

Construction industry retreats further in May due to COVID-19

The Australian Industry Group/Housing Industry Association Australian Performance of Construction Index (**Australian PCI®**) indicated a further retreat in activity in Australia's giant construction industry in May, due to COVID-19 activity restrictions and related declines in sentiment, spending and investment.

The **Australian PCI®** recovered by 3.3 points to 24.9 points in May, following a plunge to record lows in April, signaling a slower rate of decline. Results below 50 points indicate contraction with lower results indicating a faster contraction. All activity and sector indexes in the **Australian PCI®** remained firmly negative in May, albeit with a slower rate of decline evident across most indexes than in April.

Survey participants were mostly gloomy about the current situation, with several pointing to the JobKeeper scheme as the only thing keeping their business and workforce together in May. New orders, new contract tendering opportunities and customer inquiries have largely dried up across all sectors. A handful of housing and commercial sector builders reported increased inquiries about home and office renovations, but no concrete orders had flowed through from these queries as yet, and the resulting size of any orders was likely to be relatively small.

On the activity side, construction business operators reported that work on site is now slower and less efficient due to activity restrictions, travel and delivery disruptions, distancing requirements on site and new PPE requirements. Waiting for suitable PPE to be delivered has delayed or disrupted some larger sites.

MAY 2020

MEDIA CONTACTS

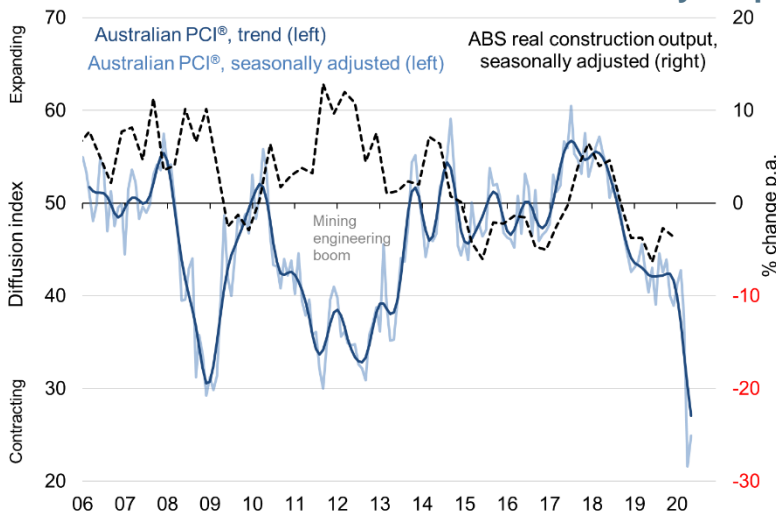
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| | |
|---|-------------|
| Australian PCI® ▲ 3.3 points (seasonally adjusted) | 24.9 |
| Australian PCI® ▼ -3.2 points (trend) | 27.1 |
| Activity ▲ 3.3 points (seas. adj.) | 21.3 |
| New orders ▲ 7.3 points (seas. adj.) | 23.0 |
| Employment ▲ 3.5 points (seas. adj.) | 29.1 |
| House building ▲ 5.4 points (seas. adj.) | 20.2 |
| Apartments ▲ 8.7 points (seas. adj.) | 21.6 |
| Commercial activity ▲ 6.4 points (seas. adj.) | 18.1 |
| Engineering activity ▼ -2.3 points (seas. adj.) | 23.8 |

Australian PCI® and ABS construction industry output



Construction sectors: Among the four sectors included in the **Australian PCI®**, all activity and new orders indices remained firmly negative in May. Three sectors – housing, apartments and commercial construction – contracted at a slower pace in May, but the activity index for engineering construction fell to a new record low of 23.8 points in May.

Construction prices: The indices for input prices and selling prices both recovered a touch from the lows seen in April, but remain at historically low levels. Prices fell across all sectors, as competition intensifies for remaining larger projects.

Construction wages and employment: The average wages and employment indices partly recovered in May after precipitous falls in April, but both were still indicating sizeable further declines in paid work in May (albeit slower than in April). The JobKeeper scheme is an important source of support for employment in the construction industry 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. One survey participant remarked that “COVID-19 means people are putting the world on hold”.

Construction new orders: Looking ahead, new orders, new contract tendering opportunities and customer inquiries have largely dried up. Display homes were closed nationally in April and May, cutting off forward orders for new housing.

Construction supplier deliveries: The supplier deliveries index fell to a new record low since this series commenced in 2005, at 29.3 points in May. Participants reported reduced orders but also travel and delivery disruptions throughout May.

Construction capacity utilisation: The capacity utilisation index in the **Australian PCI®** recovered to 70.2% of capacity being utilised in May, after suddenly falling to a record low of 60.5% in April. This apparent improvement might however, reflect some smaller businesses effectively removing their capacity from the industry, as they go into ‘hibernation mode’.

Construction highlights: The national JobKeeper scheme was mentioned by several participants as the only thing keeping their business and workforce together in May. A handful of housing and commercial sector builders reported increased queries about home and office renovations, which they hope to see translated into concrete orders over the coming months.

Construction concerns: COVID-19 restrictions are affecting the production side of construction as well as Australia's demand for new structures (which was already in decline nationally). In May, construction business operators reported that work on site is slower and less efficient due to activity restrictions, travel and delivery disruptions, distancing requirements on site and new PPE requirements. Waiting for to suitable PPE to be delivered on site had disrupted some larger sites.

| 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>Seasonally adjusted</i> | | | |
| Australian PCI® | 24.9 | 3.3 | 38.4 | Construction sectors | | | |
| Activity | 21.3 | 3.3 | 38.0 | House building activity | 20.2 | 5.4 | 43.1 |
| Employment | 29.1 | 3.5 | 39.3 | Apartments activity | 21.6 | 8.7 | 31.7 |
| New Orders | 23.0 | 7.3 | 36.8 | Commercial activity | 18.1 | 6.4 | 37.6 |
| Supplier Deliveries | 29.3 | -4.8 | 40.9 | Engineering activity | 23.8 | -2.3 | 37.8 |
| Input Prices | 64.7 | -0.6 | 67.1 | | | | |
| Selling Prices | 28.4 | 2.2 | 38.8 | <i>Trend</i> | | | |
| Average Wages | 47.0 | 3.3 | 56.2 | Australian PCI® | 27.1 | -3.2 | 38.6 |

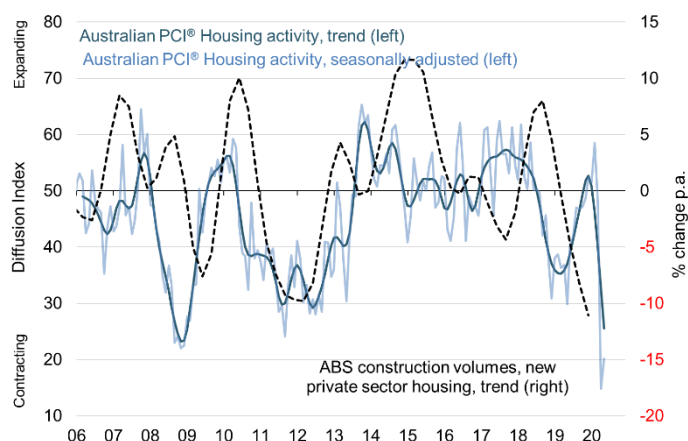
Results above 50 points indicate expansion. All indexes for sectors in the Australia PCI® are reported in trend terms (Henderson 13-month filter).

| 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 Mar 2020 | 65.1 | -0.8 | -9.7 | 55.6% of building approvals |
| Nom. value of non-residential building approvals, \$bn, year to Mar 2020 | 52.0 | 2.3 | 16.7 | 44.4% of building approvals |
| Real value of building work done, \$bn, year to Mar 2020 | 118.4 | -2.1 | -4.2 | 58.5% of all construction done |
| Real value of engineering work done, \$bn, year to Mar 2020 | 83.9 | -1.1 | -5.2 | 41.5% of all construction done |
| Real value of all construction work done, \$bn, year to Mar 2020 | 202.2 | -1.7 | -4.6 | - |
| Real value-added output, \$bn, year to Dec 2019 | 134.6 | -2.3 | -3.6 | 6.9% of total GDP |
| Number of employed people, '000, February 2020, trend | 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.*

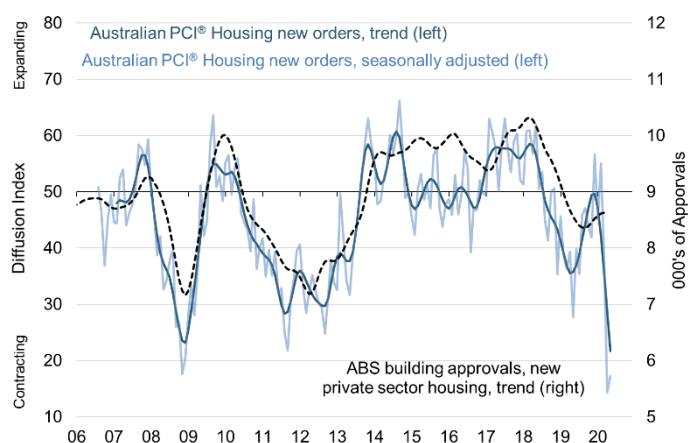
House building activity

- The volume of new house building work done fell by 0.3% q/q and 9.7% p.a. to \$8.5bn 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 5.4 points to 20.2 points in May, after falling to a record low in April (seasonally adjusted). Even after this recovery, this index is still indicating rapid contraction in May.
- House building activity is being disrupted by supply delays and by a collapse in local demand. Activity on existing house sites has slowed markedly due to physical distancing requirements and the additional time required to acquire, fit and use suitable PPE for all personnel.



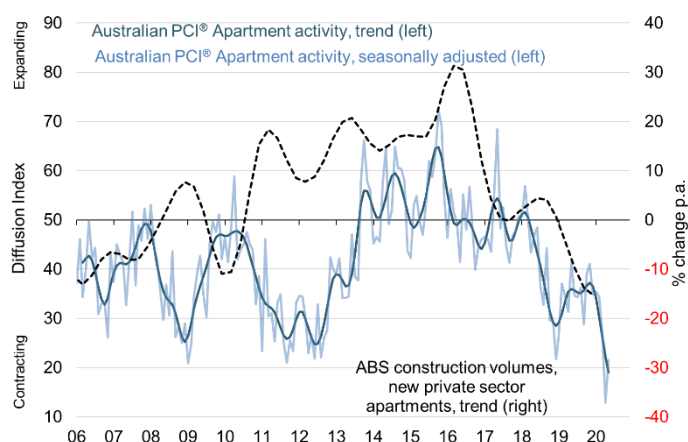
House building new orders

- 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.
- The new orders index in the house building sector recovered by 2.8 points to 17.3 points, after falling to a record low in April (seasonally adjusted).
- House building orders have been hit by the closure of display houses and travel restrictions for purchasers. A handful of house builders reported an uptick in inquiries about home renovations, but these had not yet flowed through into actual orders and would be too small to make up for the large fall in new home orders.



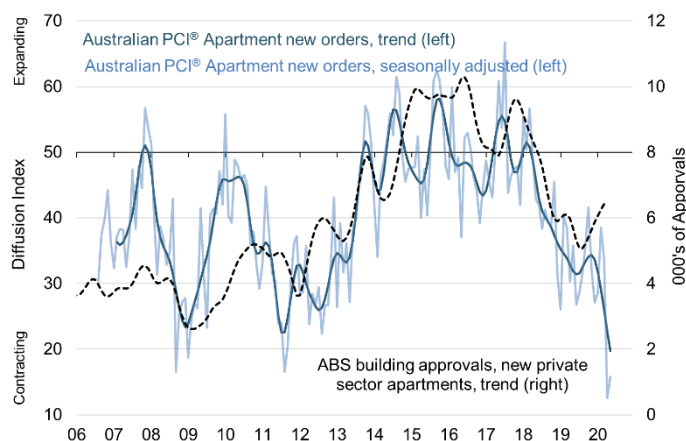
Apartment building activity

- The volume of new multi-unit dwelling building work done in Q4 2019 fell by 4.5% q/q and 19.8% p.a. to \$6.4bn (seasonally adjusted). Apartment building activity accounted for 13.0% of all construction work done in Q1.
- The apartment building activity index recovered 8.7 points to 21.6 points in May, after falling to a record low in April (seasonally adjusted).
- This index has been indicating contraction since 2018, following a construction boom in new apartments in 2016 and 2018. The deterioration in this index from already low levels highlights how rapidly the COVID-19 crisis has affected all industries. Work on many large apartment building sites has slowed or been disrupted, as workers adjust to new physical distancing and PPE requirements.



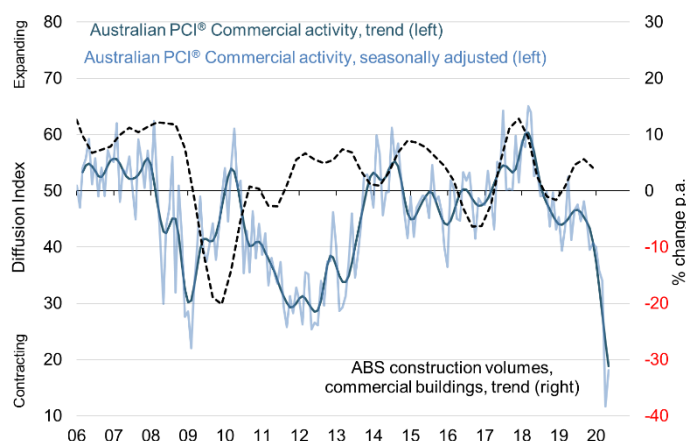
Apartment building new orders

- 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 recovered by 3.3 points to 15.8 points in May, after falling to a record low in April (seasonally adjusted).
- The very low level for this index signals a collapse in new orders for apartments in April and continuing into May. With key markets for city apartments disappearing (e.g. international investors and students), developers' appetite for new apartment projects has disappeared. Activity will weaken further in coming months.



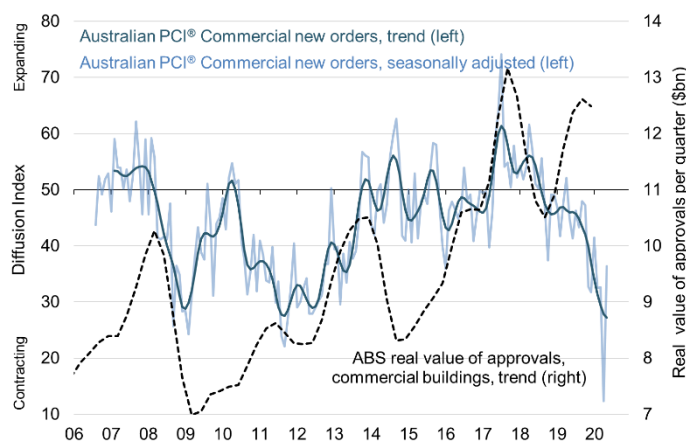
Commercial construction activity

- The volume of non-residential building work done was flat over the quarter but fell 0.3% over the year (seasonally adjusted), according to the ABS. Non-residential building accounted for 23.6% of all construction work in Q1 of 2020.
- The Australian PCI® commercial construction activity index recovered by 6.4 points to 18.1 points in May, after hitting a record low in April (seasonally adjusted).
- The very low level for this index signals a collapse in building activity in April and May. Participants said work on commercial and industrial sites has been disrupted by late supplier deliveries, and work procedures are slower due to physical distancing and PPE requirements.



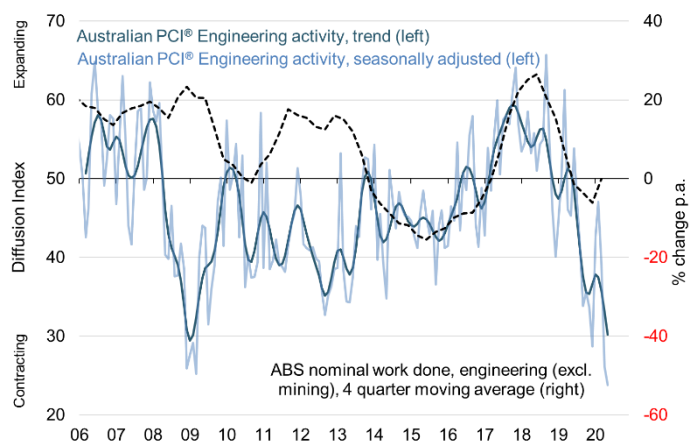
Commercial construction new orders

- 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 jumped 24.1 points to 36.4 points in May, after falling to a record low of just 12.3 points in April (seasonally adjusted), as all new orders virtually ceased.
- The very low level of this new orders index signals activity will weaken further in coming months. A small number of commercial construction businesses reported a rise in inquiries for office and retail renovations, but no actual orders as yet for this type of work.



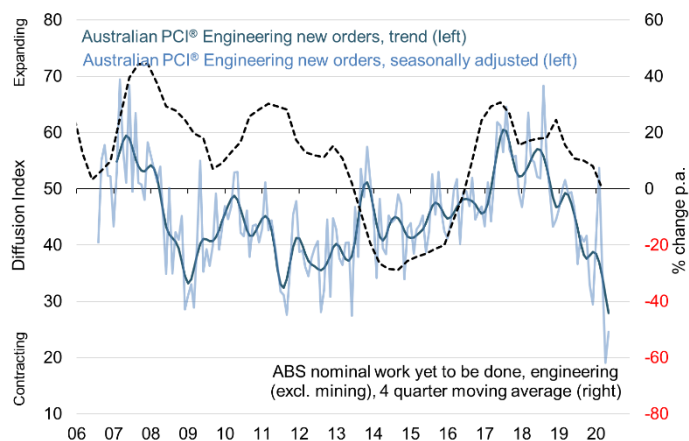
Engineering construction activity

- The volume of engineering construction work done in Q1 2020 fell by 1.0% q/q and 6.5% p.a. to \$20.6bn (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 decreased by a further 2.3 points to 23.8 points in May, taking this index to a new record low (seasonally adjusted), signals an extremely rapid deterioration.
- Respondents report that no new non-mining engineering projects are commencing and that existing projects are being disrupted by supply problems and/or by physical distancing, transport and PPE requirements.

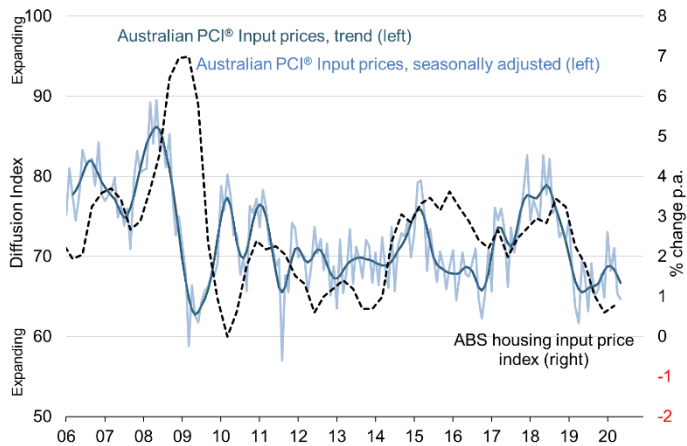


Engineering construction new orders

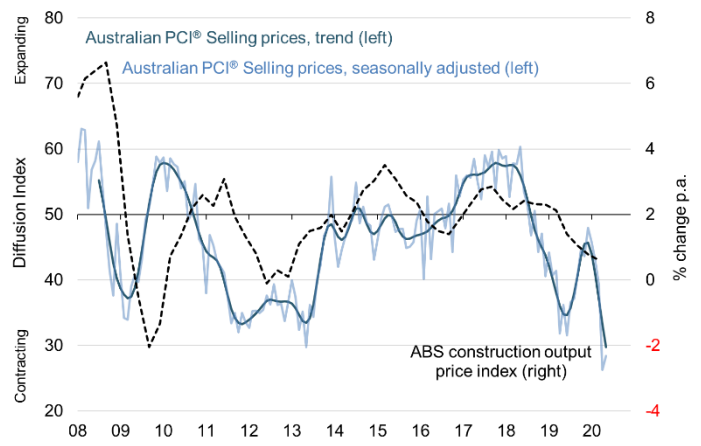
- The Australian PCI® engineering construction sector's new orders index increased by 5.6 points to 24.6 points in May, after hitting a record low of just 19.1 points in April (seasonally adjusted).
- This index has been indicating contraction (under 50 points) and at a worsening rate, since 2018.
- Engineering sector respondents reported a lack of new civil engineering contracts coming up. Some existing projects have been placed on hold for several months for reasons related to COVID-19 (e.g. supply delays and restrictions on interstate travel and activity).



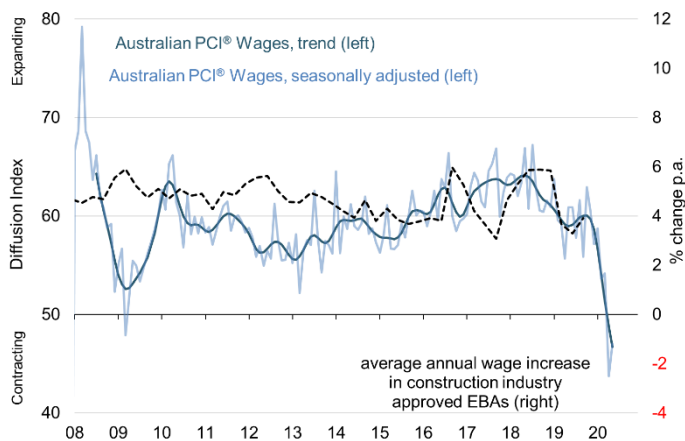
Input prices



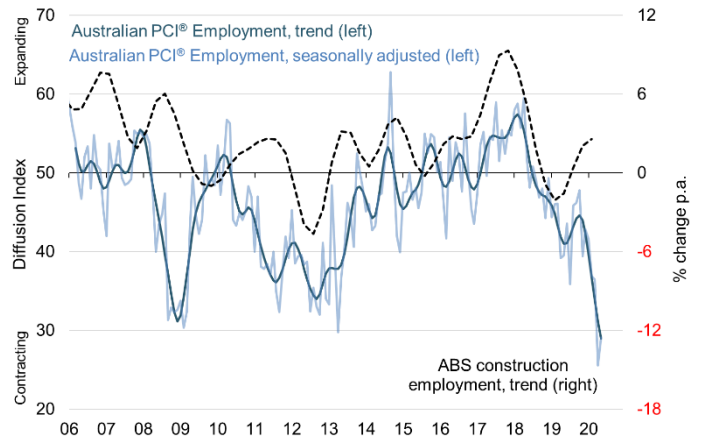
Selling prices



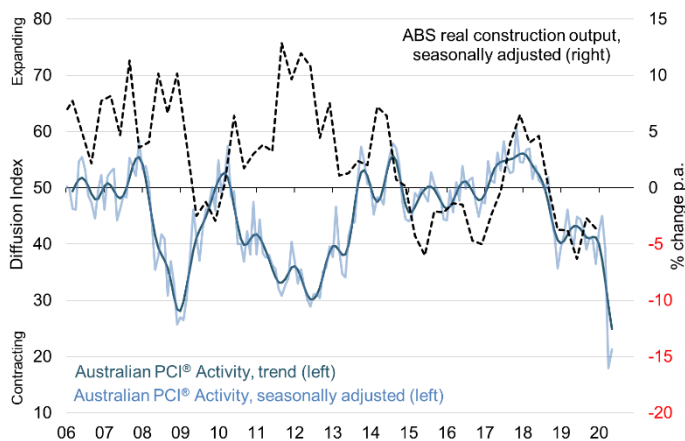
Average wages



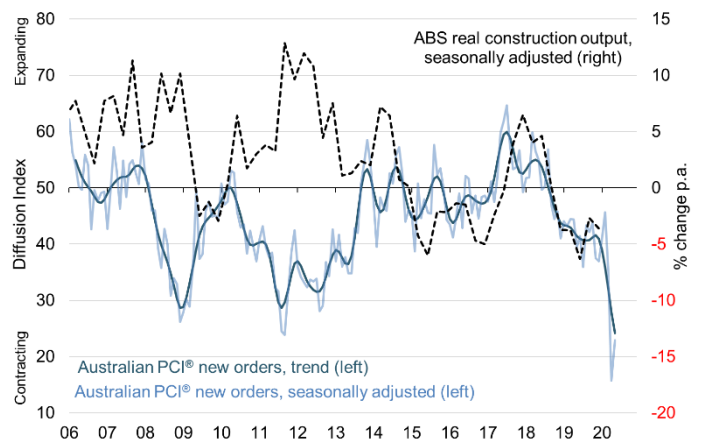
Employment



Activity

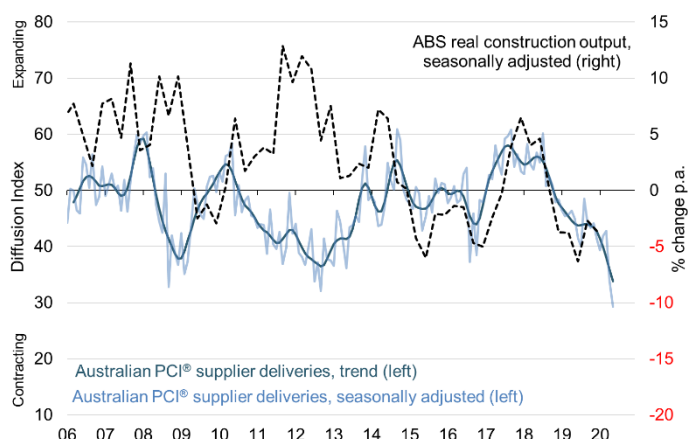


New orders

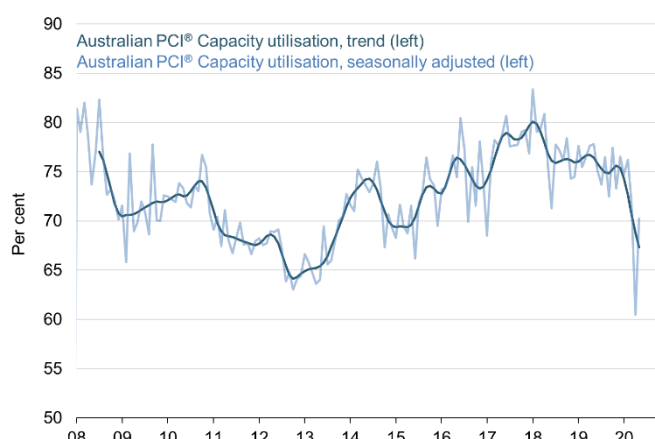


AUSTRALIAN PCI® Activity, capacity and data definitions

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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