

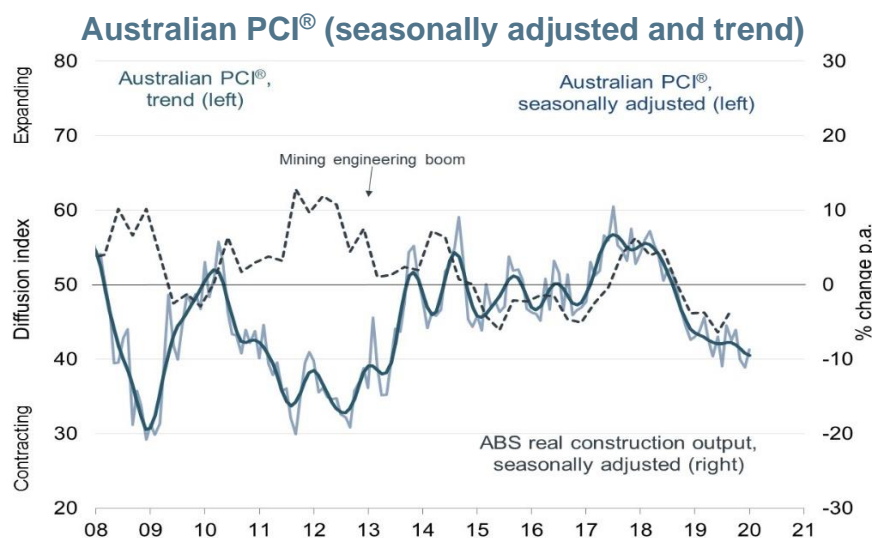
# Construction downturn eases in January 2020 as house building activity improves

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) increased by 2.4 points to 41.3 points in January (seasonally adjusted), indicating that the construction industry declined at a slightly slower pace at the start of 2020. Results under 50 points in the Australian PCI® indicate deteriorating conditions, with lower results indicating a faster pace of decline.

The milder decline in the Australian PCI® in January reflected less pronounced reductions in activity and new orders. However, both employment and deliveries from suppliers contracted at steeper rates.

Across the four sectors in the Australian PCI®, house building expanded mildly in January, following stability in the previous two months (trend). Elsewhere conditions were more subdued, with further falls in activity across the apartments, commercial and engineering construction sectors.

There were positive reports from residential builders indicating that home buyer demand is being supported by low interest rates and an easing in bank lending restrictions. However, other building businesses noted ongoing caution among prospective home buyers due to the slow and uncertain domestic economy. Concerns were expressed about strong competition for the available work and about bushfire-related disruptions to activity.



JANUARY 2020

**MEDIA CONTACT**

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<b>Australian PCI®</b> ▲ 2.4 points (seasonally adjusted)	<b>41.3</b>
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<b>Australian PCI®</b> ▼ 0.4 points (trend)	<b>40.5</b>
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<b>Activity</b> ▲ 5.8 points (seasonally adjusted)	<b>42.3</b>
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<b>New orders</b> ▲ 4.0 points (seasonally adjusted)	<b>40.9</b>
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<b>Employment</b> ▼ 1.1 points (seasonally adjusted)	<b>41.7</b>
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<b>House building</b> ▲ 1.0 points (trend)	<b>51.7</b>
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<b>Apartments</b> ▲ 0.1 points (trend)	<b>37.0</b>
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<b>Engineering activity</b> ▲ 0.5 points (trend)	<b>34.2</b>
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<b>Commercial activity</b> ▼ 1.1 points (trend)	<b>39.9</b>
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**Construction sectors:** House building was the best performing of the four construction sectors in January (51.7 points, trend), with activity lifting above 50 points and indicating mild expansion and stability continuing in new orders. In contrast, apartment building (37.0 points, trend) remained firmly negative, indicating a rate of decline that was largely unchanged from the previous month. Across the major project areas, commercial construction (39.9 points, trend) recorded an 18<sup>th</sup> month of contraction amid continued weakness in demand. The index for engineering construction (34.2 points, trend) also indicated a further fall in the month, but at a rate that was marginally slower than the previous month.

**Construction wages and prices:** Input price inflation in the Australian PCI® picked-up in January to its highest level in 12 months. The input prices index increased by 8.2 points to 73.1 points, indicating that cost pressures in the construction of building projects (including higher imported input prices from a lower Australian dollar) intensified during the month. The selling prices sub-index in the Australian PCI® decreased by 2.2 points to 45.8 points in January, signaling a slightly steeper rate of contraction in output prices. This highlights the strong competition between builders and the constraints in recovering rising input costs. The wide gap between these price series in the Australian PCI® also demonstrates that profit margins remain tight for many construction businesses.

**Construction activity:** Across the construction industry, both activity (42.3 points) and new orders (40.9) continued to contract in January, although at slower rates relative to the previous month. However, there were steeper falls in deliveries of inputs from suppliers (39.4 points) while employment also recorded further contraction (41.7 points) indicating a general reluctance by businesses to increase their workforce capacity amid ongoing soft demand at an aggregate level.

**Construction highlights:** The Australian PCI® suggests that the housing sector has improved tentatively at the start of 2020 following two months of stable conditions. The commercial construction sector is continuing to detract from industry wide performance, although higher approvals in some key project areas are likely to be supportive of activity in 2020. Engineering activity is also continuing to decline amid reports of a slow roll-out of new infrastructure projects, although some businesses noted higher workloads in the month.

**Construction concerns:** Survey respondents continue to indicate significant margin pressures from a highly competitive tendering environment. There are concerns about current and prospective supplier price rises for imported materials due to the depreciation of the Australian dollar which is resulting in sharper input price inflation. Some businesses also pointed to soft economic growth and uncertainty about the outlook as having a negative effect on their order books as a result of increased risk aversion and lower spending among clients.

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>			
<b>Australian PCI®</b>	<b>41.3</b>	<b>2.4</b>	<b>42.1</b>	<b>Australian PCI®</b>	<b>40.5</b>	-0.4	<b>42.0</b>
Activity	42.3	5.8	41.8	House building	51.7	1.0	42.9
Employment	41.7	-1.1	42.8	Apartments	37.0	0.1	35.3
New Orders	40.9	4.0	41.1	Engineering construction	34.2	0.5	42.6
Supplier Deliveries	39.4	-2.0	43.8	Commercial construction	39.9	-1.1	44.2
Input Prices	73.1	8.2	66.7				
Selling Prices	45.8	-2.2	39.9	<i>Seasonally adjusted</i>	%	ppt	%
Average Wages	58.7	1.6	59.2	Capacity Utilisation (%)	74.7	-1.8	75.6

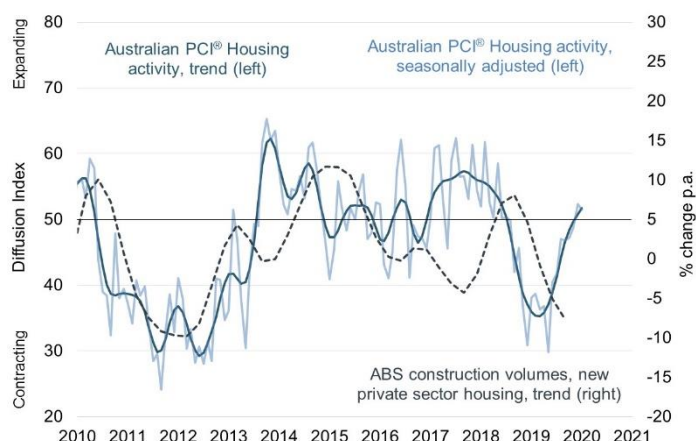
Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® are reported in trend terms (Henderson 13-month filter).

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 Dec 2019	65.1	-	-14.0	56.4% of building approvals
Nom. value of non-residential building approvals, \$bn, year to Dec 2019	50.2	-	14.1	43.6% 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 Sep 2019	136.0	0.5	-3.3	7.2% of total GDP
Number of employed people, '000, November 2019, <i>trend</i>	1,188.8	1.7	2.7	9.1% of employed people

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

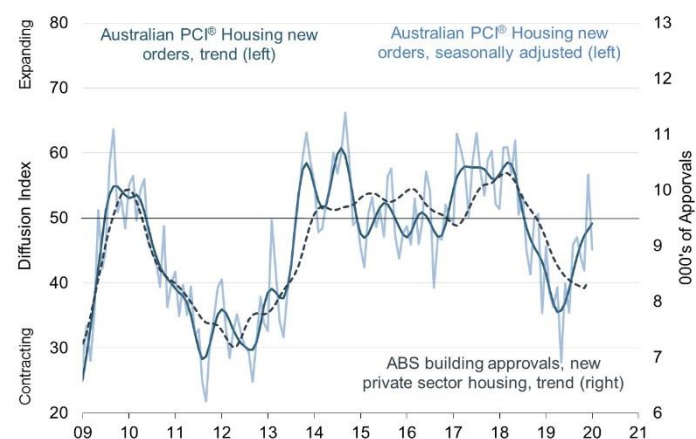
## House building activity

- The volume of new house building work done fell by 3.7% q/q and 8.9% p.a. to \$8.8bn in the September quarter (Q3) 2019 (seasonally adjusted and inflation-adjusted), according to the ABS. House building accounted for 17.2% of all construction work done in Q3.
- The Australian PCI® house building activity index lifted by 1.0 point to 51.7 points in January (trend), indicating a modest expansion in activity following two months of broadly stable conditions.
- This signaled the first expansion in house building activity since mid-2018. House builders said buyer demand appears to be responding to low interest rates and an easing in bank lending restrictions.



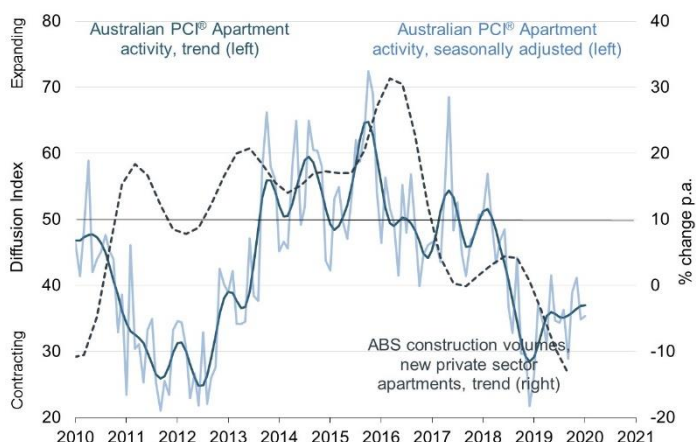
## House building new orders

- The total number of private house approvals increased by 0.3% m/m to 12.7% p.a. to 8,368 in December 2019, but were down by 10.0% p.a. over the year (trend), according to the ABS.
- New orders in the house building sector were broadly stable in January, with the Australian PCI® new orders index moving up by 0.9 points to 49.1 points (trend). This follows an easing in the rate of contraction over each of the previous seven months.
- January 2020 marked the highest result in 18 months for the Australian PCI® house building new orders index.



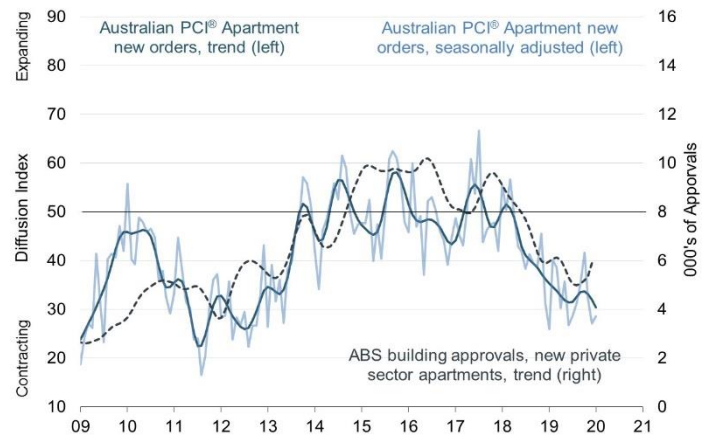
## Apartment building activity

- The volume of new multi-unit dwelling building work done in Q3 2019 fell by 3.2% q/q and 13.3% p.a. to \$7.3bn (seasonally adjusted and inflation-adjusted), according to the ABS. Apartment building activity accounted for 14.3% of all construction work done in Q3.
- The Australian PCI® apartment building activity index increased by 0.1 points to 37.0 points (trend) in January. This was the 22<sup>nd</sup> month of contraction. The index level (and therefore the rate of contraction) was broadly unchanged from December 2019. This lengthy period of contraction in activity has coincided with declining new orders for most of the period since September 2017 and a decline in apartment approvals from all-time peaks.



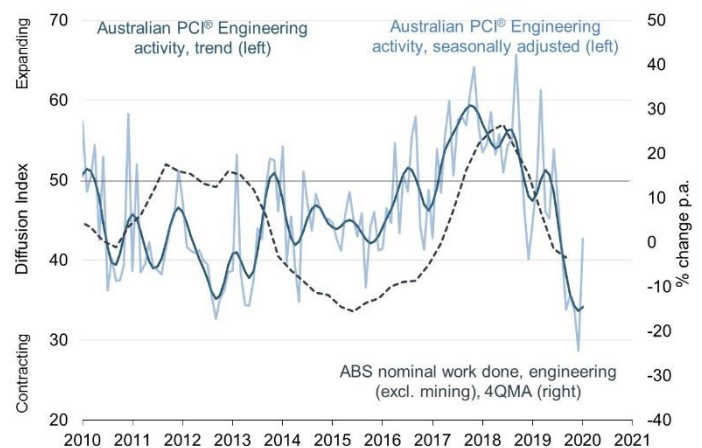
## Apartment new orders

- The total number of private 'other dwellings' approvals (apartments, flats and townhouses) increased by 4.9% m/m to 5,889 in December 2019 to be 0.4% p.a. higher over the year to November and 38.6% lower than the peak recorded in November 2017 (ABS, trend).
- The Australian PCI® apartment building new orders index fell by 1.6 points to 30.4 points in January (trend). This index for apartment new orders has been under 50 points and indicating a decline for 22 consecutive months.



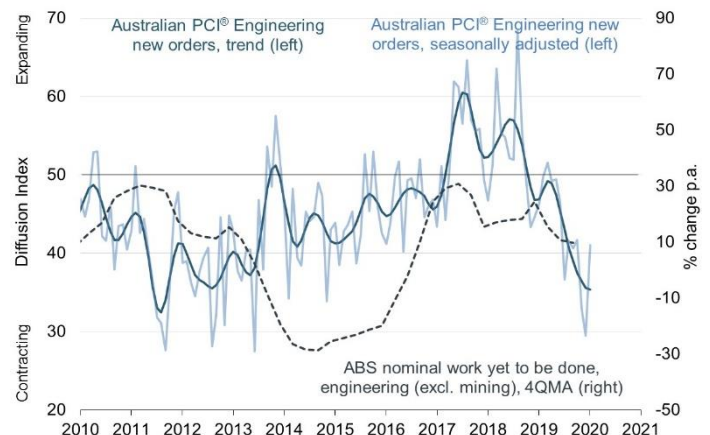
## Engineering construction activity

- The volume of engineering construction work done in Q3 2019 fell by 0.2% q/q and by 9.6% p.a. to \$86.2bn (seasonally adjusted and inflation-adjusted), according to the ABS. Engineering construction accounted for 41.6% of all construction work done in Q3.
- The Australian PCI® engineering construction activity index remained deeply negative in January. The rate of decline was largely unchanged in January, with the sector's index increasing by 0.5 points to 34.2 points (trend). January marked the eighth consecutive month of decline in engineering construction activity.



## Engineering new orders

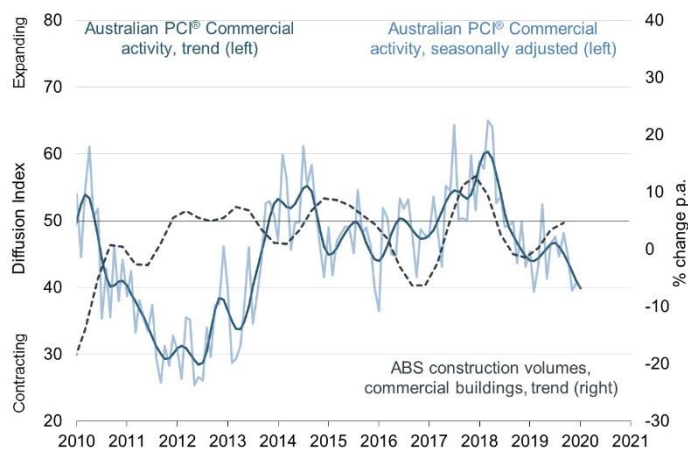
- The Australian PCI® engineering construction sector's new orders index decreased by 0.2 points to 35.4 points in January (trend). This was the 15<sup>th</sup> month of contraction for this index. The pace of decline was broadly unchanged from December 2019.
- Construction businesses reported slow progress in the planning stages of major projects and hesitancy by clients in committing to new projects. Nevertheless, there were some positive reports of increased workloads in the month for some engineering firms.
- A sizeable pipeline of Government funded projects and a tentative recovery in mining investment should help to support engineering construction activity in the year ahead.





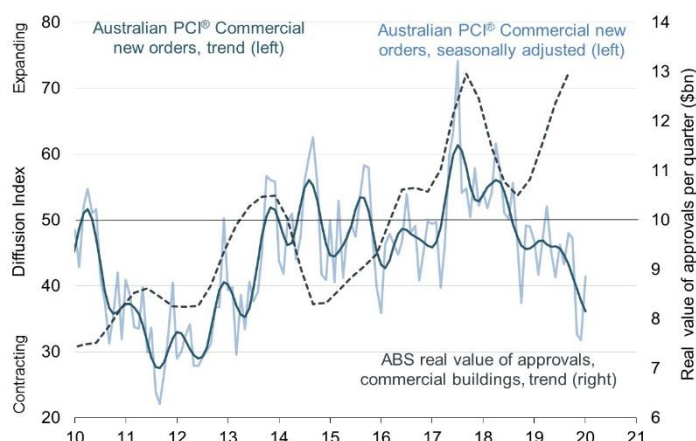
## Commercial construction activity

- The volume of non-residential building work done increased by 4.0% q/q and 5.3% p.a. in Q3 of 2019 (seasonally adjusted and inflation-adjusted), according to the ABS. Non-residential building accounted for 22.5% of all construction work done in Q3 2019.
- The Australian PCI® commercial construction activity index fell by 1.1 points to 39.9 points in January (trend). This was the 18<sup>th</sup> consecutive month of contraction for the commercial building sector.
- Despite this further decline in January, the sector's activity levels are expected to be supported in 2020 by employment and population growth, low interest rates and solid approvals in key commercial and social building categories including industrial premises, schools and hospitals.



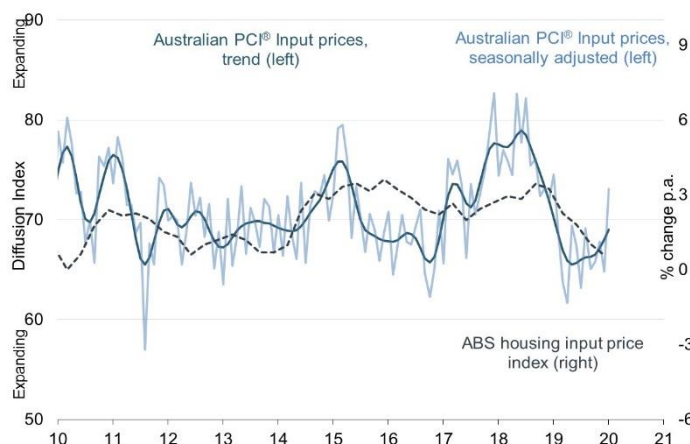
## Commercial new orders

- The real value of non-residential building approvals increased by 3.4% q/q and 22.6% p.a. to \$13.0bn in the September quarter 2019 (trend), according to the ABS.
- The Australian PCI® new orders index for commercial construction fell by 1.7 points to 36.1 points in January (trend). The current decline in new orders for commercial construction has been evident since the middle of 2018.



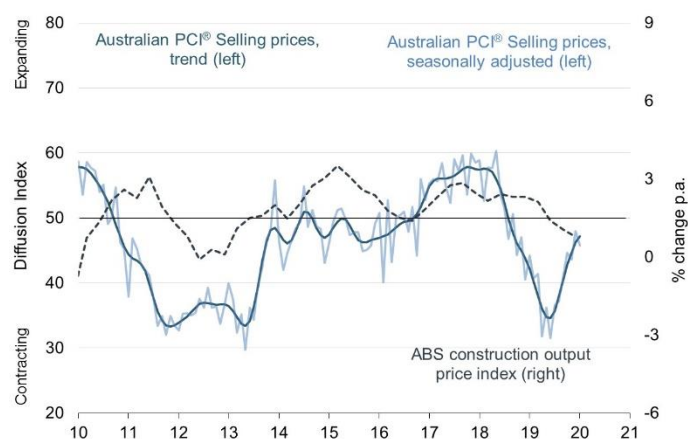
## Input prices

- House construction industry input prices rose by 0.6% p.a. in Q4 2019, according to the ABS Producer Price Index.
- The Australian PCI® points to rising input cost pressures heading into 2020, with the input prices index increasing by 8.2 points to 73.1 points in January.
- Respondents said that input prices are being driven higher by local supplier price rises, the lower Australian dollar and ongoing pressure from high energy prices.



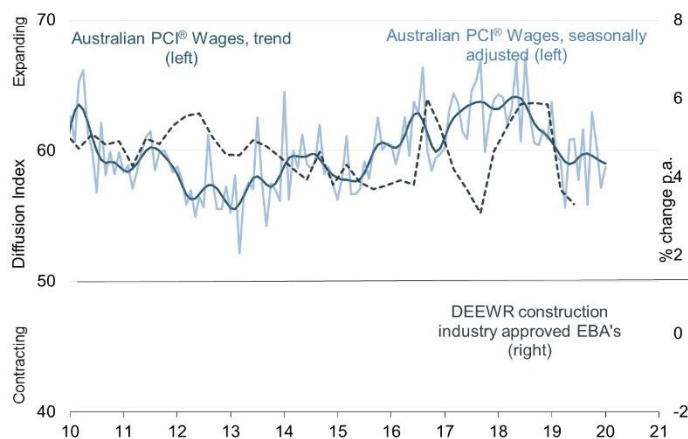
## Selling prices

- Building construction industry output (selling) prices rose by 0.8% p.a. in Q4 of 2019, according to the ABS Producer Price Index. This is well below headline consumer inflation of 1.8% p.a. over the same period.
- The selling prices index in the Australian PCI® fell by 2.2 points to 45.8 points in January.
- This indicates that rising input costs are not, on average, being passed on to customers. This reflects strong competition among builders in an environment of slower demand in most sectors, compared with previous peaks.



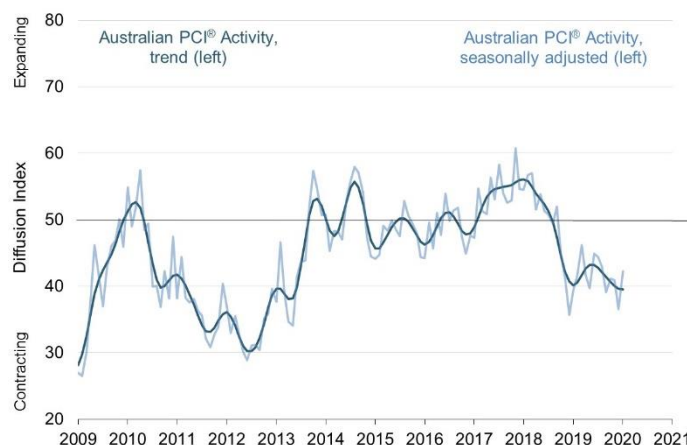
## Average wages

- Average wage rates in private sector construction rose by 0.5% q/q and 1.9% p.a. in Q3 of 2019, according to the ABS wage price index.
- Wages in approved EBA's in the construction industry rose by an average of 3.3% in Q2 2019 (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 increased by 1.6 points to 58.7 points in January. It remains a touch below its recent average of 59.2 points over the past 12 months.



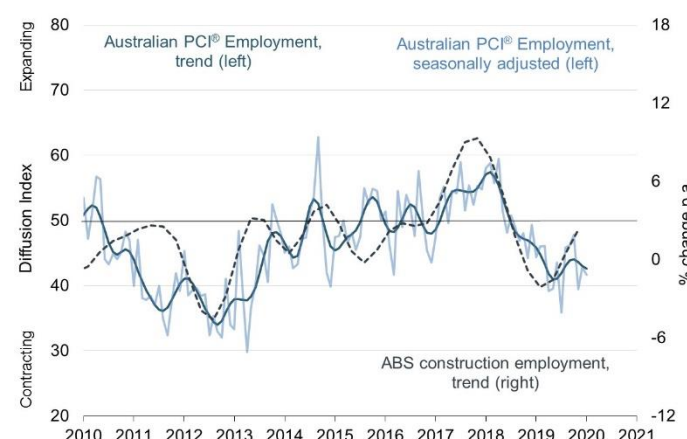
## Activity

- The construction industry accounted for \$135.6bn in real value-added output in the year to Q3 2019 (7.2% of Gross Domestic Product, GDP). Construction industry annual value-added output increased by 0.5% in Q3 2019 but fell by 3.3% over the year to Q3 2019.
- The activity index in the Australian PCI® increased by 5.8 points to 42.3 points in January (seasonally adjusted), signaling a slower rate of contraction in construction activity.
- This was the 16<sup>th</sup> consecutive month of declining industry activity, although the pace of contraction has slowed in recent months.



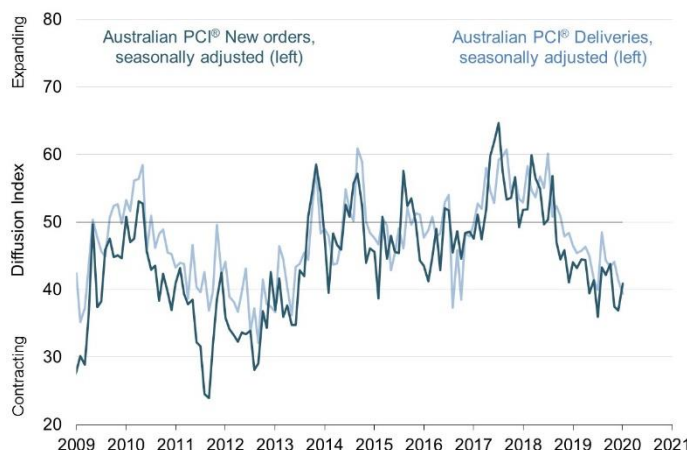
## Employment

- There were 1,188,801 people employed in construction in November 2019 (9.1% of all people employed in Australia), according to ABS Labour Force data. Total construction jobs increased by 1.7% in the quarter to be 2.7% higher over the year to Q3 2019.
- The employment index in the Australian PCI® decreased by 1.1 points to 41.7 points in January (seasonally adjusted). This marked a 19<sup>th</sup> consecutive month of falling employment. It reflects the decline in construction activity since mid-2018, following recent peaks.



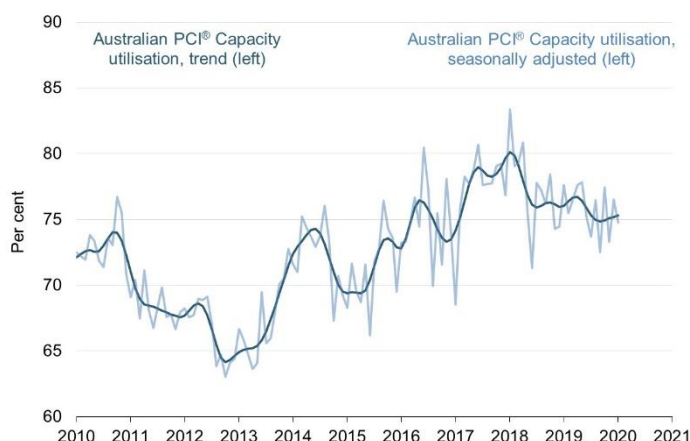
## New orders and supplier deliveries

- The Australian PCI® new orders index increased by 4.0 points to 40.9 points in January, indicating a slower pace of decline across the industry (seasonally adjusted).
- Despite this month's improvement, the ongoing decline in new orders points to continued downside risks to industry activity ahead.
- The Australian PCI® supplier delivery index fell by 2.0 points to 39.4 points in January (seasonally adjusted) reflecting a further reduction in materials being required for new building projects. Supplier deliveries in the construction sectors tend to track very closely to new orders for construction projects.



## Capacity utilisation

- The rate of capacity utilisation fell to 74.7% of available capacity being utilised across the construction industry in January, down from 76.5% in December (seasonally adjusted).
- This is below the 12-month average of 75.6% of capacity.



### 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:

- 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.
- 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.
- 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.
- 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® 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 [www.aigroup.com.au/resourcecentre/economics/](https://www.aigroup.com.au/resourcecentre/economics/)

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