

# COVID-19 restrictions plunge construction into contraction

The Australian Industry Group and HIA Australian Performance of Construction Index (**Australian PCI<sup>®</sup>**) contracted by a further 10.3 points to 38.4 points in August 2021, indicating contraction in activity across the construction sector. (results below 50 points, seasonally adjusted). Results above 50 points indicate expansion in this survey, with higher results indicating a stronger pace of expansion. This was the second consecutive month of contraction, following a significant decline in July 2021, and the lowest monthly result since August 2020.

The indexes for activity, new orders and supplier deliveries in the **Australian PCI<sup>®</sup>** dropped steeply into contraction in August, in response to strict activity restrictions in the construction sector in Victoria and NSW, plus COVID-19 related state border closures that are affecting the industry's supply chains nationwide. Even outside NSW and Victoria, builders reported that lack of confidence and uncertainty about inter-state travel is affecting sales to customers and deliveries from suppliers. The new orders index dropped sharply to 36.4 points, its lowest in twelve months.

On the supply side, construction businesses continue to report ongoing supply shortages, delivery delays and price hikes for materials and inputs. Some home builders report they are seeking new suppliers to reduce costs and improve the reliability of their supplies. Also in August, more builders paused the employment recovery under way since late 2020, with the employment index dropping into mild contraction (just under 50 points) for the first time since September 2020. These cost and capacity pressures are feeding into price rises for customers and delays in starting new projects.

August 2021

## MEDIA CONTACTS

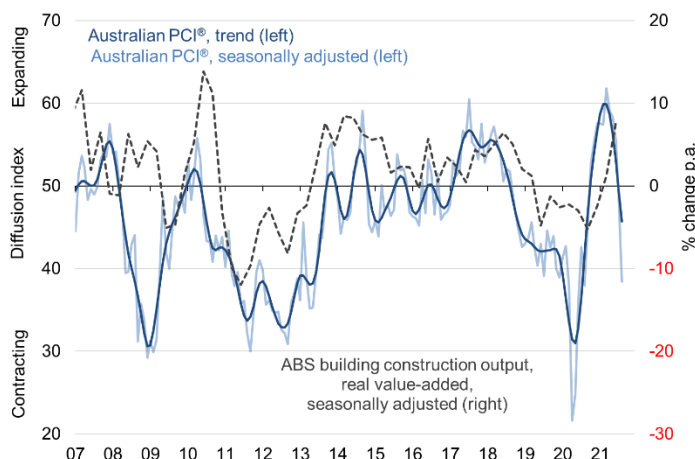
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<b>Australian PCI<sup>®</sup></b> ▼ -10.3 points (seasonally adjusted)	<b>38.4</b>
<b>Australian PCI<sup>®</sup></b> ▼ -3.7 points (trend)	<b>45.7</b>
<b>Activity</b> ▼ -7.5 points (seas. adj.)	<b>32.9</b>
<b>Employment</b> ▼ -11.8 points (seas. adj.)	<b>49.0</b>
<b>New orders</b> ▼ -13.1 points (seas. adj.)	<b>36.4</b>
<b>Housing activity</b> ▼ -14.4 points (seas. adj.)	<b>36.4</b>
<b>Apartments activity</b> ▲ +13.3 points (seas. adj.)	<b>32.1</b>
<b>Commercial activity</b> ▼ -11.6 points (seas. adj.)	<b>31.3</b>
<b>Engineering activity</b> ▼ -7.7 points (seas. adj.)	<b>31.6</b>

## Australian PCI<sup>®</sup> and ABS building industry output



**Construction sector activity:** The activity indexes for all four sectors in the **Australian PCI®** were well under 50 points and indicate contraction in August (seasonally adjusted). Big falls in activity were reported in NSW and Victoria due to lockdown disruptions. These were only partially offset by ongoing expansion in other states. The apartment building activity index rose by 13.3 points in August compared to July, but it is still far from its expansionary state in June. The biggest drops were in the housing and commercial construction activity indexes, which both recorded a second month of contraction.

**Construction sector new orders:** The new orders index fell sharply to 36.4 points, indicating serious contraction. This was its lowest level since August 2020. Some builders reported lower enquiries from potential customers and less interest in joining waitlists. New orders for housing, commercial and engineering projects dropped further in August (seasonally adjusted), particularly in NSW and Victoria. The new orders index for housing fell to its lowest level since August 2020 and the commercial construction new orders index fell to its lowest since June 2020. Orders for new engineering projects dropped into contraction for the first time since February 2021, reaching its lowest since August 2020 (seasonally adjusted).

**Construction prices:** The indexes for input prices and selling prices indicated some deceleration in price increases in August but they continue to rise (above 50 points). Builders nationwide continue to report very high prices from suppliers and importers, with more builders saying they need to pass on these cost increases to their customers.

**Construction wages and employment:** The **Australian PCI®** index for employment dipped just below 50 points in August (its lowest level since September 2020, seasonally adjusted), indicating a pause in the jobs recovery under way earlier in 2021. Builders indicated that ongoing and widespread lockdowns impacted employment levels on site in NSW and Victoria through August. The wages index fell to 68.4 points in August, following a recent peak in July (which reflected new minimum wage and award rates from 1 July). Builders continue to report wage pressures arising from skill shortages.

**Construction supplier deliveries:** The supplier deliveries index indicated a second month of contraction and at a faster rate in August (seasonally adjusted). Builders across all sectors and locations report delivery delays and high freight prices.

**Construction capacity utilisation** fell by 6.8 percentage points in August to 78.6% (seasonally adjusted), as the disruption of lockdowns continued across several states in August. This likely reflects reduced staff levels in the construction industry.

**Construction highlights:** Builders point to ongoing support from low interest rates, reactions to rising house prices and “local FOMO” in popular regional locations. With the end of HomeBuilder earlier in 2021, the sense of urgency and impatience among customers is waning and more customers are prepared to wait for a later commencement date.

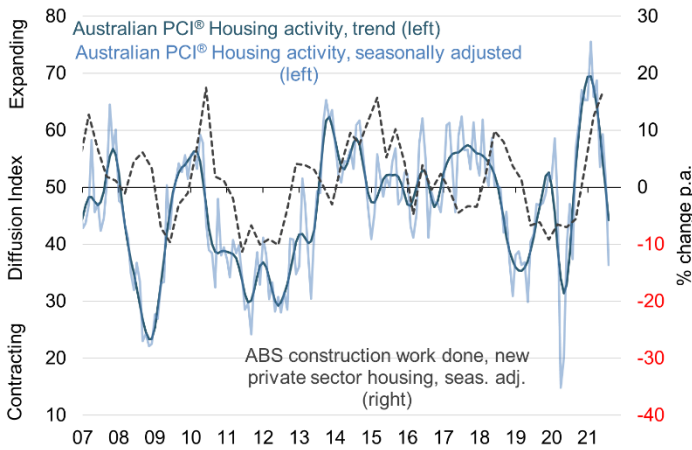
**Construction concerns:** Lockdowns across Australia’s major cities continue to disrupt and delay on-site building activity.

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
<b>Australian PCI®</b>	<b>38.4</b>	<b>-10.3</b>	<b>54.0</b>				
Activity	32.9	-7.5	52.2	House building activity	36.4	-14.4	60.5
Employment	49.0	-11.8	57.4	Apartment building activity	32.1	13.3	44.4
New Orders	36.4	-13.1	53.3	Commercial building activity	31.3	-11.6	50.9
Supplier Deliveries	36.0	-7.3	53.2	Engineering construction	31.6	-7.7	49.7
Input Prices	91.8	-5.4	85.4	<b>Capacity utilisation</b>			
Selling Prices	69.6	-11.6	65.7	<i>Seasonally adjusted</i>			
Average Wages	68.4	-8.7	64.9	% of total capacity being utilised	78.6	-6.8	80.1

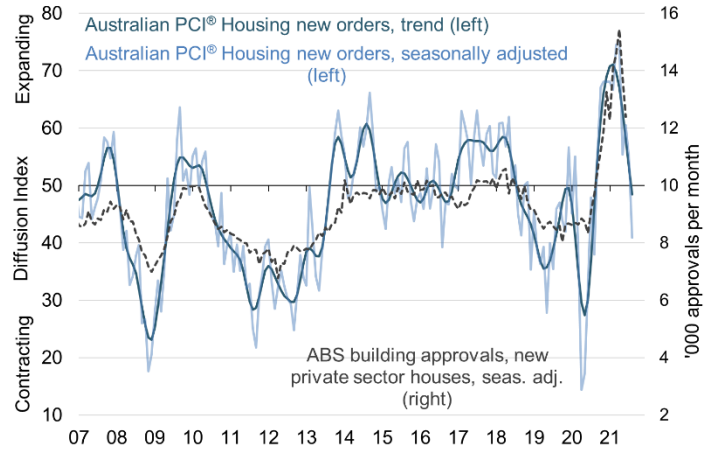
CONSTRUCTION REPORT CARD: ABS data, seasonally adjusted	Level	Change	Change	Share of total
<b>Construction work done</b> , \$bn per quarter, June 2021	\$bn	% q/q	% y/y	% of construction activity
Volume of residential building	19.0	-0.1	8.9	36.0
Volume of non-residential building	11.5	0.3	-6.0	21.8
Volume of engineering construction	22.3	1.8	-2.7	42.2
<b>Construction output</b> , real value-added, \$bn per quarter, June 2021	34.9	1.0	8.8	6.9% of total GDP
<b>Construction employment</b> , million people employed, May 2021	1,157	0.3	-1.5	9.2% of employed people
<b>Building approvals</b> , \$bn per month, July 2021	\$bn	% m/m	% y/y	% of building approvals
Value of residential building approvals	7.3	-6.6	31.4	67.9
Value of non-residential building approvals	3.5	-30.5	-7.2	32.1

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

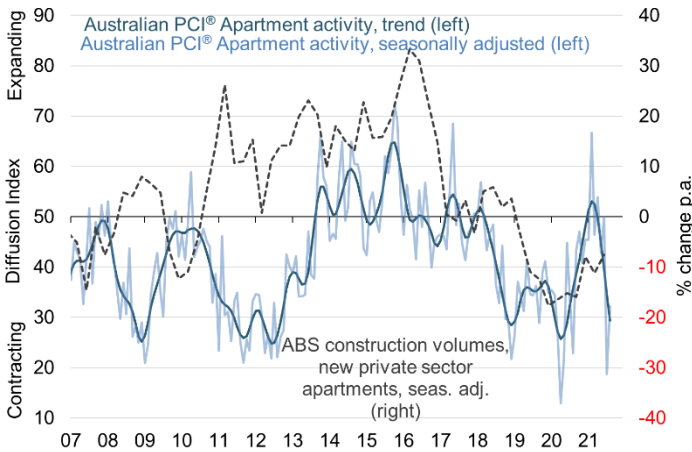
**House building activity**



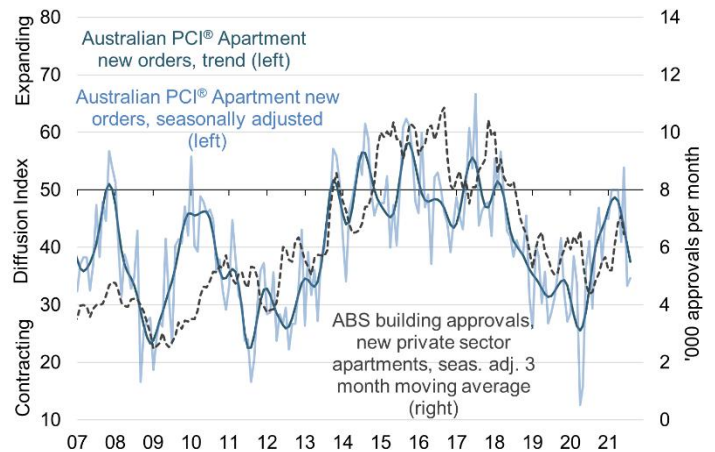
**House building new orders**



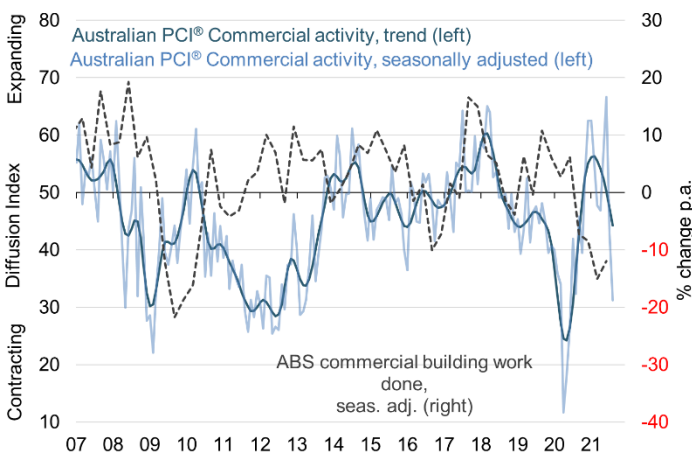
**Apartment building activity**



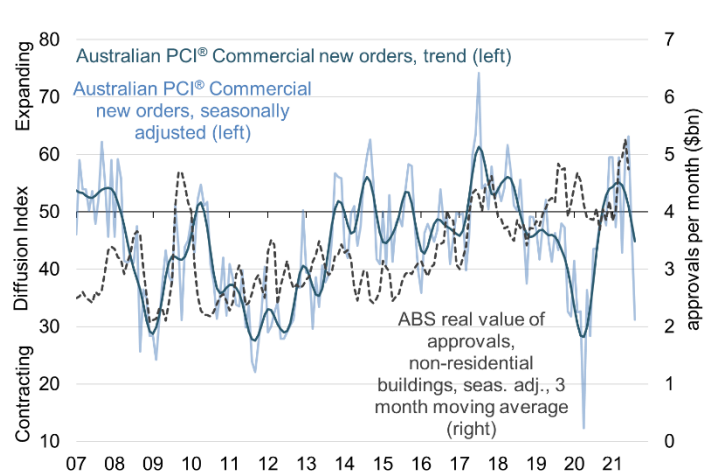
**Apartment building new orders**



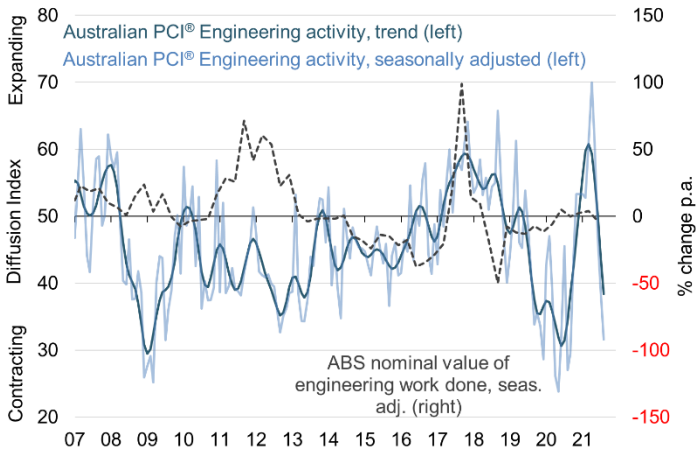
**Commercial construction activity**



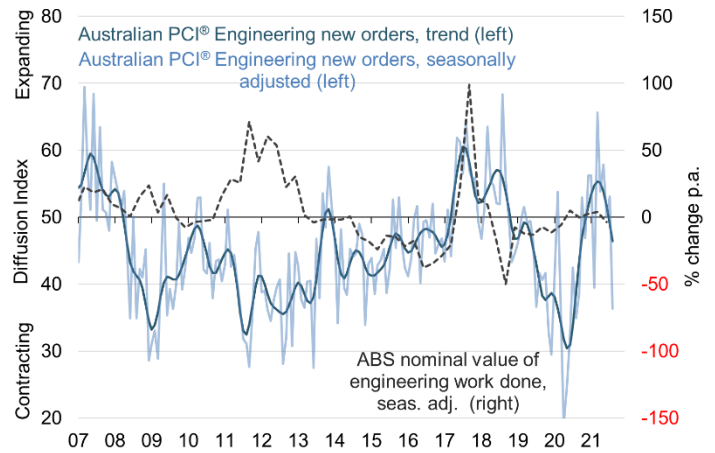
**Commercial construction new orders**



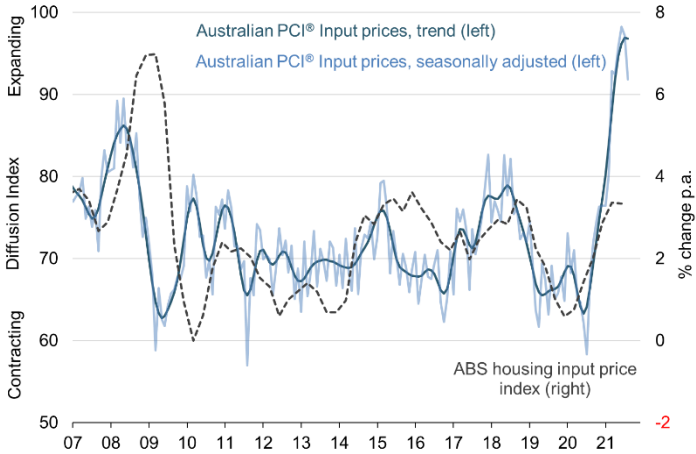
## Engineering activity



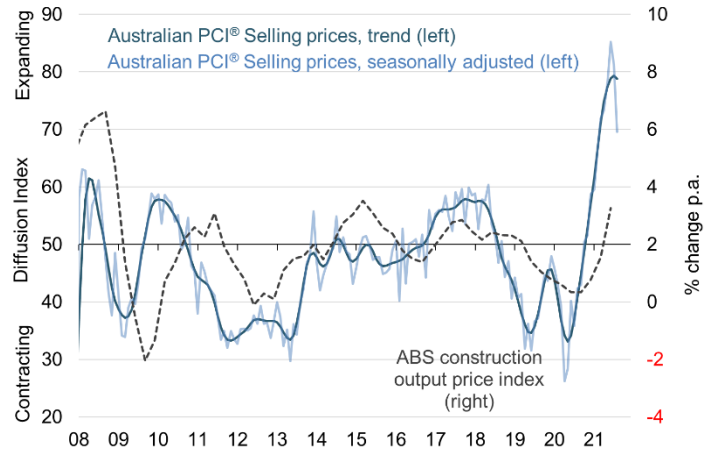
## Engineering new orders



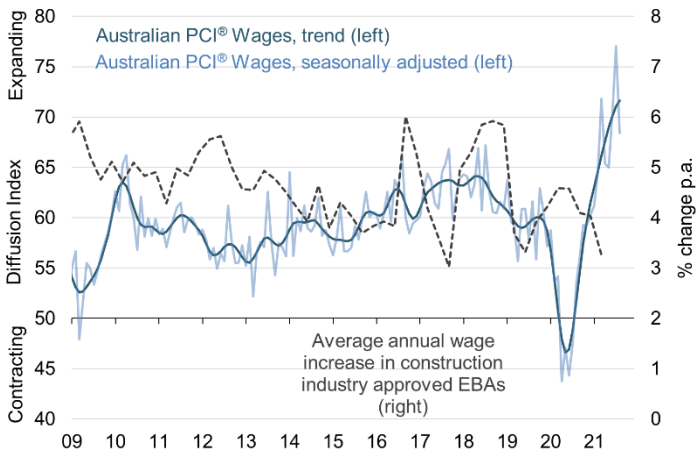
## Input prices



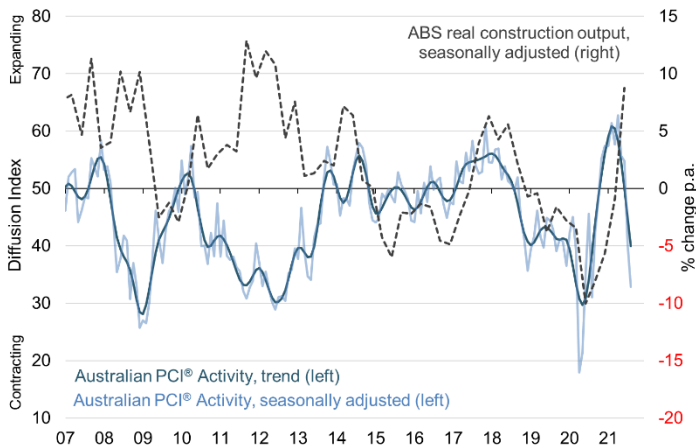
## Selling prices



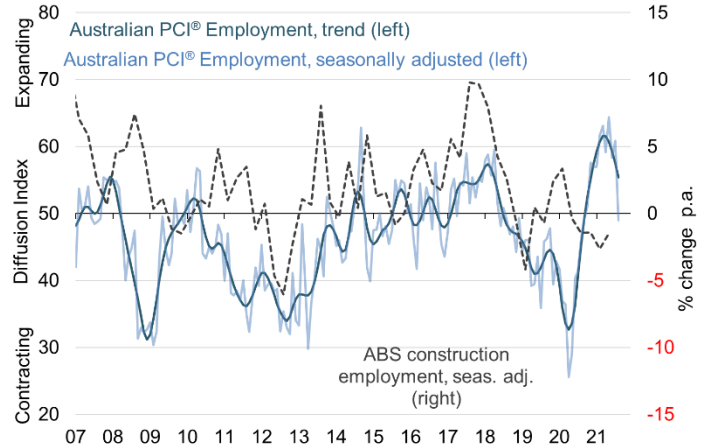
## Average wages



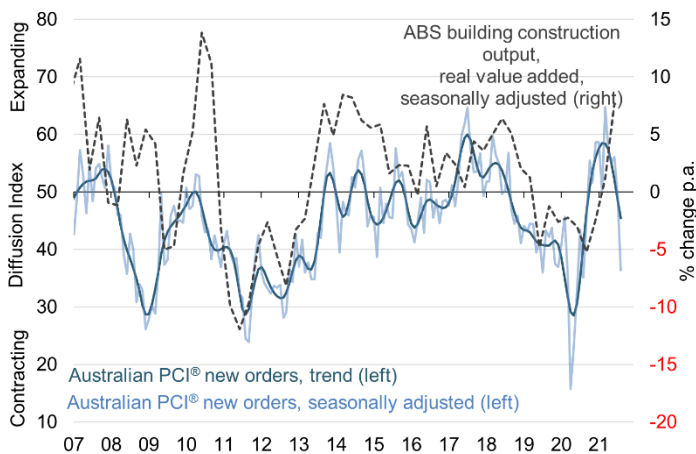
### Activity



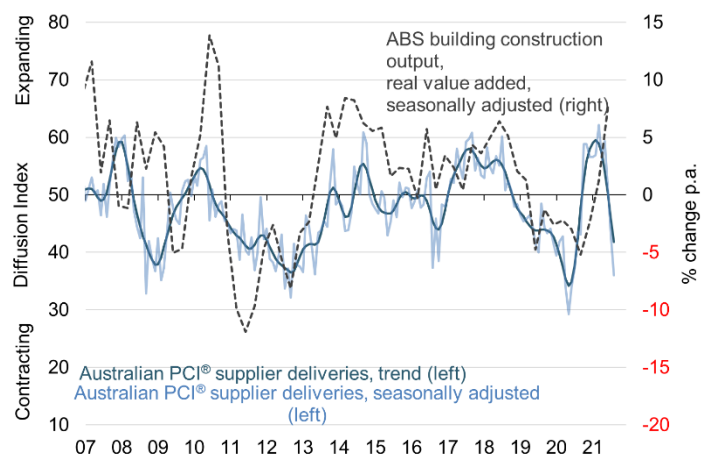
### Employment



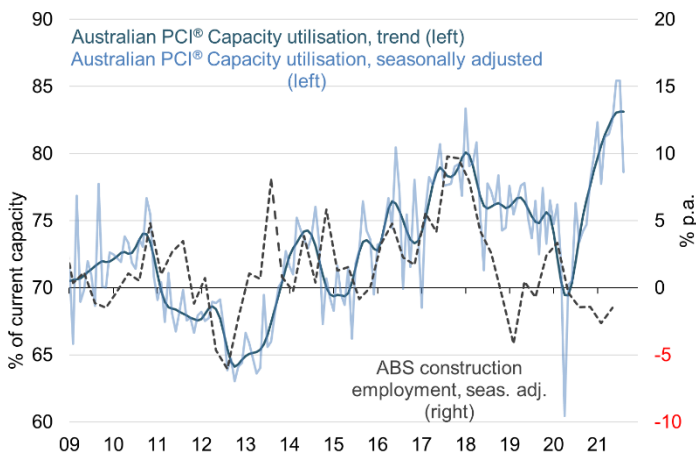
### New orders



### 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, supplier 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.

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