

Construction activity outside Victoria improves in September

The Australian Industry Group Australian Performance of Construction Index (**Australian PCI®**) improved by 7.3 points to 45.2 points in September (seasonally adjusted), indicating a slower pace of contraction in the month. 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 Australia's construction industry fell by 8.2% q/q and 10.3% p.a. nationally in Q2. Employment in the construction industry fell by 22,400 people (1.8%) to 1.1 million workers in the six months to August 2020.

Across the states, the **Australian PCI®** indicates that construction activity is resuming at very different speeds following the COVID-19 disruptions in Q2. Conditions improved in September in all states except Victoria. Construction activity in WA and SA moved back into expansion in August (results above 50 points), NSW and Tasmania were stable (both exactly 50 points) and Queensland's PCI result improved but remained mildly negative (just below 50 points). Victoria's PCI result in September sank to similar – extremely low – levels to April and May (results below 30 points, including the lowest on record in May) and indicating another very sharp contraction in construction activity in the month.

Looking ahead, the **Australian PCI®** new orders index turned positive (above 50 points and indicating expansion) for the house building sector in September, but new orders kept contracting (index results below 50 points) for apartment building, commercial construction and engineering activity in September.

SEPTEMBER 2020

MEDIA CONTACTS

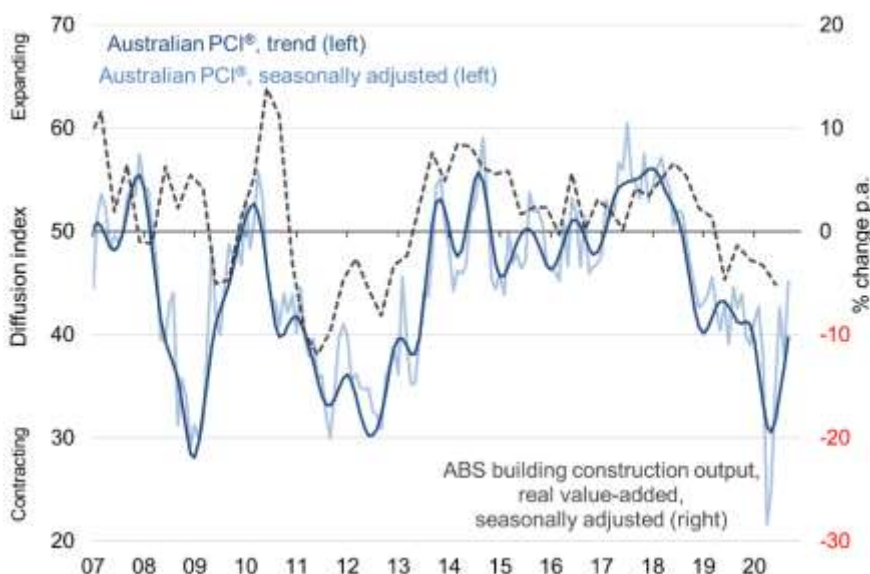
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Australian PCI® ▲ +7.3 points (seasonally adjusted)	45.2
Australian PCI® ▲ 3.2 points (trend)	42.6
Activity ▲ +11.3 points (seas. adj.)	42.4
Employment ▲ +3.1 points (seas. adj.)	49.2
New orders ▲ +10.6 points (seas. adj.)	45.7
Housing activity ▲ +19.5 points (seas. adj.)	56.9
Apartments activity ▲ +20.5 points (seas. adj.)	43.3
Commercial activity ▲ +13.4 points (seas. adj.)	45.8
Engineering activity ▲ +2.5 points (seas. adj.)	29.5

Australian PCI® and ABS building industry output



Construction sectors: Activity and new orders indices deteriorated again in September across three of the four sectors included in the **Australian PCI®**. House building activity and new orders made a partial recovery in all states except Victoria.

Construction prices: The index for input prices jumped up by another 4.7 points to 72.0 points in September. This index is now at its highest level since January at 73.1 points but remains below its own long-run average (72.3 points) and has been especially volatile through 2020. The selling prices index recovered slightly in September but remains weak (below 50 points) due to reduced demand across most parts of construction.

Construction wages and employment: The average wages index recovered by a further 2.7 points and the employment index recovered by a further 3.1 points to a broadly neutral level in September. The ABS estimates that total construction employment fell by 22,400 people (1.8%) to 1.1 million workers in the six months to August 2020. Survey participants continue to stress the importance of the JobKeeper and Apprentice Support schemes to employment in September.

Construction activity: The **Australian PCI®** activity index recovered by 11.3 points to 42.2 points in September, indicating a further decline in activity but at a slower pace than in previous months. Activity and travel restrictions due to COVID-19 continue to take a toll on construction activity in all states, with an especially heavy impact in Victoria in September.

Construction new orders: Looking ahead, the new orders index in the **Australian PCI®** recovered by 10.6 points to 45.7 points in September, indicating another (albeit milder) decline in orders. Builders of apartments and commercial projects reported fewer queries and confirmed contracts, with a very strong decline in Melbourne and regional Victoria.

Construction supplier deliveries: The supplier deliveries index stayed at 43.1 points in September, after falling to a record low in May. Participants reported reduced orders, reduced price discounting and ongoing freight disruptions for deliveries.

Construction capacity utilisation: The capacity utilisation index in the **Australian PCI®** improved marginally to 74.2% of capacity being utilised in September, after falling to a record low of 60.5% in April. Activity restrictions and delays eased off outside Victoria, but some residential and commercial businesses continue to report that they are not working at all.

Construction highlights: The national JobKeeper and Apprentice Support schemes are providing crucial ongoing support to employment and incomes. Activity, new orders and confidence improved in September, in all states outside Victoria.

Construction concerns: The COVID-19 pandemic has resulted in a large demand shock to all segments of Australian construction. Tough activity restrictions in Victoria hit construction hard in August and September, but are expected to ease from October. Weak new orders suggest activity levels could remain lower than is desirable in the months 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
Australian PCI®	45.2	7.3	37.7	Construction sectors			
Activity	42.4	11.3	36.5	House building activity	56.9	19.5	43.5
Employment	49.2	3.1	39.7	Apartment building activity	43.3	20.5	32.6
New Orders	45.7	10.6	36.3	Commercial building activity	45.8	13.4	34.3
Supplier Deliveries	43.1	-0.4	39.5	Engineering construction activity	29.5	2.5	34.3
Input Prices	72.0	4.7	66.7				
Selling Prices	43.0	0.6	40.0				
Average Wages	56.2	2.7	53.3	Capacity utilisation (% of capacity)	74.2	0.8	72.9

CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted	Level	Change	Change	Share of total
Construction activity , \$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
Construction output , real value-added, \$bn per quarter, June 2020	30.2	-8.2	-10.3	6.9% of total GDP
Construction employment , million people employed, Aug 2020	1,160	-1.2	-1.4	9.2% of employed people
Building approvals , \$bn per month, August 2020	\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals	5.7	4.4	8.4	54.9
Value of non-residential building approvals	4.7	40.7	-28.9	45.1

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

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 activity index jumped 19.5 points to 56.9 points in September, moving back into expansion for the first time since February of 2020 (seasonally adjusted).
- All of this month's gain was in states outside Victoria. Nationally, many builders said activity on site is slower due to physical distancing on site, delays for deliveries and interstate travel restrictions.



House building new orders

- The number of approvals for private sector houses rose by 4.8% m/m and 12.4% p.a. to 9,312 houses approved in August 2020. This was the highest number per month since January 2019 (ABS, seasonally adjusted).
- The new orders index in the house building sector jumped up by 17.3 points to 55.2 points in September, moving back into expansion for the first time since February of 2020 (seasonally adjusted).
- Confirmed orders and contracts for new housing were hit hard by the closure of display homes and travel restrictions from April. House builders reported a partial recovery in inquiries and confirmed orders from June. This recovery is continuing in states outside Victoria.



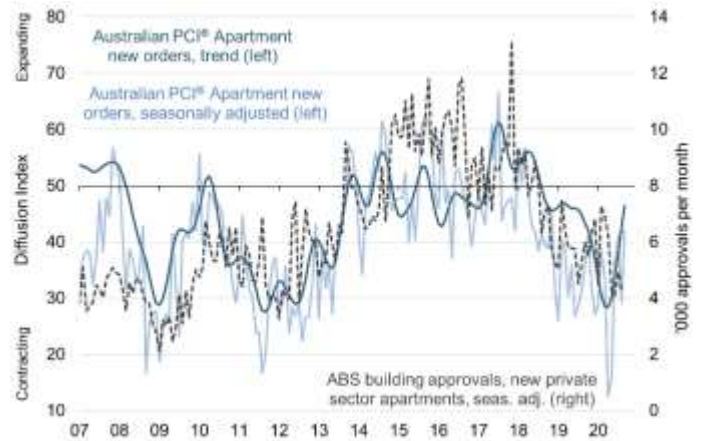
Apartment building activity

- 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 rose by 20.5 points to 43.3 points in September, indicating a further (albeit milder) slump in activity (seasonally adjusted). This index has been in contraction (below 50 points) since early 2018, with heightened monthly volatility in 2020.
- 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 continue to be disrupted by delivery delays, travel restrictions for workers, and the implementation of new physical distancing and PPE requirements on site.



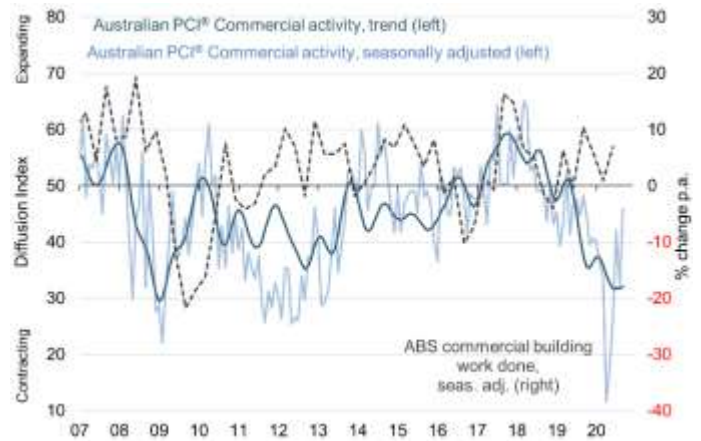
Apartment building new orders

- The number of private dwellings other than houses (apartments and flats) approved for construction fell by 12.9% m/m and 18.1% p.a. to 4,290 units in August (ABS, seasonally adjusted), partly unwinding the recovery in July. This is about one third of the monthly peak of 13,000 units approved in November 2017.
- The Australian PCI® apartment building new orders index improved by 12.8 points to 42.1 points in September, signaling a further (milder) drop (seasonally adjusted).
- This further 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 into 2021.



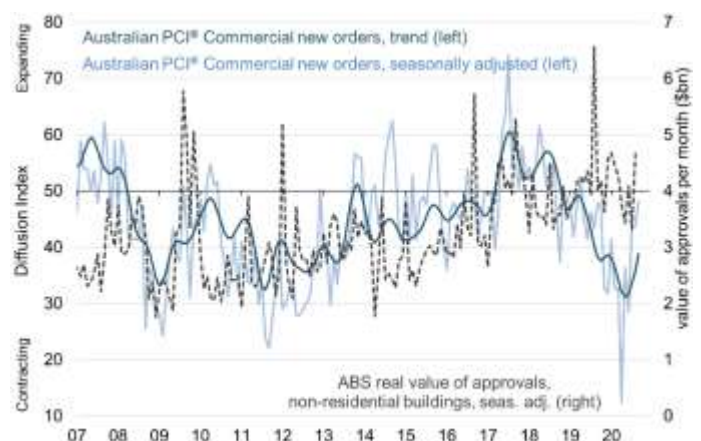
Commercial construction activity

- 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 improved by 13.5 points to 45.8 points in September, indicating a slower pace of contraction than in August (seasonally adjusted).
- This index remains at a relatively low level and signals further contraction after the record lows in activity in April and May. Work on commercial and industrial sites remains slow due to ongoing activity restrictions in Victoria, state border closures, physical distancing and additional PPE requirements on large construction sites.



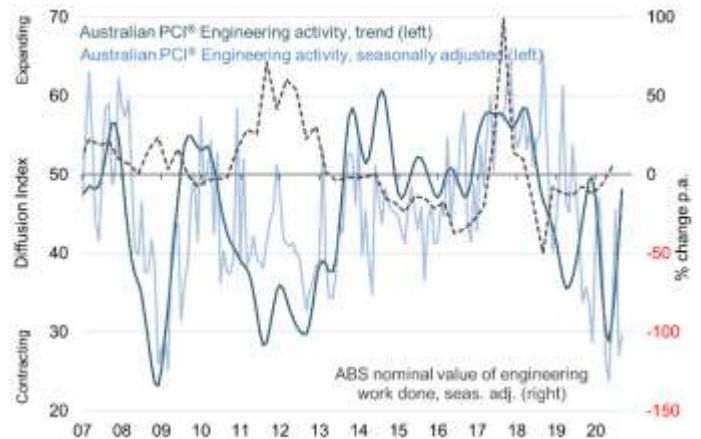
Commercial construction new orders

- The value of non-residential building approvals grew by 40.7% m/m to \$4.6bn in August. This was about the same level of approvals as in January 2020 but 28.9% lower than one year earlier (ABS, seasonally adjusted).
- The Australian PCI® new orders index for commercial construction improved by 4.5 points to 48.1 points in September, signaling a further very mild drop in orders following a record low in April (seasonally adjusted).
- New orders for commercial construction projects are moving closer to stabilising but have not yet moved into expansion and recovery. This suggests activity will stay relatively weak in coming months in most states. New orders in Victoria remain lower than elsewhere.



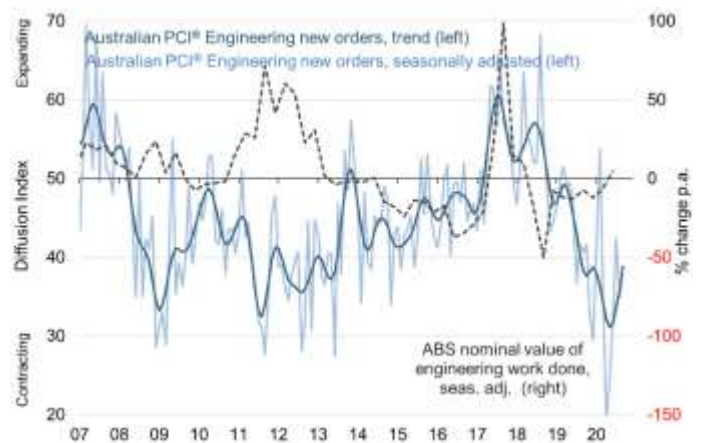
Engineering activity

- 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 activity index improved by 2.5 points to 29.5 points in September, but it remains close to historical lows (seasonally adjusted).
- Conditions are easing outside Victoria, but respondents continue to report that few new non-mining engineering projects are commencing and that existing projects are being delayed by transport problems, supply delays, physical distancing and PPE requirements on site.



Engineering new orders

- The Australian PCI® engineering construction sector's new orders index improved by 3.7 points to 38.6 points in September, indicating a further decline, but at a milder pace (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 Victoria (mainly roads and transport) have been significantly disrupted by COVID-19 activity restrictions. Other states reported delays and disruption due to freight problems and border closures.



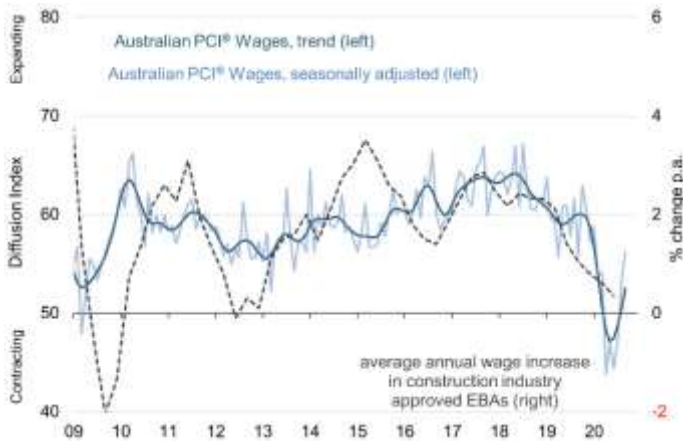
Input prices



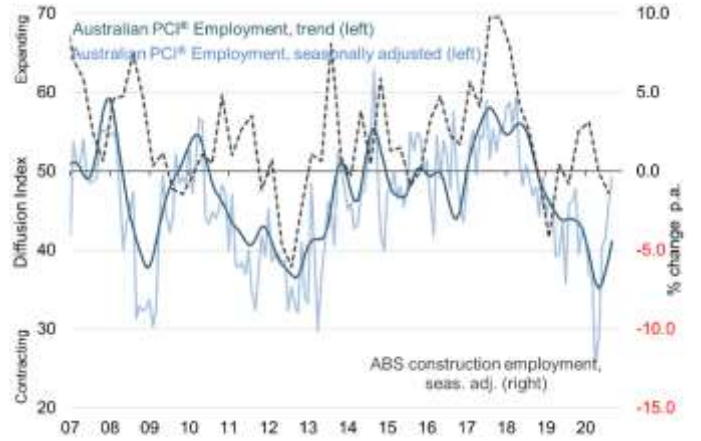
Selling prices



Average wages



Employment



Activity

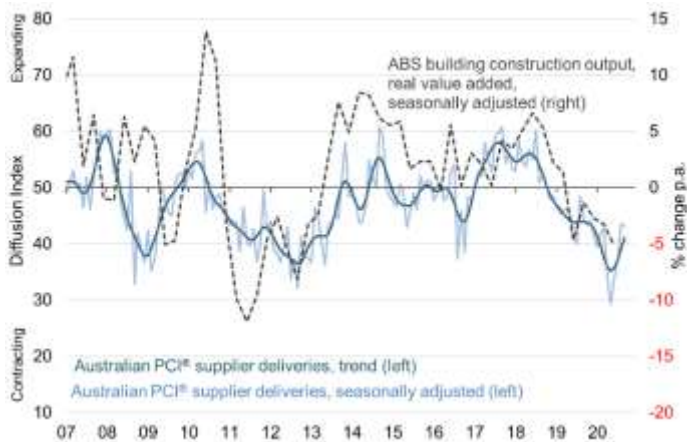


New orders

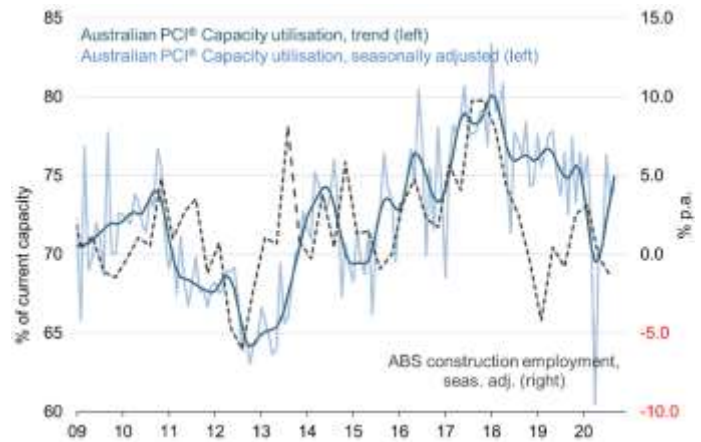


AUSTRALIAN PCI® Activity, capacity and data definitions

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 3011 "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 3019 "Other residential building construction") 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. **Commercial construction** (ANZSIC code 3020 "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.
4. **Engineering construction** (ANZSIC code 3101 "Road and bridge construction" and ANZSIC code 3109 "other heavy and civil engineering 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.



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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