

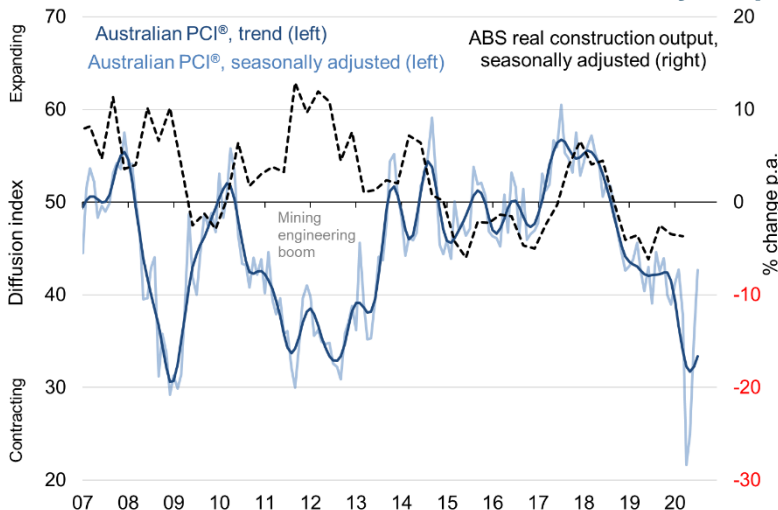
Construction industry slump eases in July 2020

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) rose by a further 7.2 points to 42.7 points in July. This indicates business conditions remained negative across the construction industry in July, but the pace of contraction eased from the recent record lows due to the COVID-19 pandemic. This month's survey was conducted before the latest restrictions in Victoria. Results below 50 points indicate contraction with lower results indicating a faster rate of contraction.

The Australian PCI® is now back to around the same (mildly negative) level as in February 2020, largely due to a pause in the COVID-19 slump in residential, commercial and engineering construction. Activity and new order indices improved in three of the four sectors included in the Australian PCI® in July but they remained negative for all sectors (under 50 points). The indices for apartment building dropped further in July, with respondents noting little prospect of a recovery in demand from international and local investors in the near term. House builders said demand for new houses and renovations is lifting (from close to zero) in response to federal and state government grants, reopening display homes and easing activity restrictions in Australian states other than Victoria.

Looking ahead, the new orders index improved in June and July after recent record lows, but it remains negative at 43.5 points. 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



JULY 2020

MEDIA CONTACTS

Tim Reardon, HIA,
Tel: 0423 141 031



Tony Melville, Ai Group
Tel: 0419 190 347

| | |
|---|-------------|
| Australian PCI® ▲ 7.2 points (seasonally adjusted) | 42.7 |
| Australian PCI® ▲ 1.1 points (trend) | 33.4 |
| Activity ▲ 10.5 points (seas. adj.) | 45.6 |
| New orders ▲ 10.7 points (seas. adj.) | 43.5 |
| Employment ▲ 1.0 point (seas. adj.) | 41.4 |
| Housing activity ▲ 7.4 points (seas. adj.) | 47.0 |
| Apartments activity ▼ -10.9 points (seas. adj.) | 33.9 |
| Commercial activity ▲ 15.4 points (seas. adj.) | 42.0 |
| Engineering activity ▲ 13.5 points (seas. adj.) | 45.5 |

Construction sectors: Activity indices improved markedly in July in three of the four sectors included in the **Australian PCI®**, but remained negative for all. New orders indices improved in all four sectors – housing, apartments, commercial and engineering – but remain negative and indicating a further contraction, albeit at a slower pace than in recent months.

Construction prices: The index for input prices dropped further in July to its lowest monthly result since 2011, reflecting weak demand for building materials and other inputs. Selling prices also dropped again in July, after recovering in June from recent lows. This reflects reduced demand across all parts of construction and intense competition for new projects.

Construction wages and employment: The average wages index recovered by 3.1 points and the employment index recovered by a further 1.0 point from recent lows. Both indices remain below 50 points and are indicating contraction. The ABS estimates that total construction employment fell by 0.7% in the three months to May. Survey participants highlighted the importance of the JobKeeper and Apprentice Support schemes in supporting employment and incomes at present.

Construction activity: The **Australian PCI®** activity index recovered a further 10.5 points in July. Restrictions due to COVID-19 continue to take a heavy toll on construction activity in all states, even though the industry has not been subject to mandatory shut-downs like many other industries. This month's survey pre-dated the latest restrictions in Victoria.

Construction new orders: Looking ahead, the new orders index recovered by a further 10.7 points to 43.5 points in July and back to the mildly negative levels seen through late 2019. House builders reported an increase in initial queries in some locations as a result of new government grants, but few of these leads are flowing through into confirmed new orders yet.

Construction supplier deliveries: The supplier deliveries index recovered by a further 3.3 points to 37.2 points in July after falling to a record low in May. Participants reported reduced orders, with some price discounting from local suppliers.

Construction capacity utilisation: The capacity utilisation index in the **Australian PCI®** rose to 76.3% of capacity being utilised in July, after falling to a record low of 60.5% in April. This improvement is due to activity resuming in more locations (outside Melbourne) but it may also be due to more businesses ceasing altogether. Some construction businesses in the residential and commercial sectors said they are not working at all, and are only surviving due to JobKeeper support.

Construction highlights: The national JobKeeper and Apprentice Support schemes were crucial to supporting employment in June and July. Customer inquiries are picking up in some (not all) locations in response to renovation grants.

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 this survey pre-dates new activity restrictions in Victoria. New orders suggest lower levels of activity are likely from here.

| 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 |
|-------------------------------------|------------------|------------------------|------------------|--------------------------------------|------------------|------------------------|------------------|
| Australian PCI® | 42.7 | 7.2 | 38.1 | Construction sectors | | | |
| Activity | 45.6 | 10.5 | 37.2 | House building activity | 47.0 | 7.4 | 43.5 |
| Employment | 41.4 | 1.0 | 39.5 | Apartments activity | 33.9 | -10.9 | 32.5 |
| New Orders | 43.5 | 10.7 | 36.7 | Commercial activity | 42.0 | 15.4 | 35.5 |
| Supplier Deliveries | 37.2 | 3.3 | 40.0 | Engineering activity | 45.5 | 13.4 | 35.8 |
| Input Prices | 58.3 | -3.8 | 66.3 | | | | |
| Selling Prices | 35.8 | -4.4 | 39.4 | | | | |
| Average Wages | 47.4 | 3.1 | 53.9 | Capacity utilisation (% of capacity) | 76.3 | 5.8 | 73.1 |

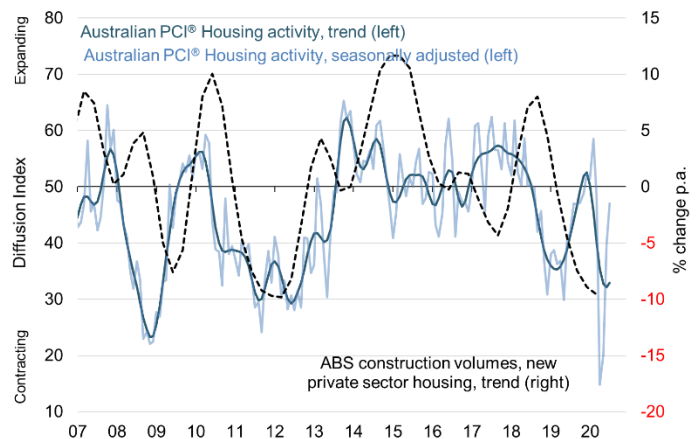
| CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted | Level | Change | Change | Share of total |
|---|-------|--------|--------|----------------------------|
| Approvals , \$bn per month, June 2020 | \$bn | % m/m | % y/y | % of building approvals |
| Value of residential building approvals | 4.9 | 0.1 | -10.7 | 55.2 |
| Value of non-residential building approvals | 4.0 | 17.8 | -9.0 | 44.8 |
| Activity , \$bn per quarter, March 2020 | \$bn | % q/q | % y/y | % of construction activity |
| Volume of residential building | 17.2 | -1.6 | -12.5 | 34.9 |
| Volume of non-residential building | 11.7 | -0.0 | -0.3 | 23.6 |
| Volume of engineering construction | 20.6 | -1.1 | -4.4 | 41.5 |
| Output , real value-added \$bn per quarter, March 2020 | 32.9 | -0.5 | -3.7 | 6.9% of total GDP |
| Employment , 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/>

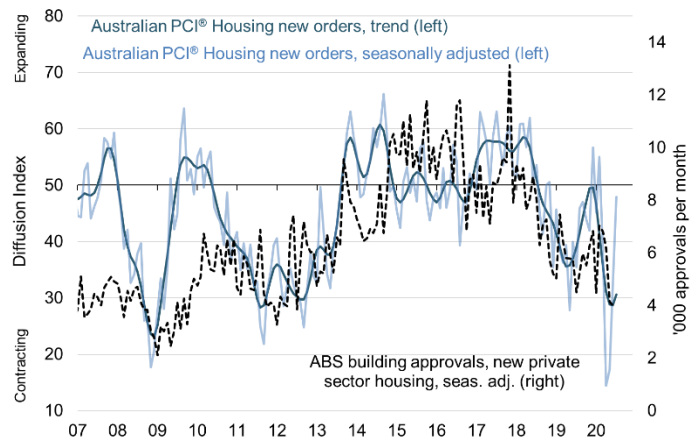
House building activity

- The value of new house building work done in the private sector fell by 9.7% p.a. to \$8.4bn in the March quarter (Q1) of 2020 (seasonally adjusted). House building accounted for 17.2% of all construction work done in Q1 of 2020, according to the ABS.
- The Australian PCI® house building index recovered a further 7.4 points to 47.0 points in July, after falling to a record low in April (seasonally adjusted). This suggests a further, albeit much milder, contraction in July.
- Work is continuing for houses that were already started, but in many locations few new projects are commencing. Builders reported fewer disruptions in July due to activity restrictions, but all work is slower due to physical distancing on site and delays for deliveries and travel.



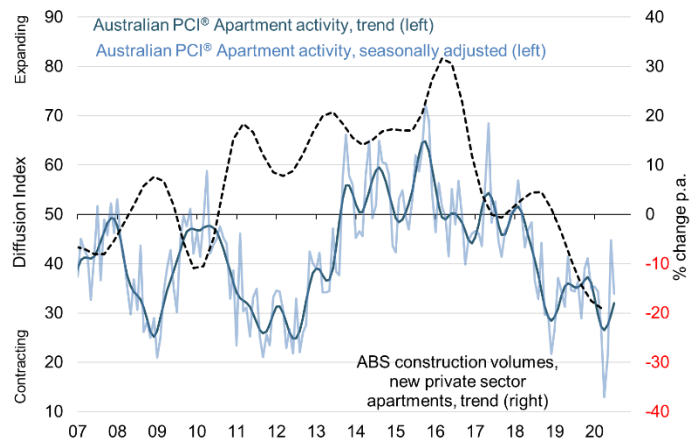
House building new orders

- The total number of private house approvals fell by 5.7% m/m and 7.0% p.a. to 8,070 dwellings approved in June 2020 (seasonally adjusted), according to the ABS.
- The new orders index in the house building sector recovered by a further 15.7 points to 47.9 points in June, after falling to a record low in April (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 rise in customer queries in June and July in response to government grants and reduced activity restrictions in some states.



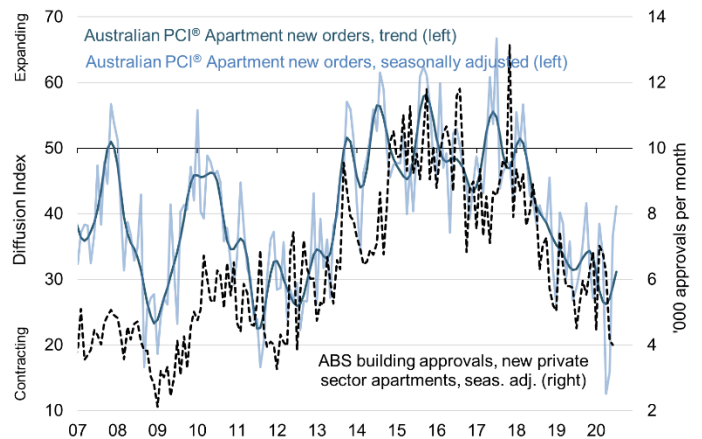
Apartment building activity

- The value of new multi-unit dwelling building work done in the private sector fell by 19.7% p.a. to \$6.4bn in Q1 2020 (seasonally adjusted). Apartment building activity accounted for 13.0% of all construction work done in Q1.
- The apartment building activity index fell by 10.9 points to 33.9 points in July, after recovering to a milder level of contraction in June (seasonally adjusted). This index has been in contraction (below 50 points) since early 2018 as the industry cycles down from boom conditions in 2017.
- The large but partial recovery in this activity index in June from the record low in April (due to the COVID-19 crisis) appears to have stumbled again in July. Large apartment building sites have been disrupted by delivery delays, physical distancing of workers and the implementation of new PPE requirements on site.



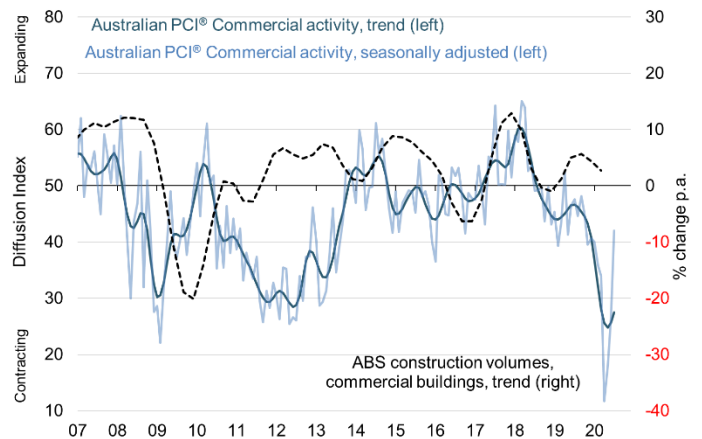
Apartment building new orders

- The total number of private dwellings other than houses (apartments, flats and townhouses) approved for construction fell by 3.0% m/m and 30.2% p.a. in June to 4,010 units (seasonally adjusted), according to the ABS. This is less than a quarter of the all-time monthly record of 13,000 units approved in November 2017.
- The Australian PCI® apartment building new orders index recovered by a further 4.5 points to 41.1 points in July, after falling to a record low in April (seasonally adjusted).
- This partial recovery in new orders reflects new federal and state government grants and lifting activity restrictions in some but not all states. Sharp reductions in demand from international investors, students and migrants is expected to continue through 2020 and 2021.



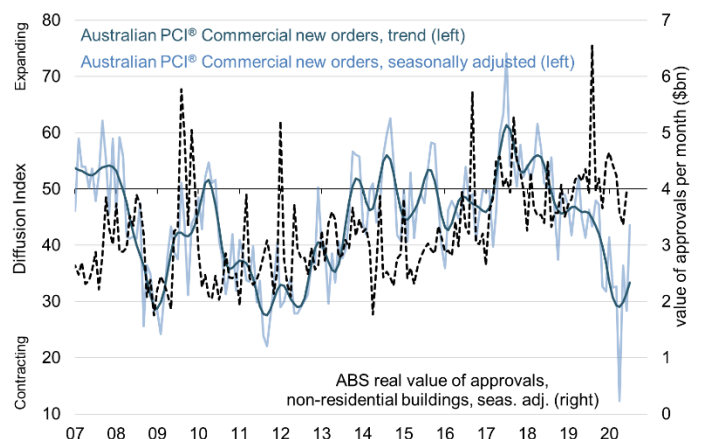
Commercial construction activity

- The volume of non-residential building work done across the public and private sectors in Q1 2020 fell by 4.9% q/q and 6.3% p.a. to \$11.7bn (ABS, seasonally adjusted). Non-residential building accounted for around a quarter of all construction work done in Q1 of 2020.
- The Australian PCI® commercial construction activity index recovered by a further 15.4 points to 42.0 points in July, after hitting a record low of just 11.7 points for this data series in April (seasonally adjusted).
- Despite this recovery, this index remains at a relatively low level and signals further (albeit weaker) contraction after a virtual collapse in building activity in April and May. Work on commercial and industrial sites has been disrupted but is commencing again. Almost all work is slower due to distancing and PPE requirements on site.



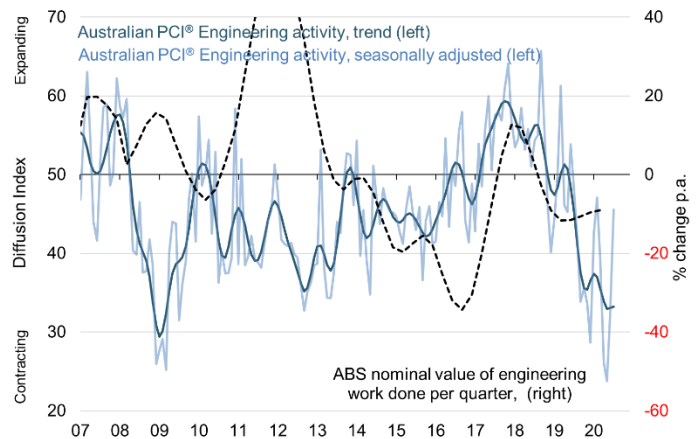
Commercial construction new orders

- The value of non-residential building approvals recovered by 17.8% m/m to \$3.9bn in June but remained 9% lower than approvals one year earlier and 14.7% lower than the latest peak of \$4.6bn in January 2020 (seasonally adjusted), according to the ABS.
- The Australian PCI® new orders index for commercial construction recovered by 15.2 points to 43.6 points in July, after dropping to a record low of just 12.3 points in April (seasonally adjusted). This signals a further fall.
- 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, and local confidence is tentatively returning.



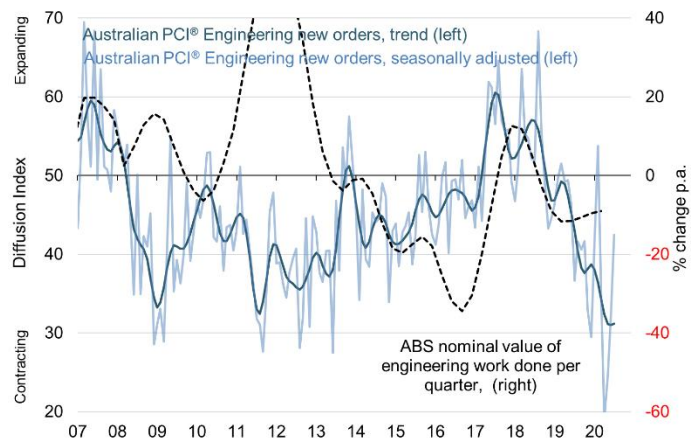
Engineering construction activity

- The volume of engineering construction work done fell by 1.0% q/q and 4.3% p.a. to \$20.5bn in Q1 2020 (seasonally adjusted), according to the ABS. Engineering construction accounted for 41.5% of all construction work done in Q1 of 2020.
- The Australian PCI® engineering construction activity index recovered by 13.5 points to 45.5 points in July, following a 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.

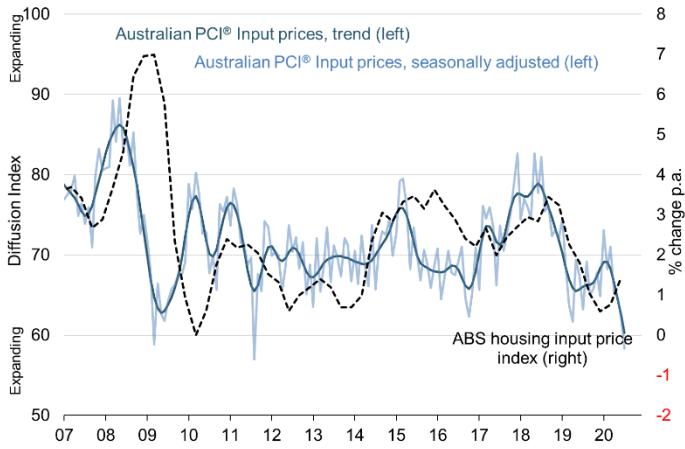


Engineering construction new orders

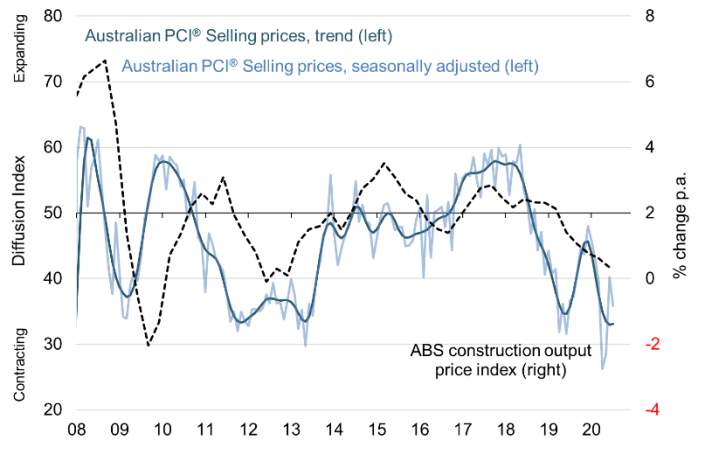
- The Australian PCI® engineering construction sector’s new orders index increased by a further 10.0 points to 42.5 points in July, after hitting a record low of just 19.1 points in April (seasonally adjusted).
- This index has been indicating contraction (under 50 points) since 2018, with increasing volatility in 2020.
- 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 returning to a more normal pace of work in most locations, after several months of disruption related to COVID-19 (e.g. supply delays and restrictions on interstate travel and activity).



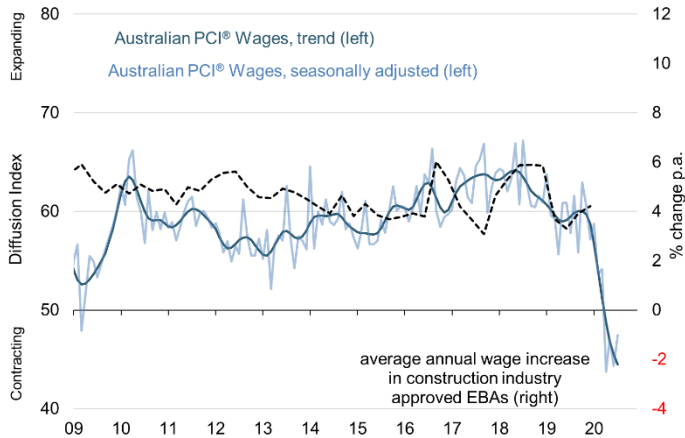
Input prices



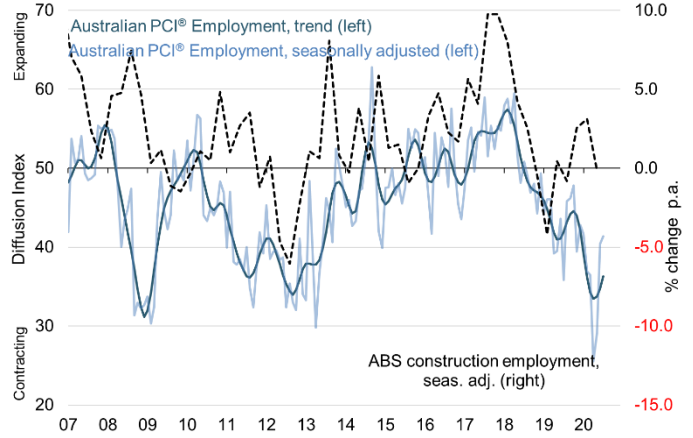
Selling prices



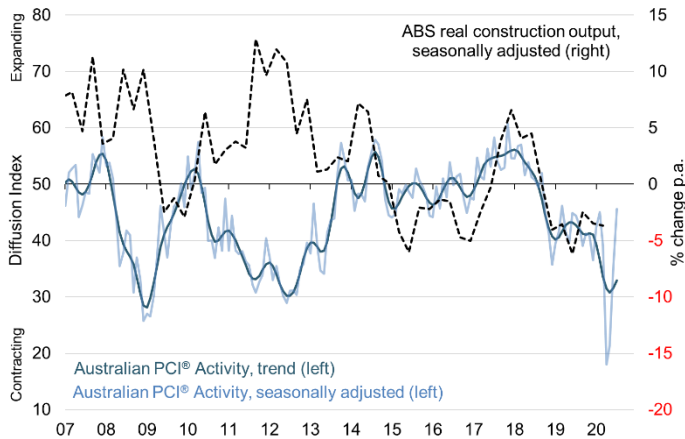
Average wages



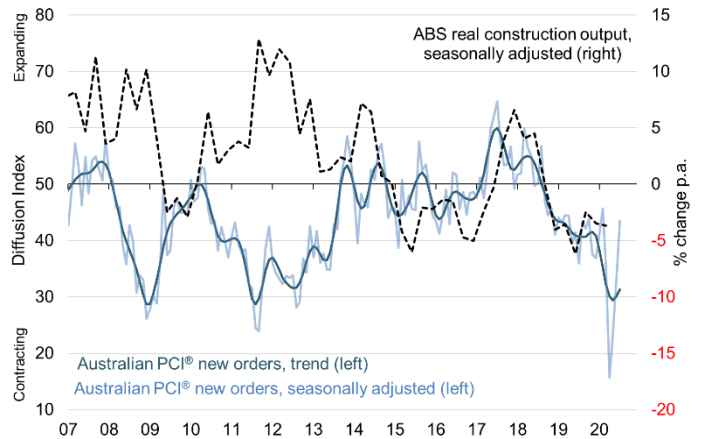
Employment



Activity

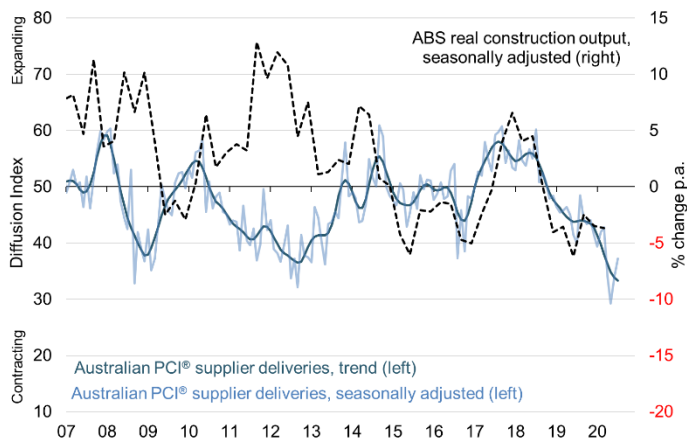


New orders

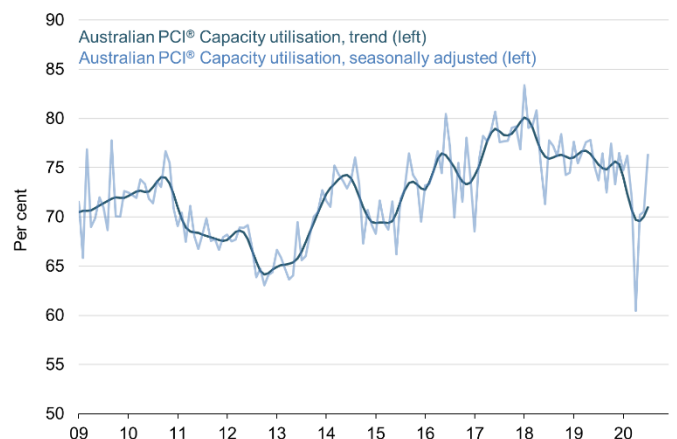


AUSTRALIAN PCI® Activity, capacity and data definitions

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/

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