, outside the mining sector. Existing projects in mining and civil engineering (roads and transport) are experiencing ongoing delays and disruption related to COVID-19 (e.g. supply delays and restrictions on interstate travel and activity).



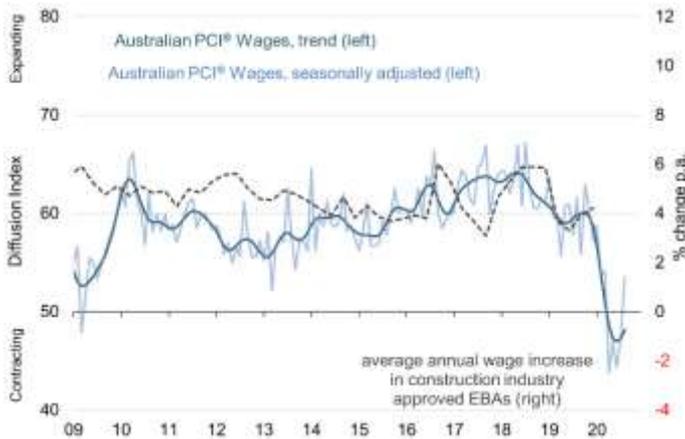
Input prices



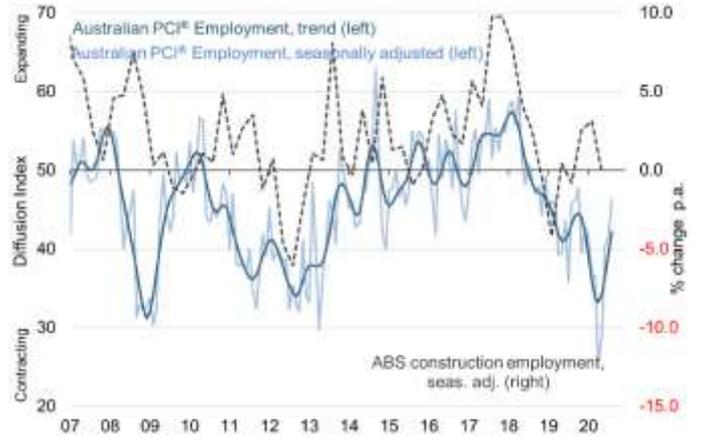
Selling prices



Average wages



Employment



Activity



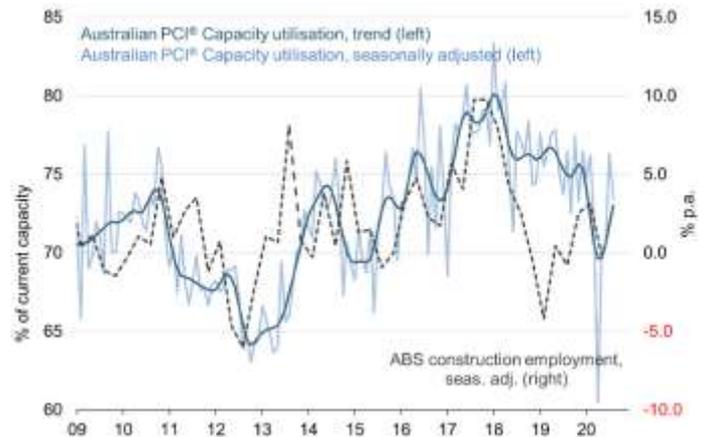
New orders



## Supplier deliveries



## Capacity utilisation



### 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.

In the Australian PCI, the definitions of the four sectors are:

1. **House building** (ANZSIC code 4111 "House construction") includes the construction, repair and renovation of houses (a detached dwelling predominantly used for long term purposes and consisting of one dwelling unit), organising or managing construction as the prime contractor.
2. **Apartment building** (ANZSIC code 4112 "Residential building construction n.e.c. (units)") includes the construction of residential buildings other than a house primarily used for long-term residential purposes, 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") includes the construction of transport infrastructure 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") includes the construction of 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 types of non-residential buildings.



**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/](http://www.aigroup.com.au/resourcecentre/economics/)

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