

Construction industry contracts at a slower pace in June 2020

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) rose by 10.6 points to 35.5 points in June. This indicates business conditions remained negative across the construction industry in June, but the pace of contraction eased from the record lows experienced since March due to the COVID-19 pandemic. April 2020 was the lowest result since this series commenced in 2005. Results below 50 points indicate contraction with lower results indicating a faster rate of contraction.

Among the four sectors included in the Australian PCI, all activity and new order indices improved in June, but remained firmly negative (under 50 points). The housebuilding and apartment sectors improved by a greater margin than did commercial and engineering construction. Builders said that demand for new houses and renovations is lifting (from close to zero) in response to federal and state government grants, reopening display homes and lifting activity restrictions in most (but not all) Australian states. Other builders speculated that homebound families might be planning to divert their holiday savings into renovations.

Looking ahead, the new orders index improved in June after recent record lows, but it remains firmly negative at 32.8 points. All sectors reported increases in customer queries and requests for quotes in June, but these are not yet translating into solid commitments to future work. In the meantime, the JobKeeper and Apprentice Support wage subsidy programs were highlighted as essential support to struggling businesses across all construction sectors.

JUNE 2020

MEDIA CONTACTS

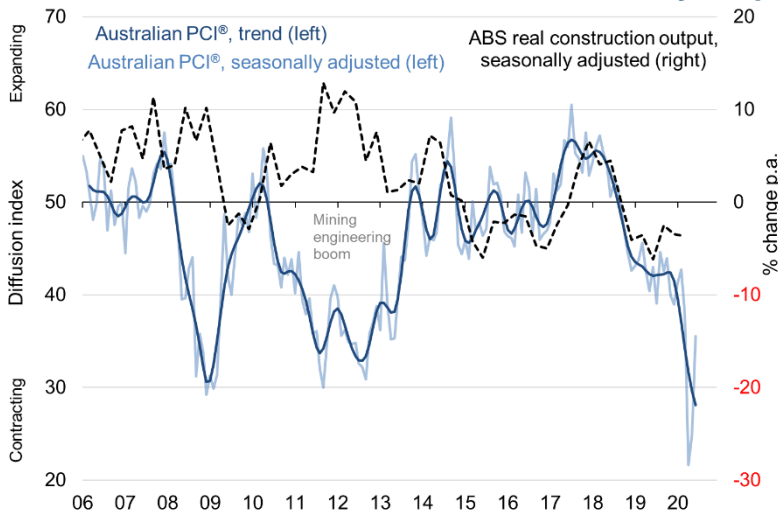
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Australian PCI® ▲ 10.6 points (seasonally adjusted)	35.5
Australian PCI® ▼ 1.5 points (trend)	28.1
Activity ▲ 13.7 points (seas. adj.)	35.1
New orders ▲ 9.8 points (seas. adj.)	32.8
Employment ▲ 11.3 points (seas. adj.)	40.4
House building ▲ 19.4 points (seas. adj.)	39.6
Apartments ▲ 23.2 points (seas. adj.)	44.8
Commercial activity ▲ 8.5 points (seas. adj.)	26.6
Engineering activity ▲ 8.3 points (seas. adj.)	32.1

Australian PCI® and ABS construction industry output



Construction sectors: Among the four sectors included in the **Australian PCI®**, all activity indices improved in June but remained firmly negative. New orders indices improved in three sectors – housing, apartments and engineering – but new orders fell again in commercial construction, indicating a further contraction and at a faster pace than in May.

Construction prices: The indices for input prices fell again, but selling prices recovered further in June after hitting recent lows in April. Selling price falls continued across all construction sectors, as competition intensifies for fewer projects.

Construction wages and employment: The average wages index slid 2.7 points lower but the employment index partly recovered in June after precipitous falls in April. The PCI employment index was still indicating a decline in work in June, albeit at a slower pace. Many survey participants highlighted the importance of support from the JobKeeper and Apprentice Support schemes. These programs are crucial to avoiding business closures and employee redundancies at present.

Construction activity: The **Australian PCI®** shows the national activity restrictions due to COVID-19 are taking a heavy toll on construction activity, even though the industry has not been subject to mandatory shut-down requirements like many other industries. Survey participants continue to describe a collapse in their clients' confidence, risk appetite and liquidity.

Construction new orders: Looking ahead, the new orders index recovered 9.8 points to 32.8 points in June but remains at chronically weak levels. Survey participants in the residential sectors reported an increase in new queries and requests for quotes 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 4.6 points to 33.9 points in June after falling to a new record in May. Participants continued to report reduced orders but fewer delivery disruptions in June.

Construction capacity utilisation: The capacity utilisation index in the **Australian PCI®** was almost unchanged at 70.5% of capacity being utilised in June, after suddenly falling to a record low of 60.5% in April. 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 mentioned by many participants as crucial supports for businesses and the workforce. Customer inquiries might pick up in response to home builder 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 forward orders are chronically low across all segments. New orders suggests lower levels of activity are likely from here.

AUSTRALIAN PCI® SEASONALLY ADJUSTED	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
Australian PCI®	35.5	10.6	37.8	Construction sectors			
Activity	35.1	13.7	37.2	House building activity	39.6	19.4	43.0
Employment	40.4	11.3	39.0	Apartments activity	44.8	23.2	32.6
New Orders	32.8	9.8	36.1	Commercial activity	26.6	8.5	36.0
Supplier Deliveries	33.9	4.6	40.2	Engineering activity	32.1	8.3	36.0
Input Prices	62.1	-2.6	66.7				
Selling Prices	40.2	11.8	39.5				
Average Wages	44.3	-2.7	54.8	Capacity utilisation (% of capacity)	70.5	0.3	72.8

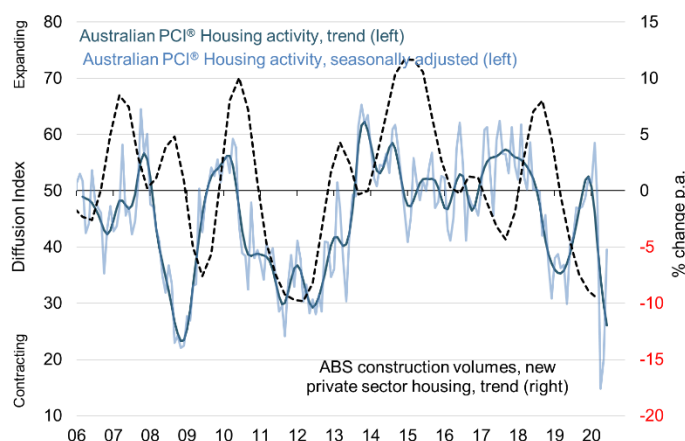
Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® are reported in trend terms (Henderson 13-month filter).

CONSTRUCTION REPORT CARD: Latest ABS data	Level	Change	Change	Share of total
Approvals seasonally adjusted	\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals, \$bn per month, Apr 2020	5.8	4.4	10.7	62.0
Value of non-residential building approvals, \$bn per month, Apr 2020	3.6	-11.9	-16.4	38.0
Activity seasonally adjusted	\$bn	% q/q	% y/y	% of construction activity
Volume of residential building, \$bn per quarter, March 2020	17.2	-1.6	-12.5	35.0
Volume of non-residential building, \$bn per quarter, March 2020	11.7	0.0	-0.3	23.5
Volume of engineering construction, \$bn per quarter, March 2020	20.5	-1.1	-4.3	41.5
Real value-added output, \$bn per quarter, March 2020	32.9	-0.5	-3.7	6.9% of total GDP
Number of employed people, May 2020	1.174 mn	-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.*

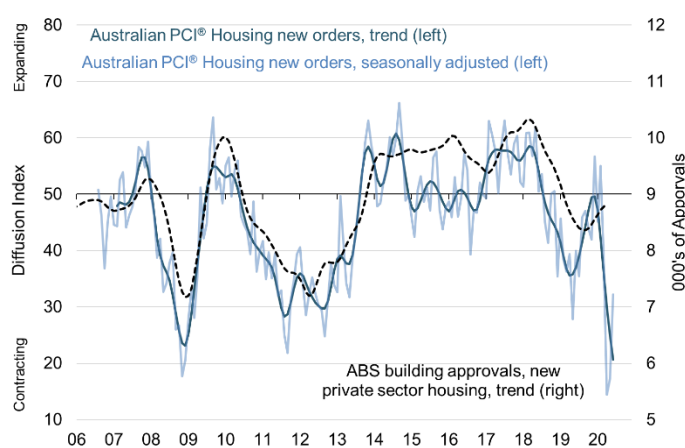
House building activity

- 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 19.4 points to 39.6 points in June, after falling to a record low in April (seasonally adjusted). Even after this rise, this index is still indicating contraction in June.
- House building activity is continuing for houses already under construction, but few new projects are commencing. Builders report disruptions and delays due to activity restrictions, physical distancing requirements, supplier deliveries and travel to work sites.



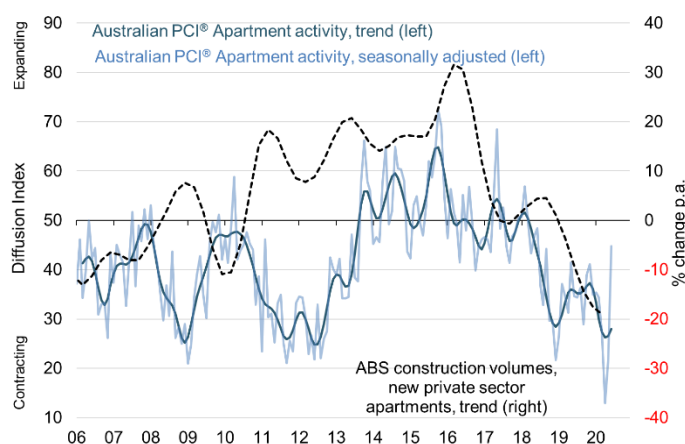
House building new orders

- The total number of private house approvals increased by 4.6% m/m and 4.5% p.a. to 8,912 in April 2020 (seas. adj.), according to the ABS.
- The new orders index in the house building sector recovered by a further 14.9 points to 32.2 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 for purchasers. House builders reported a rise in customer queries in June in response to federal and state government grants to home builders / renovators and reduced activity restrictions in some states. They also reported that few customers have followed up yet with confirmed orders.



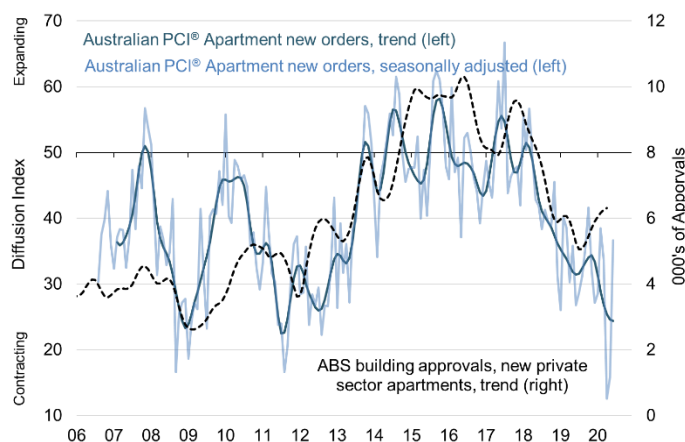
Apartment building activity

- 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 jumped up by a further 23.2 points to 44.8 points in June, after collapsing to a record low in April (seasonally adjusted). This is the single largest monthly improvement ever recorded in this data series (commencing in 2005).
- The large but partial recovery in this activity index in June from the record low in April (due to the COVID-19 crisis) reflects work resuming at a more 'normal' pace on large apartment building sites that had been disrupted by delivery delays, physical distancing of workers and the implementation of new PPE requirements on site.



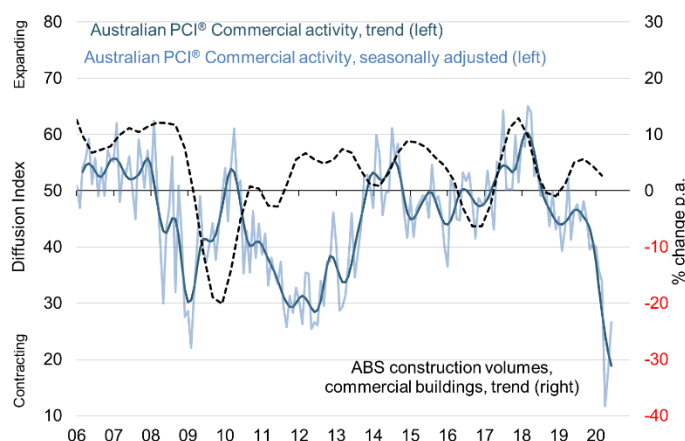
Apartment building new orders

- The total number of private dwellings other than houses (apartments, flats and townhouses) approved for construction fell by 7.0% m/m in April to 6,079 units (but remained 6.3% higher than one year earlier, seas. adj), according to the ABS.
- The Australian PCI® apartment building new orders index recovered by a further 20.8 points to 36.7 points in June, after falling to a record low in April (seasonally adjusted).
- This large but partial recovery in new orders reflects the announcement of federal and state government grants and lifting activity restrictions in some (but not all states). Apartment builders report a lift in local customer queries and attendance at display sites but few confirmed orders. Sharp reductions in international investors, students and migrants will continue to limit demand in this sector.



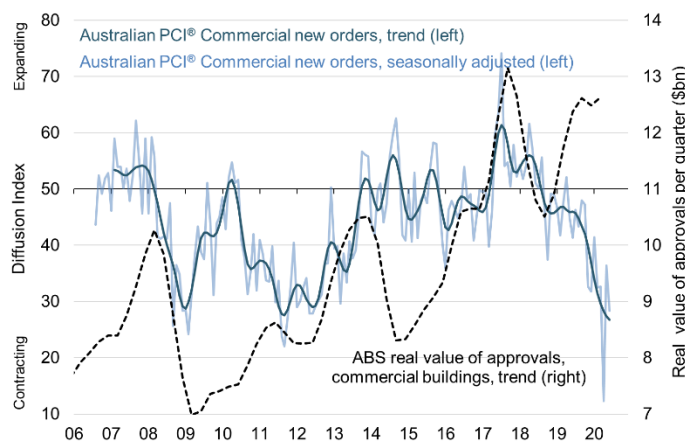
Commercial construction activity

- 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 8.5 points to 26.6 points in June, after hitting a record low for this data series in April (seasonally adjusted).
- Despite this partial recovery, this index remains at a critically low level and signals further contraction after the collapse in building activity in April and May. Work on commercial and industrial sites has been disrupted by late supplier deliveries. Work is commencing again, but almost all procedures are slower than normal due to physical distancing and PPE requirements on site.



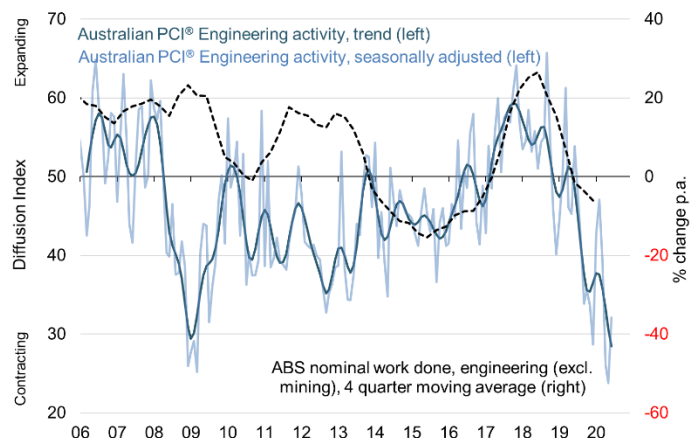
Commercial construction new orders

- The value of non-residential building approvals fell by 11.9% m/m and 16.4% p.a. to \$3.6bn in April (seas. adj.), according to the ABS.
- The Australian PCI® new orders index for commercial construction dropped by 8 points to 28.4 points in June, reversing the recovery in May (seasonally adjusted).
- The failure to lift new orders for commercial construction projects suggests activity will stay very weak in coming months. No commercial builders reported a pickup in new orders in June. Some reported they are actively sounding out new developers, architects and locations.



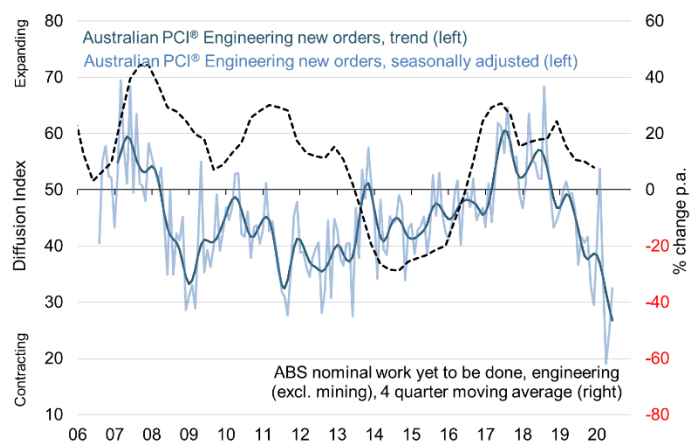
Engineering construction activity

- 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 8.3 points to 32.1 points in June, following a record low in May (seasonally adjusted).
- Respondents continue to report that no new non-mining engineering projects are commencing and that existing projects are disrupted by supply problems, transport, physical distancing and PPE requirements on site.

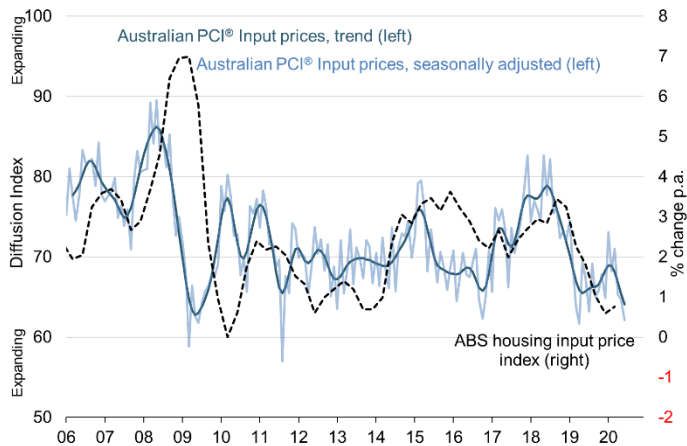


Engineering construction new orders

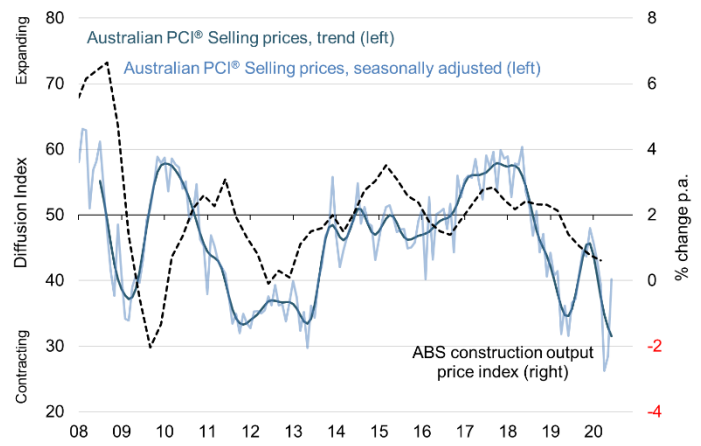
- The Australian PCI® engineering construction sector's new orders index increased by a further 7.9 points to 32.5 points in June, after hitting a record low of just 19.1 points in April (seasonally adjusted).
- This index has been indicating contraction (under 50 points) and at a worsening rate, since 2018 (trend).
- Engineering sector respondents reported a lack of new civil engineering contracts coming up. Existing projects in mining and civil engineering (roads and transport) are returning to a more normal pace of work, after several months of disruption related to COVID-19 (e.g. supply delays and restrictions on interstate travel and activity).



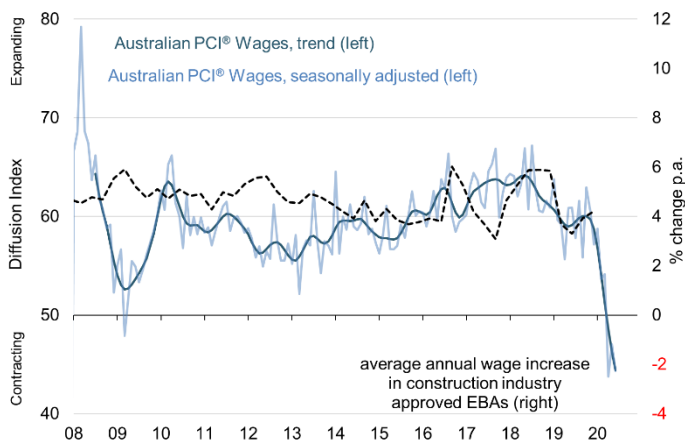
Input prices



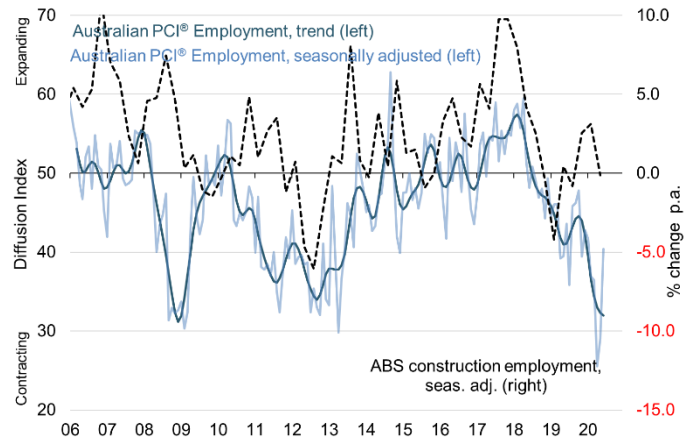
Selling prices



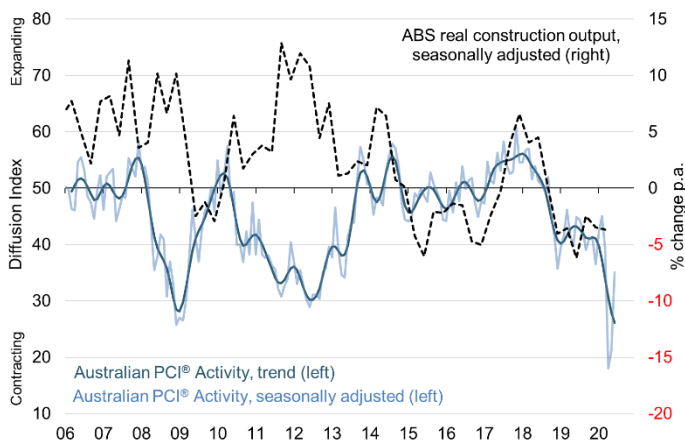
Average wages



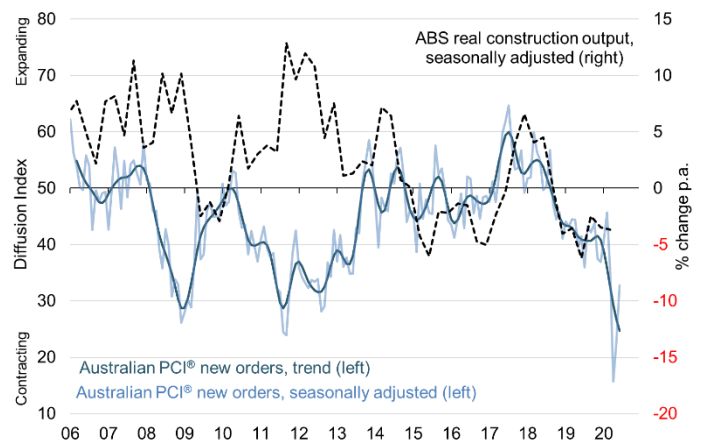
Employment



Activity

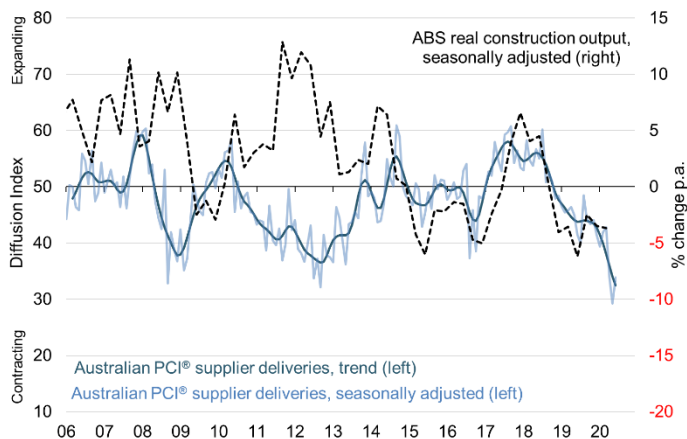


New orders

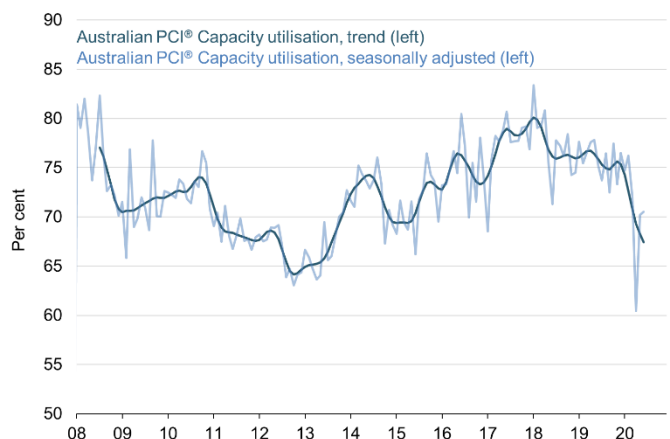


AUSTRALIAN PCI® Activity, capacity and data definitions

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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